ALJ REGIONAL HOLDINGS, INC.

November 26, 2012

Dear Stockholder:

You are cordially invited to attend a special meeting of stockholders of ALJ Regional Holdings, Inc. ("ALJ" or the "Company") to be held on December 21, 2012, at 8:00 a.m., Pacific Time, at the offices of Morrison & Foerster LLP, 555 West Fifth Street, Suite 3500, Los Angeles, California, 90013 (the "Special Meeting") for the following purposes:

1. To approve the merger (the "Merger") of KES Optima Acquisition Inc. ("Merger Sub"), a wholly owned subsidiary of Optima Specialty Steel, Inc. ("Optima"), with and into KES Acquisition Company dba Kentucky Electric Steel ("KES"), the Company's majority-owned subsidiary, as contemplated by the Agreement and Plan of Merger (the "Merger Agreement"), dated November 18, 2012, by and among Optima, Merger Sub, KES and ALJ.

2. To adjourn the Special Meeting, if necessary or appropriate to solicit additional proxies if there are not sufficient votes at the time of the Special Meeting to establish a quorum or to approve the Merger.

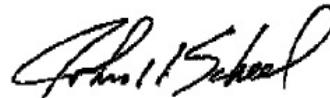
3. To act upon such other business as may properly come before the Special Meeting.

Please use this opportunity to take part in our affairs by voting on the business to come before this meeting. **Your vote is important, regardless of the number of shares you hold. Whether or not you plan to attend our Special Meeting, please complete, date, sign and return the accompanying proxy card in the enclosed postage-paid envelope prior to our Special Meeting so that your shares will be represented.** Returning the proxy card does not deprive you of your right to attend the meeting and vote your shares in person.

Our Board of Directors unanimously recommends that you vote "FOR" the foregoing proposals.

We hope to see you at our Special Meeting.

Sincerely,



John Scheel
President, Chief Executive Officer and
Class I Director

This Proxy Statement is dated November 26, 2012, and will first be mailed to ALJ stockholders on or about November 30, 2012.

ALJ REGIONAL HOLDINGS, INC.

NOTICE OF SPECIAL MEETING OF STOCKHOLDERS TO BE HELD ON DECEMBER 21, 2012

TO THE STOCKHOLDERS OF ALJ REGIONAL HOLDINGS, INC.:

NOTICE IS HEREBY GIVEN that a special meeting (the "Special Meeting") of stockholders of ALJ Regional Holdings, Inc., a Delaware corporation ("ALJ" or the "Company"), will be held on December 21, 2012, at 8:00 a.m. Pacific Time, at the offices of Morrison & Foerster LLP, 555 West Fifth Street, Suite 3500, Los Angeles, California, 90013 for the following purposes:

1. To approve the merger (the "Merger") of KES Optima Acquisition Inc. ("Merger Sub"), a wholly owned subsidiary of Optima Specialty Steel, Inc. ("Optima"), with and into KES Acquisition Company dba Kentucky Electric Steel ("KES"), the Company's majority-owned subsidiary, as contemplated by the Agreement and Plan of Merger (the "Merger Agreement"), dated November 18, 2012, by and among Optima, Merger Sub, KES and ALJ.

2. To adjourn the Special Meeting, if necessary or appropriate to solicit additional proxies if there are not sufficient votes at the time of the Special Meeting to establish a quorum or to approve the Merger.

3. To act upon such other business as may properly come before the Special Meeting.

The foregoing items of business are more fully described in the Proxy Statement accompanying this Notice.

The Board of Directors has fixed the close of business on November 28, 2012 as the record date for the determination of stockholders entitled to notice of and to vote at the Special Meeting and at any adjournment or postponement thereof. For ten days prior to the meeting, a complete list of stockholders entitled to vote at the meeting will be available for examination by any stockholder, for any purpose relating to the meeting, during ordinary business hours at the offices of KES, 2705 South Big Run Road West, Ashland, Kentucky 41102, and at Morrison & Foerster LLP, 755 Page Mill Road, Palo Alto, California 94304.

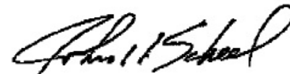
Whether or not you expect to attend the Special Meeting, please complete, sign and date the proxy and return it promptly. If you plan to attend the Special Meeting and wish to vote your shares personally, you may do so at any time before the proxy is voted.

All stockholders are cordially invited to attend the Special Meeting.

Important Notice Regarding the Availability of Proxy Materials for the Stockholder Meeting to Be Held on December 21, 2012

Our Annual Report for the year ended September 30, 2011; Quarterly Reports for the quarters ended June 30, 2012, March 31, 2012 and December 31, 2011; and the 2012 Annual Meeting Proxy Statement have been included with the proxy materials, are incorporated by reference in this Proxy Statement, and are also available at www.pinksheets.com and www.aljregionalholdings.com. You are encouraged to access and review all of the important information contained in the proxy materials before voting.

By Order of the Board of Directors



John Scheel
President, Chief Executive Officer
and Class I Director

Ashland, KY
November 26, 2012

OUR BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS THAT YOU VOTE "FOR" THE FOREGOING PROPOSALS. YOUR VOTE IS IMPORTANT, REGARDLESS OF THE NUMBER OF SHARES YOU HOLD. WHETHER OR NOT YOU PLAN TO ATTEND THE SPECIAL MEETING OF STOCKHOLDERS, PLEASE COMPLETE, DATE, SIGN AND PROMPTLY RETURN THE ACCOMPANYING PROXY CARD IN THE ENCLOSED POSTAGE-PAID ENVELOPE PRIOR TO THE SPECIAL MEETING SO THAT YOUR SHARES WILL BE REPRESENTED.

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QUESTIONS AND ANSWERS ABOUT THE SPECIAL MEETING

Q: Why am I receiving these materials?

A: The Board of Directors of ALJ is providing these proxy materials to you in connection with our Special Meeting which will take place on December 21, 2012. As a stockholder, you are invited to attend the Special Meeting and are entitled to, and requested to, vote on the proposals described in this Proxy Statement.

Q: What proposals will be voted on at the Special Meeting?

A: Stockholders will vote on three proposals at the Special Meeting:

1. To approve the Merger as contemplated by the Merger Agreement.
2. To adjourn the Special Meeting, if necessary or appropriate to solicit additional proxies if there are not sufficient votes at the time of the Special Meeting to establish a quorum or to approve the Merger.
3. To act upon such other business as may properly come before the Special Meeting.

Q: How does the Board of Directors recommend I vote on these proposals?

A: The Board of Directors of ALJ unanimously recommends that you vote your shares "FOR" each of the proposals described in this Proxy Statement.

The Board of Directors of ALJ has approved the Tender Offer (as described below). However, the Board of Directors makes no recommendation to any stockholder as to whether to tender or refrain from tendering any shares or as to the price or prices at which stockholders may choose to tender their shares in the Tender Offer.

The Board of Directors of KES has approved the Merger.

Q: When and where is the Special Meeting?

A: The Special Meeting will be held on December 21, 2012, at 8:00 a.m. Pacific Time, at the offices of Morrison & Foerster LLP, 555 West Fifth Street, Suite 3500, Los Angeles, California, 90013.

Q: What is the proposed Merger transaction?

A: We are proposing to merge Merger Sub with and into KES, with KES surviving the Merger, pursuant to the Merger Agreement. The terms of the Merger and the Merger Agreement are more fully described below under "Proposal No. 1—The Merger and the Merger Agreement" beginning on page 39.

Q: What is being sold by ALJ in the Merger?

A: In the Merger, all outstanding shares of common stock of KES will be converted into a right to receive the Merger consideration. This includes our shares of Series A Common Stock of KES, which represent 100% of the voting stock of KES. Immediately prior to the consummation of the Merger, each outstanding share of Series B Common Stock and each outstanding share of Series A Preferred Stock of KES will be acquired by Merger Sub, including our shares of Series B Common Stock of KES. Our shares of Series B Common Stock, together with the Series A Common Stock, represent approximately 83.26% of the total outstanding common stock of KES and substantially all of our assets. Following the Merger, Optima will own all capital stock of KES. Also, in connection with the Merger, the Subordinated Loans (as defined herein) will be prepaid in full and without penalty. The terms of the Merger are more fully described below under "Proposal No. 1—The Merger and the Merger Agreement" beginning on page 39.

Q: What will be retained by ALJ after the Merger?

A: Immediately following the consummation of the Merger, we will have no or nominal operations, and other than the cash received in the Merger and our cash on hand, we will have an immaterial amount of assets, as more fully described below under “Proposal No. 1—The Merger and the Merger Agreement —Use of Proceeds from the Merger—Post-Closing Business and Investment of Proceeds from the Merger” beginning on page 53.

Q: What is the cash purchase price to be paid in the Merger by Optima?

A: As more fully described below under “Proposal No. 1—The Merger and the Merger Agreement—Merger Agreement—Terms of the Merger; Merger Consideration” on page 68, Optima has agreed to pay total consideration of $112,500,000 for KES. The total consideration of $112,500,000 will be allocated approximately as follows:

- $43.1 million, representing the aggregate amount of debt, transaction expenses and similar obligations of KES (including payments under the Tax Sharing Agreement (as defined herein) with respect to periods prior to the Merger (based on current estimates), the termination fee under the Management Agreement (as defined herein) and payments to holders of Subordinated Loans (as defined herein)) payable at the Merger closing,

- $11.9 million, representing the aggregate amount payable immediately prior to the Merger closing to holders of KES’ Series A Preferred Stock, and

- $9.7 million, representing the aggregate amount payable immediately prior to the Merger closing to holders of KES’ Series B Common Stock.

We hold all of the outstanding shares of Series A Common Stock of KES and 160 of 13,063 outstanding shares (1.22%) of Series B Common Stock of KES. We also hold Subordinated Loans in the amount of approximately $268,000 in principal and accrued and unpaid interest.

After allocation of the total consideration as described above, and based on our current expectations and assuming a closing date of December 21, 2012, the unrestricted cash proceeds to ALJ from the Merger are expected to be approximately $48 million. The total unrestricted cash at ALJ following the Merger closing is expected to be approximately $50 million. For purposes of illustration, this expected cash at ALJ, if divided by the number of outstanding shares of ALJ common stock (which we refer to herein as “ALJ Common Stock”) on November 28, 2012 on a fully diluted basis, equates to approximately $0.86 per share of ALJ Common Stock. The anticipated cash purchase price is described more fully under “Proposal No. 1—The Merger and the Merger Agreement—Terms of the Merger; Merger Consideration” on page 68.

Q: Who will receive the net proceeds of the Merger?

A: We and the other holders of interests in KES, including the holders of KES’ preferred stock, will receive the net proceeds of the Merger, as described above. Holders of shares of ALJ Common Stock will not have any right to receive the net proceeds from the Merger. We have commenced a tender offer for shares of ALJ Common Stock, as described herein and in that certain Offer to Purchase, dated November 19, 2012, in which, if consummated, we will use a portion of the net proceeds received by us in the Merger to purchase from our stockholders up to 30,000,000 shares of ALJ Common Stock held by them, for cash, through a “modified Dutch auction” tender offer (the “Tender Offer”). The Tender Offer is subject to a number of terms and conditions, including completion of the Merger.

Q: How does the Company plan to use the net cash proceeds from the Merger?

A: Immediately following the consummation of the Merger, the Company will have no or nominal operations. We currently plan 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 ALJ Common Stock from our stockholders in the Tender Offer. We currently plan 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, we are not required to make any such acquisitions, and at this time no specific acquisition targets have been determined.

Q: What is the Tender Offer and how is it related to the Merger?

A: We commenced the Tender Offer on November 19, 2012, whereby we are offering to holders of ALJ Common Stock the opportunity to tender all or a portion of their shares of ALJ Common Stock (subject to reduction on a *pro rata* basis to the extent that the Tender Offer is oversubscribed) in exchange for cash, subject to the terms and conditions of the Tender Offer, as described below. We plan to consummate the Tender Offer as soon as possible after the Merger closing and receipt of the Merger consideration, subject to the satisfaction or waiver of the conditions of the Tender Offer. As of the date of this Proxy Statement, the Tender Offer is scheduled to expire on December 24, 2012, subject to our rights to extend the expiration date.

In the Tender Offer, we are offering to purchase up to 30,000,000 shares of ALJ Common Stock at a purchase price not greater than $0.86 nor less than $0.84 per share, net to the seller in cash, less any applicable withholding taxes and without interest. A holder of ALJ Common Stock who wishes to participate must complete a letter of transmittal indicating the price within that range at which they are tendering their shares and the number of shares they are tendering. We will then select the single lowest price (in multiples of $0.01) within that price range that will allow us to purchase 30,000,000 shares at that price (or a lower amount if not enough shares are properly tendered to allow us to purchase 30,000,000 shares). All shares will be acquired at that price, even in the case of shares tendered at a lower price, but we will not purchase any shares tendered at a price above the purchase price.

For example, assume Stockholder A tenders its shares of ALJ Common Stock at $0.86 and Stockholder B tenders its shares of ALJ Common Stock at $0.84. If the single lowest price within the price range of $0.84 and $0.86 that would allow us to purchase 30,000,000 shares is $0.85, then we will purchase Stockholder B's shares at $0.85. We will not purchase any of Stockholder A's shares in this scenario.

In addition, if more than 30,000,000 shares are tendered in the Tender Offer at or below the purchase price, we may exercise our right to amend the Tender Offer to purchase up to an additional 2% of our outstanding Shares without extending the expiration date. We may also reduce the number of shares we are purchasing below 30,000,000, if we determine, in our sole and absolute discretion, that it is necessary to do so in order to preserve our ability to use our net operating losses ("NOLs") to offset federal income taxes in the future.

We intend to purchase 30,000,000 shares if the Tender Offer is fully subscribed, which would represent approximately 50% of the issued and outstanding shares of ALJ Common Stock on a fully diluted basis as of November 28, 2012. If the Tender Offer is fully subscribed at the maximum purchase price of $0.86 per share, we will purchase the tendered shares for a total of $25,800,000, or approximately 50% of our expected cash following the closing of the Merger.

If, based on the purchase price, shares in excess of 30,000,000 are properly tendered and not properly withdrawn, we will purchase shares on a *pro rata* basis, with appropriate adjustments to avoid purchases of fractional shares, until we have acquired 30,000,000 shares. Therefore, we may not purchase all of the shares tendered at or below the purchase price in the Tender Offer.

The consummation of the Merger is a condition to the purchase of any shares of ALJ Common Stock in the Tender Offer, but the Tender Offer is not a condition to consummation of the Merger.

The Board of Directors has approved the Tender Offer. However, the Board of Directors makes no recommendation to any stockholder as to whether to tender or refrain from tendering any shares or as to the price or prices at which stockholders may choose to tender their shares in the Tender Offer.

Our directors and executive officers are entitled to participate in the Tender Offer on the same basis as all other stockholders. However, Jess Ravich, our Chairman, has agreed not to tender any shares beneficially owned by him. The Tender Offer is more fully described below under "The Tender Offer" beginning on

page 84 and in the Offer to Purchase available online at www.pinksheets.com and www.aljregionalholdings.com and mailed to stockholders on or about November 19, 2012.

The Tender Offer is being made pursuant to the Offer to Purchase. If you wish to tender any of your shares, you must review the Offer to Purchase and follow the instructions in the Offer to Purchase. **Voting to approve the Merger does not constitute a tender of your shares.**

Q: What is the Note Offering and how is it related to the Merger?

For purposes of its acquisition financing, Optima has agreed to use reasonable best efforts to arrange, and to obtain a closing of, 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 and noteholder collateral agent, for not less than $50 million in gross proceeds (the "Note Offering").

The closing of the Merger is conditioned on consummation of the Note Offering for at least $50 million in gross proceeds to Optima. Under the Merger Agreement, if the Note Offering is not consummated by the Financing Confirmation Date (as defined below), we may terminate the Merger Agreement on or before December 31, 2012. If we do not terminate the Merger Agreement by December 31, 2012 and the Note Offering is not subsequently consummated by February 28, 2013, we or Optima may terminate the Merger Agreement and 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 reason for the termination is Optima's failure to consummate the Note Offering). Whether or not we are entitled to a termination fee, termination of the Merger Agreement by us does not preclude us from pursuing other rights and remedies under the Merger Agreement. See "Merger Agreement—Financing," beginning on page 52, for a more fully detailed description of the Note Offering and other aspects of Optima's financing.

Q: Will ALJ Common Stock continue to be quoted on the Pink Sheets following the Merger?

A: Yes. ALJ Common Stock will continue to be quoted on the Pink Sheets whether or not the Merger closes, and we will continue to provide quarterly and annual financial reports consistent with our current practices. However, if the Tender Offer is consummated, the number of shares of ALJ Common Stock outstanding will be reduced, and the number of shares of ALJ Common Stock available to be traded may be reduced substantially.

Q: Will ALJ pursue a listing of the ALJ Common Stock following the Merger?

A: Our Board of Directors has determined not to pursue a listing of the ALJ Common Stock on a national securities exchange until a time in the future when we have substantial operations and listing would be cost effective and beneficial to our stockholders.

Q: When is the Merger expected to be consummated?

A: In the event the stockholders approve the Merger, the parties currently expect the closing of the Merger to occur promptly following the Special Meeting, subject to various regulatory clearances and the satisfaction or waiver of other conditions described in the Merger Agreement, including Optima's consummation of the Note Offering.

Q: Who will run ALJ following the Merger?

A: Our Board of Directors and management will continue to run ALJ after the Merger, subject to any changes after the effective time of the Merger.

Q: What will happen if the Merger is not approved?

A: If the Merger is not approved, we will not complete the Merger or the Tender Offer. In that event, we expect to reassess our options in light of our strategic goals and any alternatives that may be available to us.

Under the Merger Agreement, KES 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 us or KES to pursue a Superior Company Proposal (as defined below); or
- the Merger Agreement is terminated as a result of the requisite stockholder approval not being obtained or the transaction failing to close by February 28, 2013, if, in each case, within twelve months of such termination, ALJ or KES either enters into an agreement for or consummates an acquisition with a person with whom ALJ or KES was engaging in discussions prior to such termination.

Q: Am I entitled to appraisal or dissenters' rights in connection with the Merger?

A: No. Holders of ALJ Common Stock will not have appraisal or dissenters' rights in connection with the Merger.

Q: Who is entitled to vote?

A: Stockholders of record as of the close of business on November 28, 2012, the record date, are entitled to notice of, and to vote at, the Special Meeting.

Q: How many shares can vote?

A: At the close of business on the record date, 57,267,498 shares of ALJ Common Stock were outstanding and entitled to vote. We have no other class of stock outstanding.

Q: What shares can I vote?

A: You may vote all shares of ALJ Common Stock owned by you as of the close of business on the record date of November 28, 2012. You may cast one vote per share that you hold as of the close of business on the record date. A list of stockholders entitled to vote at the Special Meeting will be available during ordinary business hours at the offices of KES, 2705 South Big Run Road West, Ashland, Kentucky 41102, and at Morrison & Foerster LLP, 755 Page Mill Road, Palo Alto, California 94304 for a period of at least ten days prior to the Special Meeting.

Q: How can I vote my shares?

A: *Stockholders of Record.* If your shares are registered directly in your name with our transfer agent, American Stock Transfer & Trust Company, LLC, you are considered the "stockholder of record" with respect to those shares, and we are sending the proxy materials and proxy card directly to you. If you are a stockholder of record, you can vote your shares:

- ***By Mail.*** You may submit your vote by marking, dating, signing and mailing the enclosed proxy in the prepaid envelope. Giving a proxy will not affect your right to vote your shares if you attend the Special Meeting and want to vote in person.
- ***In Person at the Special Meeting.*** You may vote your shares in person at the Special Meeting.

Beneficial Owners. Most of our stockholders hold their shares through a broker, bank or other nominee (that is, in "street name") rather than directly in their own name. If you hold your shares in street name, you are a "beneficial holder," and the proxy materials are being forwarded to you by your broker, bank or other nominee together with a voting instruction card. Because a beneficial holder is not the stockholder of record, you may not vote shares "beneficially held" in person at the meeting unless you obtain a "legal proxy" from the broker, bank or other nominee that holds your shares, giving you the right to vote the shares at the meeting. Beneficial owners have the right to direct their broker, trustee or nominee as to how to vote and also are invited to attend the Special Meeting. You should follow the instructions in the proxy materials or voting instructions provided by your broker or nominee in order to instruct your broker or

other nominee on how to vote your shares. The availability of telephone and Internet voting will depend on the voting process of the broker or nominee.

Even if you plan to attend the Special Meeting, we recommend that you vote your shares in advance as described below so that your vote will be counted if you later decide not to attend. For more information, see "The Special Meeting—How You Can Vote," beginning on page 37.

Q: What do I need for admission to the Special Meeting?

A: You are entitled to attend the Special Meeting only if you are a stockholder of record or a beneficial owner as of the close of business on November 28, 2012, or you hold a valid proxy for the Special Meeting. If you are the stockholder of record, your name will be verified against the list of stockholders of record prior to your admittance to the meeting. You should be prepared to present photo identification for admission. If you hold your shares in street name, you should provide proof of beneficial ownership on the record date, such as a brokerage account statement showing that you owned ALJ Common Stock as of the record date, a copy of the voting instruction card provided by your broker, bank or other nominee, or other similar evidence of ownership as of the record date, as well as your photo identification, for admission. If you do not provide photo identification or comply with the other procedures outlined above upon request, you may not be admitted to the meeting.

Q: How can I vote my shares without attending the Special Meeting?

A: Whether you are the stockholder of record or hold your shares in street name, you may direct your vote without attending the meeting by completing and mailing your proxy card or voting instruction card in the enclosed pre-paid envelope.

Q: What does it mean if I receive more than one proxy or voting instruction card?

A: If your shares are registered differently or are held in more than one account, you will receive a proxy card or voting instruction card for each account. To ensure that all of your shares are voted, please use all the proxy cards and voting instruction cards you receive to vote your shares or complete, sign, date and return a proxy card or voting instruction card for each account.

Q: Can I change my vote or revoke my proxy?

A: Any stockholder who is a record holder and who has not delivered an irrevocable proxy may revoke any proxy given in response to this solicitation at any time before it is voted. It may be revoked by filing with the Company's counsel, located at Morrison & Foerster LLP, 755 Page Mill Road, Palo Alto, California, 94304, Attention: Christopher M. Forrester, a written notice of revocation, or it may be revoked by a later-dated vote, by mail, or by attending the meeting and voting in person. Attendance at the meeting will not, by itself, revoke a proxy.

If a stockholder holds in street name, the stockholder should follow the directions provided by their broker or other nominee regarding how to revoke their proxy.

Certain stockholders of ALJ have contractually agreed to vote their shares in favor of the Merger and delivered an irrevocable proxy. See "Voting Agreements" beginning on page 81 for a more detailed discussion.

Q: How many shares must be present or represented to conduct business at the Special Meeting?

A: The quorum requirement for holding the Special Meeting and transacting business is that holders of a majority of the outstanding shares of ALJ Common Stock entitled to vote must be present in person or represented by proxy. Both abstentions and broker "non-votes" (*i.e.*, shares held by a broker, bank or other nominee that are represented at the Special Meeting but with respect to which such broker, bank or other nominee is not empowered to vote on the proposal) are counted for the purpose of determining the presence of a quorum.

Q: What if a quorum is not present at the Special Meeting?

A: If a quorum is not present at the scheduled time of the Special Meeting, the Chairman of our Board of Directors may propose one or more adjournments of the meeting, either with or without the vote of the stockholders. If we propose to have the stockholders vote whether to adjourn the meeting, the persons named as proxies will exercise their discretion to vote all shares for which they have authority in favor of the adjournment.

Q: What vote is required to approve each of the proposals?

A: Proposal No. 1 (the approval of the Merger) requires the affirmative vote of a majority of our outstanding shares. Abstentions and broker non-votes will have the same effect as a vote "AGAINST" Proposal No. 1. Proposal No. 2 (adjournment) requires the affirmative vote of the holders of a majority of our outstanding shares that are present in person or represented by proxy at the Special Meeting. Abstentions will have the same effect as a vote "AGAINST" Proposal No. 2.

Q: What is the cost and who will bear the cost of soliciting proxies for the Special Meeting?

A: We will bear the entire cost of solicitation of proxies, including preparation, assembly, printing and mailing this Proxy Statement, the Proxy Card, the Annual Report, quarterly reports, last annual meeting proxy statement and any additional information furnished to stockholders pursuant to fulfillment requests. We will conduct the solicitation by mail, personally, telephonically, or by facsimile through our officers, directors and employees, none of whom will receive additional compensation for assisting with the solicitation. We may also solicit stockholders through press releases, advertisements in periodicals and postings on our website.

Q: Is the Merger expected to be taxable to stockholders?

A: The Merger will not give rise to gain or loss to our existing stockholders. However, if you tender your shares in the Tender Offer, you may recognize gain or loss or dividend income for tax purposes. See "U.S. Federal Income Tax Consequences of the Tender Offer" beginning on page 87 of this Proxy Statement for a discussion of certain U.S. federal income tax consequences of the proposed Tender Offer in this Proxy Statement.

Q: Who can help answer further questions?

A: If you have more questions about the Merger, the Merger Agreement, the Special Meeting or this Proxy Statement, you should contact our counsel as follows: Morrison & Foerster LLP, 755 Page Mill Road, Palo Alto, CA 94304, (650) 813-5868.

If you have more questions about the Tender Offer, please contact the Information Agent for the Tender Offer as follows: AST Phoenix Advisors, 110 Wall Street, 27th Floor, New York, NY 10005, Banks and brokers call (212) 493-3910, all others call toll free (877) 478-5038.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

Statements in this Proxy Statement regarding financial and operating performance and other statements that are not historical facts, including, among others, statements regarding our expectations relating to the Merger closing, the Tender Offer and post-closing business strategy, our ability to fund our operations, service indebtedness, improve operating efficiencies, offset future income against NOLs and use our rights plan to preserve NOLs, constitute forward-looking statements. In general, you can identify forward-looking statements by the presence of words such as "anticipate," "believe," "estimate," "expect," "intend," "may," "plan," "predict," "project," "will" and similar expressions.

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

- The failure to satisfy any of the conditions to complete the Merger, including the receipt of the required stockholder approval or the consummation of the Note Offering, and the timing of the satisfaction of any such conditions;
- The occurrence of any event, change or other circumstances that could give rise to the termination of the Merger Agreement or failure of the Merger, including due to Optima's failure to consummate the Note Offering;
- The failure to satisfy any of the conditions to complete the Tender Offer, including consummation of the Merger;
- The outcome of any legal proceedings instituted against us and others in connection with the proposed Merger or the Tender Offer;
- Uncertainties as to the amount, if any, of our cash that our stockholders may receive in the future through the Tender Offer or otherwise;
- Diversion of management's attention from ongoing business concerns;
- The effect of the announcement of the Tender Offer and the Merger on our business relationships, operating results and business generally;
- 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;
- Our ability to raise capital in the future;
- The effect of any regulatory approvals or conditions imposed on us in connection with the Merger;
- Uncertainties related to our business after the Merger, including our intent to invest in or acquire control of one or more operating businesses;
- Uncertainties related to a downturn in general economic conditions or consumer confidence, including changes in conditions of U.S. or international lending, capital and financing markets; and
- Changes in tax laws or regulations regarding the use or preservation of NOLs.

We also are subject to general business risks, including our success in continuing to settle our outstanding obligations from our prior business activities, results of tax audits, our ability to retain and attract key employees, acts of war or global terrorism, and unexpected natural disasters.

Any forward-looking statements included in this Proxy Statement are made as of the date hereof and based on information available to us as of the date hereof. Subject to applicable law, we assume no obligation to update any forward-looking statements.

SUMMARY

This summary highlights selected information from this Proxy Statement and may not contain all the information that is important to you. You should carefully read this entire Proxy Statement and the other documents to which we have referred you. See "Where You Can Find More Information" on page 93. The Merger Agreement is attached as Annex A to this Proxy Statement. Each item in this summary refers to the page of this document on which the applicable subject is discussed in more detail.

The Parties to the Merger Agreement

ALJ

ALJ is a holding company, whose primary asset is a substantial majority share of the outstanding common stock and 100% of the voting securities of KES, the owner and operator of a steel mini-mill near Ashland, Kentucky, which we refer to herein as the "Mill."

References to "ALJ," 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.

KES

Our business is conducted through KES, our majority-owned subsidiary, which owns and operates the Mill. As a mini-mill producer of bar flats, KES 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.

Optima

Optima Specialty Steel, Inc. ("Optima"), headquartered in Miami, Florida, is one of North America's leading independent manufacturers of high-quality cold drawn seamless tubes and cold finished steel bars. Optima is operated through its two wholly owned subsidiaries: South Lyon, Michigan-based Michigan Seamless Tube, LLC and Hammond, Indiana-based Niagara LaSalle Corporation.

Optima's current affiliated companies in the North American steel and metals industry include Warren Steel Holdings, LLC, a Warren, Ohio-based EAF steel mill; Steel Rolling Holdings, Inc., a Gibraltar, Michigan-based cold rolled processor; CC Metals & Alloys, LLC, a Calvert City, Kentucky producer of ferrosilicon; Felman Production, LLC, a New Haven, West Virginia producer of ferrosilicon manganese; and Felman Trading, Inc., a Miami-based ferroalloys trading company.

Merger Sub

KES Optima Acquisition Inc. ("Merger Sub") is a wholly owned subsidiary of Optima that was formed for the purpose of the Merger and otherwise has no current operations.

The parties to the Merger Agreement are more fully discussed below under "The Parties to the Merger Agreement" beginning on page 34.

The Special Meeting

Date, Time and Place of Special Meeting

The Special Meeting will be held on December 21, 2012, starting at 8:00 a.m. Pacific Time, at the offices of Morrison & Foerster LLP, 555 West Fifth Street, Suite 3500, Los Angeles, California 90013.

You will be asked to consider and vote upon the following proposals:

1. To approve the Merger as contemplated by the Merger Agreement.

2. To adjourn the Special Meeting, if necessary or appropriate to solicit additional proxies if there are not sufficient votes at the time of the Special Meeting to establish a quorum or to approve the Merger.

3. To act upon such other business as may properly come before the Special Meeting.

Solicitation

We will bear the entire cost of solicitation of proxies, including preparation, assembly, printing and mailing this Proxy Statement, the Proxy Card and any additional information furnished to stockholders pursuant to fulfillment requests. Copies of solicitation materials will be furnished to banks, brokerage houses, fiduciaries and custodians holding in their names shares of our stock beneficially owned by others to forward to such beneficial owners. We may reimburse persons representing beneficial owners of our stock for their costs of forwarding solicitation materials to such beneficial owners. Solicitation of proxies by mail may be supplemented by telephone or personal solicitation by our directors, officers or other regular employees. No additional compensation will be paid to directors, officers or other regular employees for such services.

Record Date; Quorum

Only holders of record of shares of ALJ Common Stock at the close of business on November 28, 2012 (the official record date) will be entitled to notice of and to vote at the Special Meeting and any adjournment thereof. At the close of business on November 28, 2012, we had outstanding and entitled to vote 57,267,498 shares of ALJ Common Stock.

Each holder of record of shares of ALJ Common Stock on the record date will be entitled to one vote for each share of ALJ Common Stock held by such holder on the record date on all matters to be voted upon at the Special Meeting.

A quorum of stockholders is necessary to hold a valid meeting. A quorum will be present if at least a majority of the outstanding shares of ALJ Common Stock entitled to vote are represented at the meeting, either in person or by proxy. All votes will be tabulated by the inspector of elections appointed for the meeting by us, who will tabulate affirmative and negative votes, abstentions and broker non-votes. Votes for and against the proposals, abstentions and broker non-votes will each be counted for determining the presence of a quorum.

Internet Delivery of Proxy Materials

In addition to mailing a printed copy of our proxy materials to each stockholder of record, we are furnishing proxy materials, including this Proxy Statement, by providing access to such documents on the Internet.

Important Notice Regarding the Availability of Proxy Materials for the Special Meeting to Be Held on December 21, 2012

Our Annual Report, quarterly reports, last annual meeting proxy statement and this Proxy Statement are available at www.pinksheets.com and www.aljregionalholdings.com. You are encouraged to access and review all of the important information contained in the proxy materials before voting.

How You Can Vote

Stockholders of Record

You are a stockholder of record if at the close of business on the record date your shares were registered directly in your name with American Stock Transfer & Trust Company, LLC, our transfer agent. If you are a stockholder of record, you can vote your shares:

- **By Mail**. You may submit your vote by marking, dating, signing and mailing the enclosed proxy in the prepaid envelope. Giving a proxy will not affect your right to vote your shares if you attend the Special Meeting and want to vote in person. The shares represented by the proxies received in

response to this solicitation and not properly revoked will be voted at the Special Meeting in accordance with the instructions therein.

- **In Person at the Special Meeting**. You may vote your shares in person at the Special Meeting. Even if you plan to attend the Special Meeting in person, we recommend that you also submit your Proxy Card by the applicable deadline so that your vote will be counted if you later decide not to attend the meeting.

Beneficial Owners

Stockholders whose shares are held in a brokerage account, or by another nominee, are considered the beneficial owners of shares held in "street name." Notices for these stockholders are being forwarded to beneficial owners, together with a voting instruction card. Beneficial owners have the right to direct their broker, trustee or nominee as to how to vote and also are invited to attend the Special Meeting. You should follow the instructions in the proxy materials or voting instructions provided by your broker or nominee in order to instruct your broker or other nominee on how to vote your shares. The availability of telephone and Internet voting will depend on the voting process of the broker or nominee.

Since a beneficial owner is not the stockholder of record, he or she may not vote these shares in person at the Special Meeting without a proxy from the broker, trustee or nominee that holds the shares, giving the beneficial owner the right to vote the shares at the meeting.

Broker Non-Votes

A broker non-vote occurs when a broker submits a proxy card with respect to shares of common stock held in street name but declines to vote on a particular matter because the broker has not received voting instructions from the beneficial owner. Under the rules that govern brokers who are voting with respect to shares held in street name, brokers have the discretion to vote such shares on certain routine matters, but not on non-routine matters. The proposal to approve the Merger is a non-routine matter. **Thus, if you hold your shares in street name and you do not instruct your broker how to vote on the proposal to approve the Merger, no votes will be cast on your behalf for such matter and this will be treated the same as if you had voted against the Merger.** Your broker will, however, continue to have discretion to vote any uninstructed shares on the proposal to adjourn the Special Meeting, if necessary.

Voting and Revocability of Proxies

All valid proxies received before the Special Meeting will be exercised. All shares represented by a proxy will be voted, and where a proxy specifies a stockholder's choice with respect to any matter to be acted upon, the shares will be voted in accordance with that specification. If a stockholder returns a proxy but does not mark their voting preference, the individuals named as proxies will vote the shares **FOR** the proposal to approve the Merger and **FOR** the proposal to adjourn the Special Meeting, if necessary. Proxy cards submitted by mail must be received no later than the Special Meeting to be voted at the Special Meeting.

Any stockholder who is a record holder may revoke any proxy given in response to this solicitation at any time before it is voted. It may be revoked by filing with the Company's counsel, located at Morrison & Foerster LLP, 755 Page Mill Road, Palo Alto, California, 94304, Attention: Christopher M. Forrester, a written notice of revocation, or it may be revoked by a later-dated vote, by mail, or by attending the meeting and voting in person. Attendance at the meeting will not, by itself, revoke a proxy.

If a stockholder holds in street name, the stockholder should follow the directions provided by their broker or other nominee regarding how to revoke their proxy.

IMPORTANT

Please mark, sign and date the proxy card and return it at your earliest convenience, so that whether you intend to be present at the Special Meeting or not, your shares can be voted. This will not limit your rights to attend or vote at the Special Meeting.

The Merger and the Merger Agreement

On November 18, 2012, our Board of Directors and the Board of Directors of KES at meetings duly called and held, unanimously approved and adopted the Merger as contemplated by the Merger Agreement, a copy of which is included as Annex A to this Proxy Statement. Please read it carefully. Pursuant to the terms of the Merger Agreement, among other things:

- we agreed to merge Merger Sub with and into KES, with KES surviving the Merger as a wholly owned subsidiary of Optima; and

- Optima agreed to make a cash payment in the amount of $112,500,000, as more fully described below under "Proposal No. 1—The Merger and the Merger Agreement—Merger Agreement—Terms of the Merger; Merger Consideration" on page 68.

In the event our stockholders approve the Merger, we expect that the Merger will close promptly following the Special Meeting, but not earlier than December 21, 2012.

Reasons for the Merger

Our Board of Directors continuously explores strategic alternatives for ALJ and KES, including the possibility of continuing to operate KES or KES being sold to or entering into a strategic transaction with a third party. The Board of Directors believes that the Merger is the best alternative for ALJ and its stockholders. In reaching this decision, the Board of Directors considered various factors. For the material factors considered by our Board of Directors in reaching its decision to approve and adopt the Merger and the Merger Agreement, see "Proposal No. 1—The Merger and the Merger Agreement—Reasons for the Merger," beginning on page 42.

Recommendation of Our Board of Directors

Our Board of Directors and the KES Board of Directors have unanimously:

- approved the Merger and the Merger Agreement; and

- determined the Merger to be in the best interests of the Company or KES, respectively, and their respective stockholders, and our Board of Directors recommends that our stockholders approve the Merger.

Our Board of Directors has approved the Tender Offer. However, our Board of Directors makes no recommendation to any stockholder as to whether to tender or refrain from tendering any shares or as to the price or prices at which stockholders may choose to tender their shares in the Tender Offer.

Under certain limited circumstances, our Board of Directors or KES' Board of Directors may respond to an unsolicited alternative acquisition proposal made by a third party, change its recommendation with respect to the Merger or terminate the Merger Agreement to enter into an alternative acquisition agreement if it constitutes a "Superior Company Proposal" under the criteria and pursuant to the procedures set forth in the Merger Agreement. A fee may be payable in connection with any such termination. See "Merger Agreement—Termination of the Merger Agreement," beginning on page 79, and "Merger Agreement—Expenses and Termination Fees; Liability for Breach," beginning on page 80.

Opinion of Our Financial Advisor

Opinion of Roth Capital Partners

In connection with the Merger, Roth Capital Partners ("Roth") delivered a written opinion, dated November 18, 2012, to our Board of Directors as to the fairness, from a financial point of view and as of the date of the opinion, to ALJ and to the holders of ALJ Common Stock of the $48,117,222 in consideration to be received by ALJ in the Merger. The full text of Roth's written opinion, dated November 18, 2012, to our Board of Directors, which describes, among other things, the assumptions made, procedures followed, factors considered and limitations on the review undertaken, is attached as Annex B to this Proxy Statement. You are urged to read the opinion carefully and in its entirety.

Roth delivered its opinion to our Board of Directors for the benefit and use of our Board of Directors (in its capacity as such) in connection with and for purposes of its evaluation of the $112,500,000 in aggregate consideration to be paid in the Merger from a financial point of view. The Roth opinion does not address any other terms, aspect or implication of the Merger, including, without limitation, the form or structure of the Merger, any other agreement, arrangement or understanding entered into in connection with the Merger or otherwise, including, without limitation, the Tender Offer, and no opinion or view was expressed as to the relative merits of the Merger in comparison to other strategies or transactions that might be available to KES or in which KES might engage or as to the underlying business decision of KES to proceed with or effect the Merger. Roth also expresses no opinion or recommendation as to how any shareholder should vote or act in connection with the Merger or any related matter, including, without limitation, the Tender Offer.

Financing

The total purchase price of $112.5 million plus certain expenses of Optima is expected to be funded by a combination of:

- $20 million of equity contributions to Optima from the Equity Sponsors (as defined below),
- $50.5 million of debt financing from the Note Offering,
- $25 million debt financing in the form of a drawdown of Optima's existing revolving credit facility with PNC Bank, National Association ("PNC Bank"), and
- $20.5 million of Optima's cash on hand.

The closing of the Merger is conditioned on consummation of the Note Offering for at least $50 million in gross proceeds to Optima. Under the Merger Agreement, if the Note Offering is not consummated by the Financing Confirmation Date (as defined below), we may terminate the Merger Agreement on or before December 31, 2012. If we do not terminate the Merger Agreement by December 31, 2012 and the Note Offering is not subsequently consummated by February 28, 2013, we or Optima may terminate the Merger Agreement and 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 reason for the termination is Optima's failure to consummate the Note Offering). Whether or not we are entitled to a termination fee, termination of the Merger Agreement by us does not preclude us from pursuing other rights and remedies under the Merger Agreement. See "Proposal No. 1—The Merger and the Merger Agreement—Financing," beginning on page 52, for a more fully detailed description of the financing.

Use of Proceeds from the Merger

Post-Closing Business and Investment of Proceeds from the Merger

If the Merger is approved by our stockholders and the Merger is consummated, we will have no or nominal operations and no material assets other than the cash proceeds of the Merger and our cash on hand. 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, or for other strategic options. No specific acquisition targets have been determined at this time.

Until we select and acquire another business, you will be unable to assess the merits or risks of the business which we ultimately will operate. Although it is our current intention to make such an investment or acquisition of control, there can be no guarantee that we will identify a suitable target within any particular time frame, or at all. Such a target company (or assets) might be in any industry.

If the Merger is not consummated because it is not approved by the holders of a majority of our outstanding shares, the Note Offering is not completed or otherwise, then either we or Optima may terminate the Merger Agreement. In such event, our Board of Directors, along with our management, will reassess our options in light of our strategic goals and any alternatives that may be available to us. See "Proposal No. 1—The Merger and the Merger Agreement—Use of Proceeds from the Merger" beginning on page 53 for a more fully detailed description.

The Tender Offer

We commenced the Tender Offer on November 19, 2012, whereby we are offering to holders of ALJ Common Stock the opportunity to tender all or a portion of their shares of ALJ Common Stock in exchange for cash. We plan to consummate the Tender Offer as soon as possible after the Merger closing and receipt of the Merger consideration, subject to the satisfaction or waiver of the conditions of the Tender Offer. As of the date of this Proxy Statement, the Tender Offer is scheduled to expire on December 24, 2012, subject to our rights to extend the expiration date.

In the Tender Offer, we are offering to purchase up to 30,000,000 shares of ALJ Common Stock at a purchase price not greater than $0.86 nor less than $0.84 per share, net to the seller in cash, less any applicable withholding taxes and without interest. A holder of ALJ Common Stock who wishes to participate must complete a letter of transmittal indicating the price within that range at which they are tendering their shares and the number of shares they are tendering. We will then select the single lowest price (in multiples of $0.01) within that price range that will allow us to purchase 30,000,000 shares (or a lower amount if not enough shares are properly tendered to allow us to purchase 30,000,000 shares). All shares will be acquired at that price, even in the case of shares tendered at a lower price, but we will not purchase any shares tendered at a price above the purchase price.

The Tender Offer is being made pursuant to the Offer to Purchase. If you wish to tender any of your shares, you must review the Offer to Purchase and follow the instructions in the Offer to Purchase. Voting to approve the Merger does not constitute a tender of your shares.

Interests of Our Directors and Executive Officers in the Merger

In considering the recommendation of our Board of Directors to vote for the proposal to approve the Merger, you should be aware that some of our directors and executive officers may have personal interests in the Merger that are, or may be, different from, or in addition to, your interests.

All of our directors and executive officers own shares of ALJ Common Stock or options to purchase shares of ALJ Common Stock, and to that extent, their interests in the Merger are the same as that of other holders of ALJ Common Stock. See "Security Ownership of Certain Beneficial Owners and Management," beginning on page 90. However, as described below, three of our directors also own securities of KES which will be purchased or otherwise liquidated in connection with the Merger. Further, since the acquisition of the Mill, the Mill has been operating under a Management Services Agreement (the "Management Agreement") with Pinnacle Steel, LLC ("Pinnacle"). Pinnacle is entitled to a monthly management fee and a management incentive fee as provided in the Pinnacle Agreement. John Scheel, our President, Chief Executive Officer and Class I Director, is a principal of and receives compensation from Pinnacle. 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. On the consummation of the Merger, the Management Agreement will terminate 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 aggregate amount of subordinated term loans ("Subordinated Loans") under the Subordinated Financing Agreement, dated as of July 20, 2009, by and among KES, the lenders a party

thereto and Ableco Finance LLC as collateral and administrative agent, 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 Holdings, LLC ("Libra Securities"), an affiliate of Mr. Ravich, holds (x) $3,909,571 in aggregate amount 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 amount 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.

The interests of our directors and executive officers in the Merger are more fully described below under "Proposal No. 1 – The Merger and the Merger Agreement – Interests of Our Directors and Executive Officers in the Merger" beginning on page 55.

Dissenters' Rights

You will not experience any change in your rights as a stockholder as a result of the Merger. Delaware law and our bylaws do not provide for appraisal or other similar rights for dissenting stockholders in connection with the Merger, and we do not intend to independently provide stockholders with any such right. Accordingly, you will have no right to dissent and obtain payment for your shares in connection with the Merger.

Tax Consequences of the Merger and Tender Offer

We anticipate recognizing a gain for U.S. federal income tax purposes on the Merger. Although we anticipate using a substantial portion of our NOL carryforwards to offset the recognized gain, we expect to pay some amount of alternative minimum tax on the gain due to NOL limitations. The Merger may also produce tax liability in certain states that cannot be offset by NOL carryforwards. The Merger will not produce any separate and independent tax gain or loss to our stockholders. However, stockholders may recognize gain or loss or dividend income if they tender their shares in the Tender Offer. For a description of the tax consequences of the Merger to the Company, see "U.S. Federal Income Tax Consequences of the Merger," on page 57. For a description of the tax consequences of the Tender Offer to stockholders, see "U.S. Federal Tax Consequences of the Tender Offer," on page 87.

Regulatory Matters

The Merger is subject to the Hart-Scott-Rodino Antitrust Improvements Act of 1976 (the "HSR Act"). Under the provisions of the HSR Act and the rules and regulations promulgated thereunder by the Federal Trade Commission (which we refer to in this proxy statement as the "FTC"), the Merger may not be completed until notification and report forms have been filed with the Antitrust Division of the United States Department of Justice (which we refer to in this proxy statement as the "Antitrust Division") and the FTC by each of ALJ and Optima, and the applicable waiting period has expired or been terminated. ALJ and Optima filed their respective notification and report forms with the Antitrust Division and the FTC under the HSR Act on October 31, 2012. The waiting period under the HSR Act, therefore, will expire at 11:59 p.m., New York City time, on November 30, 2012 unless earlier terminated or extended by a request for additional information and documentary material, which we refer to herein as a "second request."

If within the 30-day waiting period the Antitrust Division or the FTC were to issue a second request, the waiting period under the HSR Act would be extended until 30 days following the date on which both ALJ and Optima certify substantial compliance with the second request, unless the Antitrust Division or the FTC terminates the additional waiting period before its expiration. If the Antitrust Division or the FTC believes the merger would violate the U.S. federal antitrust laws by substantially lessening competition in any line of commerce affecting U.S.

consumers, it has the authority to challenge the transaction by seeking a federal court order to enjoin the Merger before or after expiration or termination of the HSR Act waiting period. U.S. state attorneys general or private parties could also bring legal action.

Although we expect that the required clearance under the HSR Act will be obtained, we cannot assure you that such clearance will be timely obtained or obtained at all or that the granting of such clearance will not involve the imposition of additional conditions on the completion of the Merger, including the requirement to divest assets, or require changes to the terms of the Merger Agreement. These conditions or changes could result in the conditions to the Merger not being satisfied.

Merger Agreement

General

Pursuant to the Merger Agreement, Optima has agreed to pay $112,500,000, allocated substantially as described below, for all of the outstanding stock of KES. The parties have provided each other with customary representations and warranties as more fully set forth in the Merger Agreement. In addition, we have agreed to certain covenants, including interim operating covenants that place certain restrictions on the operation of KES' business until the Merger closes or the Merger Agreement is terminated.

Allocation of Purchase Price

Optima has agreed to pay total consideration of $112,500,000 for KES. The total consideration of $112,500,000 will be allocated approximately as follows:

- $43.1 million, representing the aggregate amount of debt, transaction expenses and similar obligations of KES (including payments under the Amended and Restated Tax Sharing Agreement, dated as of February 23, 2007, by and between ALJ and KES, as amended (the "Tax Sharing Agreement") with respect to periods prior to the Merger, the termination fee under the Management Agreement and payments to holders of Subordinated Loans) payable at the Merger closing,

- $11.9 million, representing the aggregate amount payable immediately prior to the Merger closing to holders of KES' Series A Preferred Stock, and

- $9.7 million, representing the aggregate amount payable immediately prior to the Merger closing to holders of KES' Series B Common Stock.

We hold all of the outstanding shares of Series A Common Stock of KES and 160 of the 13,063 outstanding shares (1.22%) of Series B Common Stock of KES. We also hold Subordinated Loans in the amount of approximately $268,000 in principal and accrued and unpaid interest.

After allocation of the total consideration as described above, and based on our current expectations and assuming a closing date of December 21, 2012, the unrestricted cash proceeds to ALJ from the Merger are expected to be approximately $48 million. The total unrestricted cash at ALJ following the Merger closing is expected to be approximately $50 million. For purposes of illustration, this expected cash at ALJ, if divided by the number of outstanding shares of ALJ Common Stock on a fully diluted basis on November 28, 2012, equates to approximately $0.86 per share of ALJ Common Stock. The anticipated cash purchase price is described more fully under "Proposal No. 1—The Merger and the Merger Agreement—Terms of the Merger; Merger Consideration" on page 68.

Completion of the Merger

In the event the stockholders approve the Merger, the parties currently expect the closing of the Merger to occur promptly following the Special Meeting, subject to various regulatory clearances and the satisfaction or waiver of other conditions described in the Merger Agreement, including Optima's consummation of the Note Offering. However, we do not expect the Merger to close prior to December 21, 2012.

Representations and Warranties

The Merger Agreement contains a number of customary representations and warranties applicable to KES, including, but not limited to, representations and warranties relating to the following matters: financial statements, inventory, accounts receivable, material contracts, absence of certain litigation, leased and owned real property, environmental matters, and employee and labor matters.

The Merger Agreement also contains a number of customary representations and warranties applicable to ALJ, including, but not limited to, representations and warranties relating to the following matters: financial statements, title to shares of KES, and the receipt of a fairness opinion from Roth.

The Merger Agreement also contains a number of customary representations and warranties applicable to Optima and Merger Sub, including, but not limited to, representations and warranties relating to the following matters: sufficiency of funds, acquisition of KES for investment purposes, and absence of litigation.

The representations and warranties applicable to all parties to the Merger Agreement are discussed more fully under "Proposal No. 1—The Merger and the Merger Agreement—Representations and Warranties" on page 69.

Conduct of Business Pending the Merger

Under the Merger Agreement, during the period of time after signing and before the effective time of the Merger, KES is required to conduct its business in all material respects only in the ordinary course and consistent with past practice and to exercise commercially reasonable efforts to preserve substantially intact its business organization and to preserve its business relationships.

During this period of time, except as expressly contemplated by the Merger Agreement or as consented to by Optima, KES is restricted from engaging in certain activities, including, but not limited to: selling or disposing of any material properties or assets outside of the ordinary course of business; incurring any indebtedness for borrowed money; increasing the compensation to any of its employees; making any capital expenditures in excess of certain monetary thresholds; or entering into any new line of business. The restrictions imposed on KES during the period of time between signing and before the effective time of the Merger are discussed more fully under "Proposal No. 1—The Merger and the Merger Agreement—Conduct of Business Pending the Merger" on page 72.

No Solicitation of Alternative Proposals

The Merger Agreement restricts our ability to solicit or engage in discussions or negotiations with third parties regarding specified transactions involving the sale of our or KES' assets or securities. Notwithstanding these restrictions, under certain limited circumstances, our Board of Directors or KES' Board of Directors may respond to an unsolicited alternative acquisition proposal made by a third party, change its recommendation with respect to the Merger or terminate the Merger Agreement to enter into an alternative acquisition agreement if it constitutes a "Superior Company Proposal" under the criteria and pursuant to the procedures set forth in the Merger Agreement. The procedures governing alternative acquisition proposals and changes in recommendation by the Board of Directors are discussed more fully under "Proposal No. 1—The Merger and the Merger Agreement—No Solicitation of Alternative Proposals" on page 73 and "Proposal No. 1—The Merger and the Merger Agreement—Changes in Board Recommendation" on page 74.

Efforts to Obtain Required Stockholder Votes

ALJ has agreed to use its commercially reasonable efforts to obtain stockholder approval for the proposal to approve the Merger, unless the ALJ Board of Directors no longer recommends the proposal. ALJ must use commercially reasonable efforts to hold the Special Meeting for the purpose of considering the approval of the Merger even if the ALJ Board of Directors no longer recommends the proposal.

Efforts to Complete the Merger

Each party has agreed to use commercially reasonable efforts to consummate and make effective, as soon as is reasonably practicable, the Merger. The parties have also agreed not to engage in any action that would

reasonably be expected to materially delay the consummation of, or otherwise adversely affect, the Merger. This is discussed more fully under “Proposal No. 1—The Merger and the Merger Agreement—Efforts to Complete the Merger” on page 75.

Labor Matters; Employee Benefits Matters

Optima has agreed to cause the surviving corporation to recognize upon the closing, the United Steel, Paper and Forestry, Rubber, Manufacturing, Energy, Allied Industrial and Service Workers International Union (the “Union”) as the bargaining representative for the employees. Optima will accept, and cause the surviving corporation to accept, the collective bargaining agreement (the “Collective Bargaining Agreement”), dated as of May 4, 2008, by and between KES and the Union.

The Merger Agreement also sets forth certain obligations on Optima with respect to employee benefit plans applicable to KES employees after the effective time of the Merger, such as requiring Optima to maintain certain benefits levels for KES employees. The obligations imposed on Optima with respect to the Collective Bargaining Agreement and benefit plans are discussed more fully under “Proposal No. 1—The Merger and the Merger Agreement—Labor Matters; Employee Benefits Matters” on page 76.

Note Offering

Optima has agreed to use reasonable best efforts to arrange, and to obtain a closing of, 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 and noteholder collateral agent, for not less than $50 million in gross proceeds. The consummation of the Note Offering will require, among other things, consents from Optima’s existing senior lenders and noteholders.

KES has agreed to provide reasonable cooperation in connection with the arrangement of the Note Offering as may be reasonably requested by Optima, including participation in meetings, drafting sessions, due diligence, furnishing of financial and other pertinent information to consummate the Note Offering. Optima has agreed to reimburse KES and ALJ for all reasonable out-of-pocket legal and accounting fees and expenses incurred in providing such cooperation.

There can be no assurance that the financing will be available or that any of the conditions to the financing will be met or that Optima otherwise will consummate the financing. If the financing is not available, Optima is not required to consummate the Merger (though Optima, would, in certain cases be required to pay us a reverse termination fee, and we may have other rights and remedies under the Merger Agreement). The Note Offering is discussed more fully under “Proposal No. 1—The Merger and the Merger Agreement—Note Offering” on page 76. The reverse termination fee is discussed more fully under “Proposal No. 1—The Merger and the Merger Agreement—Expenses and Termination Fees; Liability for Breach” on page 80.

Indemnification and Insurance

Optima has agreed that, from and after the effective time of the Merger, it will cause the surviving corporation to comply with all obligations of KES in existence or in effect on the date of the Merger Agreement under its certificate of incorporation and bylaws to indemnify, defend and hold harmless each former and current officer, director or fiduciary of KES against any and all losses, claims, damages and expenses in connection with any claim, action, suit or investigation arising out of the fact that such person held such position with KES at or prior to the effective time of the Merger.

Prior to the effective time of the Merger, KES may obtain six-year “tail” insurance policies with respect to directors’ and officers’ liability insurance at terms as favorable as ALJ’s existing policy for claims arising from facts or events occurring prior to the effective time. The indemnification and insurance provisions of the Merger Agreement are discussed more fully under “Proposal No. 1—The Merger and the Merger Agreement—Indemnification and Insurance” on page 76.

Conditions to the Merger

Before we can complete the Merger, a number of conditions must be satisfied. These include, among other things:

- the receipt of our stockholder approval;
- the expiration or termination of any waiting period under the HSR Act;
- termination of the Tax Sharing Agreement;
- the execution of a stock purchase agreement by Merger Sub, KES and all the holders of outstanding Series B Common Stock and Series A Preferred Stock of KES and compliance with the terms thereof required to be complied with prior to the closing;
- termination of the Management Agreement and that certain Fee and Reimbursement Agreement, dated September 30, 2011, between KES, on the one hand, and Jess Ravich (including certain trusts for his benefit and the benefit of his family), on the other hand (the "Fee and Reimbursement Agreement"); and
- all closing deliverables, including payment of the purchase price, must have been received or the requirement to deliver such items must have been waived by the appropriate party.

In addition, the obligations of Optima and Merger Sub to complete the Merger are subject to the satisfaction by us and/or KES or waiver by Optima of certain conditions, including the following:

- the representations and warranties relating to authority and capital structure or which are qualified by materiality must have been true and correct as of the date of the Merger Agreement and shall be true and correct as of the closing date, and all other representations and warranties must have been true and correct in all material respects as of the date of the Merger Agreement and shall be true and correct as of the closing date, except those representations and warranties which address matters only as of a particular date;
- we and KES shall have performed and complied in all material respects with each of the covenants and obligations we were required to perform under the Merger Agreement prior to the closing of the Merger;
- receipt of certificates from KES and ALJ each signed by an executive officer thereof as to the satisfaction of the conditions described in the preceding two bullets;
- absence of any law or governmental order prohibiting or restraining the consummation of the Merger, and the absence of any claim, action, suit or proceeding that could prevent or make illegal or restrain the consummation of the Merger;
- the absence of a Material Adverse Effect with respect to KES;
- the consummation of the Note Offering and the receipt by Optima of not less than $50 million in gross proceeds from the Note Offering;
- we must have delivered to Optima our estimate of the calculation of the Merger consideration and the components thereof two business days prior to the closing; and
- the Closing Net Working Capital (as defined in the Merger Agreement) of KES must be at least $24 million.

Finally, the obligations of KES to complete the Merger are subject to the satisfaction by Optima and Merger Sub or waiver by KES of certain conditions, including the following:

- the representations and warranties made by Optima or Merger Sub relating to authority or which are qualified by materiality must have been true and correct as of the date of the Merger Agreement and must be true and correct as of the closing date, and all other representations and warranties must have been true and correct in all material respects as of the date of the Merger Agreement and must be true and correct as of the closing date, except those representations and warranties that address matters only as of a particular date, which need only be true and correct as of such date;

- Optima and Merger Sub shall have performed and complied in all material respects with each of the covenants and obligations that they are required to perform under the Merger Agreement prior to the closing;

- receipt of a certificate from Optima signed by an executive officer thereof as to the satisfaction of the conditions described in the preceding two bullets;

- the absence of any law or governmental order prohibiting the Merger; and

- Optima and Merger Sub shall have taken all actions reasonably requested by the Union to evidence their agreement to recognize and accept the Collective Bargaining Agreement and the obligation, following the Merger, of the surviving corporation to recognize and honor the Collective Bargaining Agreement in accordance with its terms thereof.

Termination of the Merger Agreement

The parties may, by mutual written consent, terminate the Merger Agreement at any time prior to the completion of the Merger.

In addition, either Optima, on one hand, or KES or ALJ, on the other hand, may terminate the Merger Agreement:

- at any time after February 28, 2013 (the “outside date”), upon notice to the other, if the closing shall not have occurred on or prior to the outside date; except that the right to terminate will not be available to any party whose failure to fulfill any obligation under the Merger Agreement causes or results in the failure of the closing to occur on or before the outside date;

- at any time prior to the outside date, upon notice to the other, if the terminating party’s conditions to closing cannot be reasonably satisfied by the outside date; except that the right to terminate will not be available to any party that has failed to comply with their respective obligations in any material respect and have failed to cure such noncompliance on or before the outside date;

- if the required stockholder approval has not been obtained at or by the time immediately following the Special Meeting;

- prior to the closing, upon notice to the other, so long as the terminating party is not in material breach or default of the Merger Agreement, of a material breach or default by the other party under the Merger Agreement that if not cured could result in failure of the conditions to closing, which is not cured within 30 days after receipt of written notice of such breach or default; or

KES or ALJ may terminate the Merger Agreement:

- in order to enter into an acquisition agreement with respect to a Superior Company Proposal (as defined below), subject to compliance with certain obligations to provide notice to and to negotiate with Optima prior to such termination; or

- upon written notice to Optima, at any time after the date that is 14 business days after KES delivers its audited financial statements for the fiscal year ended September 30, 2012 and certain other materials to Optima (the "Financing Confirmation Date"), but no later than December 31, 2012, if the Note Offering shall not have been consummated for at least $50 million in gross proceeds to Optima on or prior to the Financing Confirmation Date; unless within 48 hours of the Financing Confirmation Date, ALJ notifies Optima that (1) it will agree to receive the difference between (i) the aggregate gross proceeds that Optima has received in the Note Offering and (ii) $50 million (the "Financing Shortfall") in notes (at par) in lieu of cash (subject to satisfaction of all other legal requirements reasonably required to receive such notes, including the re-solicitation of our stockholder vote if the amount of notes to be received would form a material part of the Merger consideration) or (2) one or more designees of ALJ notify Optima that they will purchase notes in an amount equal to the Financing Shortfall in the Note Offering.

Termination Fee

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 (as defined below); or

- the Merger Agreement is terminated as a result of the requisite stockholder approval not being obtained or the Merger failing to close by February 28, 2013, if, in each case, 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.

The closing of the Merger is conditioned on consummation of the Note Offering for at least $50 million in gross proceeds to Optima. Under the Merger Agreement, if the Note Offering is not consummated by the Financing Confirmation Date, we may terminate the Merger Agreement on or before December 31, 2012. If we do not terminate the Merger Agreement by December 31, 2012 and the Note Offering is not subsequently consummated by February 28, 2013, we or Optima may terminate the Merger Agreement and 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 reason for the termination is Optima's failure to consummate the Note Offering). Whether or not we are entitled to a termination fee, termination of the Merger Agreement by us does not preclude us from pursuing other rights and remedies under the Merger Agreement.

The termination fee provisions of the Merger Agreement are discussed more fully under "Proposal No. 1—The Merger and the Merger Agreement—Expenses and Termination Fees; Liability for Breach" on page 80.

Security Ownership of Certain Beneficial Owners and Management

As of November 28, 2012, our directors and executive officers collectively beneficially owned in the aggregate 14,899,666 (17,099,666 on a fully diluted basis) of the issued and outstanding shares of ALJ Common Stock, representing approximately 26% (28.8% on a fully diluted basis) of the shares of ALJ Common Stock outstanding and entitled to vote at the Special Meeting.

For more information regarding security ownership of our directors, executive officers and significant stockholders, please see "Security Ownership of Certain Beneficial Owners and Management," beginning on page 90.

Voting Agreements

Pursuant to the Merger Agreement, Optima and Merger Sub agreed to cause all ALJ Common Stock owned by them and their subsidiaries, if any, to be voted in favor of the Merger at the Special Meeting.

If the Merger Agreement is terminated for any other reason, this voting agreement will have no further force or effect following such termination.

On November 18, 2012, each of the members of ALJ's Board of Directors entered into a Stockholder Support Agreement with Optima (the "Stockholder Support Agreement"), pursuant to which each director has agreed (solely in his capacity as a stockholder) to, among other things, vote all shares of capital stock of ALJ held by him (i) in favor of the adoption of the Merger Agreement, (ii) in favor of each of the other actions contemplated by the Merger Agreement, (iii) in favor of any action required in furtherance of effecting the Merger and (iv) against any alternative business combination transaction. 14,266,578 shares of ALJ Common Stock (comprising 24.9% of the outstanding ALJ Common Stock) are subject to the Stockholder Support Agreement. Additionally, Mr. Ravich is the holder of an option to acquire 2,000,000 shares of ALJ Common Stock and any such shares of ALJ Common Stock that Mr. Ravich acquires pursuant to such option are also subject to the Stockholder Support Agreement. The Stockholder Support Agreement terminates upon a termination of the Merger Agreement in accordance with its terms.

Joseph Corso, Jr., our 21.2% (20.4% on a fully diluted basis) stockholder, has entered into an agreement with Mr. Ravich and ALJ to tender his shares in the Tender Offer at $0.84 per share and to vote in favor of the Merger (the "Voting and Tender Agreement"). Pursuant to the Voting and Tender Agreement, Mr. Ravich, our Chairman and a 19.5% (22.1% on a fully diluted basis) stockholder, has also agreed not to tender any of his shares in the Tender Offer. The Voting and Tender Agreement terminates upon, among other things, a change in recommendation of our Board of Directors. Copies of the form of Stockholder Support Agreement and form of Voting and Tender Agreement are available on www.pinksheets.com and www.aljregionalholdings.com as exhibits to the Current Report filed on November 19, 2012.

UNAUDITED PRO FORMA CONSOLIDATED FINANCIAL INFORMATION

The following unaudited *pro forma* consolidated financial statements give effect to the Merger. The unaudited *pro forma* consolidated financial statements related to the Merger include certain adjustments to the historical financial statements as well as the assumptions and adjustments described in the accompanying notes to the unaudited *pro forma* consolidated financial statements.

The unaudited *pro forma* consolidated balance sheets present the financial position of the Company at June 30, 2012 and at September 30, 2010 and 2011, each giving effect to the Merger as if it had occurred on those dates. The unaudited *pro forma* consolidated statements of operations for the nine months ended June 30, 2012, and for the years ended September 30, 2010 and 2011 give effect to the Merger as if it had occurred at the beginning of each such period. For purposes of the *pro forma* consolidated statements of operations, (i) all of the net sales, cost of sales, selling expenses, income taxes, and the majority of general and administrative expenses and interest expenses are attributed to KES and as a result have been adjusted to compute the final *pro forma* consolidated statements of operations, and (ii) ALJ accrued interest income on the expected cash amounts derived from the acquisition.

The unaudited *pro forma* financial information is presented for informational purposes only and it is not necessarily indicative of the financial position and results of operations that would have been achieved had the Merger been completed as of the dates indicated and is not necessarily indicative of the Company's future financial position or results of operations.

The unaudited *pro forma* consolidated financial statements should be read in conjunction with the historical consolidated financial statements and accompanying notes of the Company included in this Proxy Statement.

Additional *pro forma* information regarding ALJ's expected income and expenses following the completion of the Merger can be found under the heading "Proposal No. 1—The Merger and the Merger Agreement—Use of Proceeds from the Merger—Post-Closing Business and Investment of Proceeds from the Merger" on page 53.

ALJ Regional Holdings, Inc.

PRO FORMA CONSOLIDATED STATEMENT OF OPERATIONS
FOR THE NINE MONTHS ENDED JUNE 30, 2012
(unaudited)

	Nine Months Ended June 30, 2012		
	As Reported	**Pro Forma Adjustments**	**Pro Forma As Adjusted**
NET SALES	$ 125,398,237	$ (125,398,237)	$ -
COSTS AND EXPENSES			
Cost of sales	106,273,613	(106,273,613)	-
Selling	1,645,270	(1,645,270)	-
General and administrative	5,544,841	(5,158,973)	385,868
Total cost of operations	113,463,724	(113,077,856)	385,868
Income from operations	11,934,513	(12,320,381)	(385,868)
OTHER INCOME (EXPENSE)			
Interest income	21,145	184,515	205,660
Interest expense:			
13% Series A Preferred Stock	(579,435)	579,435	-
Subordinated loans payable	(1,187,787)	1,187,787	-
Other	(817,683)	862,044	44,361
Other income (expense), net	6,806	(6,806)	-
Total Other income (expense)	(2,556,954)	2,806,975	250,021
INCOME (LOSS) BEFORE INCOME TAXES AND MINORITY INTEREST	9,377,559	(9,513,406)	(135,847)
Income taxes (1)	(645,550)	645,550	-
INCOME (LOSS) BEFORE MINORITY INTEREST	8,732,009	(8,867,856)	(135,847)
MINORITY INTEREST – related parties	(1,382,356)	1,382,356	-
NET INCOME (LOSS)	$ 7,349,653	$ (7,485,500)	$ (135,847)
NET INCOME (LOSS) PER COMMON SHARE –			
Basic	$0.13	($0.13)	$0.00
Diluted	$0.12	($0.12)	$0.00
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING			
Basic	57,090,319	-	57,090,319
Diluted	59,490,319	-	59,490,319

ALJ Regional Holdings, Inc.

PRO FORMA CONSOLIDATED STATEMENT OF OPERATIONS
FOR THE YEAR ENDED SEPTEMBER 30, 2011
(unaudited)

	Year Ended September 30, 2011		
	As Reported	Pro Forma Adjustments	Pro Forma As Adjusted
NET SALES	$ 162,020,525	$ (162,020,525)	$ -
COSTS AND EXPENSES			
Cost of sales	137,455,886	(137,455,886)	-
Selling	2,071,418	(2,071,418)	-
General and administrative	7,281,690	(6,469,097)	812,593
Total	146,808,994	(145,996,401)	812,593
Income from operations	15,211,531	(16,024,124)	(812,593)
OTHER INCOME (EXPENSE)			
Interest income	53,656	145,337	198,993
Interest expense:			
13% Series A Preferred Stock	(771,875)	(771,875)	-
8% Subordinated Notes payable	(2,470,830)	(2,470,830)	-
Other	(1,021,150)	(967,201)	(53,949)
Loss on investments	(151,541)	-	(151,541)
Other income (expense), net	583,848	(33,852)	549,996
Total Other income (expense), net	(3,777,892)	4,321,391	543,499
INCOME (LOSS) BEFORE INCOME TAXES AND MINORITY INTEREST	11,433,639	(11,702,733)	(269,094)
Income tax – current	(1,058,074)	1,058,074	-
Income tax – deferred	2,752,904	(2,752,904)	-
Total income tax	1,694,830	(1,694,830)	-
INCOME (LOSS) BEFORE MINORITY INTEREST	13,128,469	(13,397,563)	(269,094)
MINORITY INTEREST – related parties	1,711,338	(1,711,338)	-
INCOME (LOSS) FROM OPERATIONS	$ 11,417,131	$ (11,686,225)	$ (269,094)
NET INCOME PER COMMON SHARE –			
Basic	$0.21	($0.22)	($0.01)
Diluted	$0.21	($0.21)	$0.00
NUMBER OF COMMON SHARES OUTSTANDING			
Basic	53,331,807	-	53,331,807
Diluted	54,856,807	-	54,856,807

ALJ Regional Holdings, Inc.

PRO FORMA CONSOLIDATED STATEMENT OF OPERATIONS
FOR THE YEAR ENDED SEPTEMBER 30, 2010
(unaudited)

	Year Ended September 30, 2010		
	As Reported	Pro Forma Adjustments	Pro Forma As Adjusted
NET SALES	$ 112,828,496	$ (112,828,496)	$ -
COSTS AND EXPENSES			
Cost of sales	96,952,237	(96,952,237)	-
Selling	1,695,618	(1,695,618)	-
General and administrative	5,653,532	(5,068,036)	585,496
Total	104,301,387	(103,715,891)	585,496
Income from operations	8,527,109	(9,112,605)	(585,496)
OTHER INCOME (EXPENSE)			
Interest income	14,201	351,050	365,251
Interest expense:			
13% Series A Preferred Stock	(1,332,834)	(1,332,834)	-
8% Subordinated Notes payable	(2,390,578)	(2,390,578)	-
Other	(1,178,708)	(1,068,805)	(109,903)
Other income (expense), net	3,968,553	(3,378,947)	225,887
Total Other income (expense), net	(919,366)	1,400,601	481,235
INCOME (LOSS) BEFORE INCOME TAXES AND MINORITY INTEREST	7,607,743	(7,712,004)	(104,261)
Income tax – current	(656,759)	(656,759)	-
Income tax – deferred	20,578	20,578	-
Total income tax	(636,181)	(636,181)	-
INCOME (LOSS) BEFORE MINORITY INTEREST	6,971,562	(7,075,823)	(104,261)
MINORITY INTEREST – related parties	1,283,162	(1,283,162)	-
INCOME (LOSS) FROM OPERATIONS	$ 5,688,400	$ (5,792,660)	$ (104,260)
NET INCOME PER COMMON SHARE –			
Basic	$0.12	($0.12)	-
Diluted	$0.11	($0.11)	-
NUMBER OF COMMON SHARES OUTSTANDING			
Basic	49,197,339	-	49,197,339
Diluted	49,722,339	-	49,722,339

ALJ Regional Holdings, Inc.

PRO FORMA CONSOLIDATED BALANCE SHEET
JUNE 30, 2012
(unaudited)

	June 30, 2012		
	As Reported	**Pro Forma Adjustments**	**Pro Forma As Adjusted**
ASSETS			
Current Assets:			
Cash and cash equivalents	$ 1,731,866	$ 39,186,590	$ 40,918,456
Accounts receivable, less allowance for doubtful accounts of $708,495 at June 30, 2012 and $703,532 at September 30, 2011	13,971,507	(13,971,507)	-
Inventories	26,191,385	(26,191,385)	-
Prepaid expenses and other current assets	427,729	(398,474)	29,255
Deferred taxes	3,059,567	(3,059,567)	-
Total current assets	45,382,054	(4,4,34,343)	40,947,711
Property, plant and equipment	5,107,203	(5,107,203)	-
Less accumulated depreciation and amortization	(2,844,458)	2,844,458	-
Property, plant and equipment, net	2,262,745	2,262,745	-
Other assets:			
Deposits	224,460	(224,460)	-
Deferred loan costs, net of amortization	309,089	(309,089)	-
Investment in Bellator	90,228	-	90,228
Total other assets	623,777	(533,549)	90,228
Total assets	$ 48,268,576	$ (7,230,637)	$ 41,037,939
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current liabilities:			
Accounts payable	$ 9,795,651	$ (9,795,651)	-
Accrued expenses	3,392,669	(3,392,669)	-
Accrued interest payable – 8% subordinated term loans	1,172,717	(1,172,717)	-
Income taxes payable	686,430	(686,430)	-
Current portion of term loans	2,000,000	(2,000,000)	-
Current portion of capital lease obligation	45,075	(45,075)	-
Liabilities related to discontinued operations	2,984,660	-	2,984,660
Total current liabilities	20,077,202	(17,092,542)	2,984,660
Non-current liabilities			
Secured line of credit	6,705,144	(6,705,144)	-
8% subordinated term loans	18,998,213	(18,998,213)	-
Term loans, less current portion	2,500,000	(2,500,000)	-

Series A Preferred stock of subsidiary subject to mandatory redemption; 13% cumulative, non-convertible, redeemable preferred stock, mandatory redemption and liquidation value of $1,000 per share; 5,936 share issued and outstanding at June 30, 2011 plus cumulative dividends of $5,093,760	11,609,195	(11,609,195)	-
Deferred tax liability	383,158	(383,158)	-
Minority interest – related parties	7,158,188	(7,158,188)	-
Total liabilities	$ 67,431,100	$ (64,446,440)	$ 2,984,660
Commitments and contingencies			
Stockholders' equity:			
Common stock, $0.01 par value; authorized – 100,000,000 shares; 57,246,598 issued and outstanding	$ 572,466	$ (8)	$ 572,458
Additional paid-in capital	288,426,728	57,159,611	345,586,339
Accumulated deficit	(307,332,142)	56,200	(307,275,942)
Treasury stock – 607,500 shares, at cost	(829,576)	-	(829,576)
Total stockholders' equity	(19,162,524)	57,215,803	38,053,279
Total liabilities and stockholders' equity	$ 48,268,576	$ (7,230,637)	$ 41,037,939

Footnotes

All of the adjustments with the exception of the following are a result of removing the operations of KES from the consolidation:

- ALJ included the expected proceeds from the sale of KES in cash
- ALJ adjusted cash to include the expected interest earned on the adjusted cash balance
- ALJ adjusted cash to remove any tax sharing payments that were made from KES to ALJ
- ALJ adjusted the entire balance of minority interest against additional paid in capital as a result of the sale of KES
- ALJ adjusted retained earnings as a result of any gains recognized from the sale of KES in prior period

ALJ Regional Holdings, Inc.

PRO FORMA CONSOLIDATED BALANCE SHEET
SEPTEMBER 30, 2011
(unaudited)

	September 30, 2011		
	As Reported	**Pro Forma Adjustments**	**Pro Forma As Adjusted**
Current Assets:			
Cash and cash equivalents	$ 1,282,228	$ 34,509,598	$ 35,791,826
Accounts receivable, less allowance for doubtful accounts of $420,710	14,522,393	(14,522,131)	-
Inventory	28,351,131	(28,351,131)	-
Prepaid expenses and other current assets	1,310,364	(1,229,070)	81,294
Deferred Tax Asset	3,059,567	(3,059,567)	-
Total current assets	48,525,683	(12,652,563)	35,873,120
Property, plant and equipment	5,107,203	(5,107,203)	-
Less accumulated depreciation and amortization	(2,573,958)	2,573,958	-
Property, plant and equipment, net	2,533,245	(2,533,245)	-
Other assets:			
Deferred loan costs, net of amortization of $0	398,719	(398,719)	-
Deposits	924,460	(924,460)	-
Investment in Bellator	90,228	-	90,228
Total other assets	1,413,407	(1,323,179)	90,228
Total assets	$ 54,472,335	$ (16,508,987)	$ 35,963,348
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current liabilities:			
Accounts payable	$ 9,888,998	$ (9,888,998)	$ -
Accrued expenses	3,378,535	(3,378,535)	-
Income taxes payable	867,300	(867,300)	-
Accrued interest 8% subordinated term loans	1,476,233	(1,476,233)	-
Secured line of credit	16,725,304	(16,725,304)	
Current Portion of Ableco Note	2,535,208	(2,535,208)	-
Current portion of capital lease obligation	171,792	(171,792)	-
Liabilities related to discontinued operations	2,984,660	-	2,984,660
Total current liabilities	38,028,030	(35,043,370)	2,984,660
Non-current liabilities			
8% subordinated term loans	19,832,003	(19,832,003)	-
Long term portion of Ableco Notes	4,000,000	(4,000,000)	-
Deferred tax liability	383,158	(383,158)	-
Preferred stock of subsidiary subject to mandatory redemption; issued and outstanding	11,029,760	(11,029,760)	-
Preferred stock of subsidiary subject to mandatory redemption; issued and outstanding at September			
Minority interest – related parties	5,775,831	-	-
Total liabilities	$ 79,048,782	$ (76,064,122)	$ 2,984,660

Commitments and contingencies	-	-	-
Stockholders' equity:			
Preferred stock, $0.01 par value; authorized - 5,000,000 shares; issued and outstanding at September 30, 2010	-	-	-
Common stock, $0.01 par value; authorized – 100,000,000 shares; 56,934,040 issued and outstanding	569,340	(8)	569,332
Additional paid-in capital	288,365,584	55,448,272	343,813,856
Accumulated deficit	(314,681,795)	4,106,871	(310,574,924)
Treasury stock – 607,500 shares, at cost	(829,576)	-	(829,576)
Total stockholders' equity	(26,576,447)	59,555,135	32,978,688
Total liabilities and stockholders' equity	$ 52,472,335	$ (16,508,987)	$ 35,963,348

Footnotes

All of the adjustments with the exception of the following are a result of removing the operations of KES from the consolidation:

- ALJ included the expected proceeds from the sale of KES in cash
- ALJ adjusted cash to include the expected interest earned on the adjusted cash balance
- ALJ adjusted cash to remove any tax sharing payments that were made from KES to ALJ
- ALJ adjusted the entire balance of minority interest against additional paid in capital as a result of the sale of KES
- ALJ adjusted retained earnings as a result of any gains recognized from the sale of KES in prior period

ALJ Regional Holdings, Inc.

PRO FORMA CONSOLIDATED BALANCE SHEET
SEPTEMBER 30, 2010
(unaudited)

	September 30, 2010		
	As Reported	Pro Forma Adjustments	Pro Forma As Adjusted
Current Assets:			
Cash and cash equivalents	$ 391,470	$ 36,436,061	$ 36,827,531
Accounts receivable, less allowance for doubtful accounts of $420,710	11,030,780	(11,030,780)	-
Inventory	21,272,658	(21,272,658)	-
Prepaid expenses and other current assets	1,078,846	(1,015,843)	63,003
Income Taxes Receivable	-	-	-
Total current assets	34,204,576	2,685,965	36,890,541
		-	
Property, plant and equipment	5,107,203	(5,107,203)	-
Less accumulated depreciation and amortization	(2,200,111)	2,200,111	-
Property, plant and equipment, net	2,907,092	(2,907,092)	-
Other assets:			
Deferred loan costs, net of amortization of $0	176,712	(176,712)	-
Deposits	924,460	(924,460)	-
Investment in Bellator	241,769	-	241,769
Total other assets	1,342,941	(1,101,172)	241,769
Total assets	$ 38,454,609	$ (1,332,306)	$ 37,132,303
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current liabilities:			
Accounts payable	$ 6,111,990	$ (6,023,281)	$ 88,709
Accrued expenses	2,289,189	(2,289,189)	-
Income taxes payable	328,073	(328,073)	-
Accrued interest payable:			
8% subordinated promissory notes payable to related parties	2,290,349	(2,290,349)	-
Secured line of credit	13,181,106	(13,181,106)	-
Current Portion of PNC Loan	2,533,275	(2,533,275)	-
Current portion of capital lease obligation	152,233	(152,233)	-
Liabilities related to discontinued operations	2,984,660	-	2,984,660
Total current liabilities	$ 29,870,875	$ (26,797,506)	$ 3,073,369
Non-current liabilities			
Accrued interest payable			
4% note payable to related party, plus cumulative interest of $1,192,775	2,147,268	-	2,147,268
8% subordinated term loans	29,882,226	(29,882,226)	-
Capital lease obligation, less current portion	171,792	(171,792)	-
Preferred stock of subsidiary subject to mandatory redemption; issued and outstanding	10,257,885	(10,257,885)	-

Preferred stock of subsidiary subject to mandatory redemption; issued and outstanding at September	2,274,014	-	2,274,014
Minority interest – related parties	4,064,492	-	-
Total liabilities	$ 80,168,552	$ (72,673,901)	$ 7,494,651
Commitments and contingencies	-	-	-
Stockholders' equity:			
Preferred stock, $0.01 par value; authorized - $5,000,000 shares; issued and outstanding at September 30, 2010	-	-	-
Common stock, $0.01 par value; authorized – 100,000,000 shares; 49,729,574 issued and outstanding	$ 497,295	$ (8)	$ 497,287
Additional paid-in capital	284,717,264	54,128,510	338,845,774
Accumulated deficit	(326,098,926)	17,223,093	(308,875,833)
Treasury stock – 607,500 shares, at cost	(829,576)	-	(829,576)
Total stockholders' equity	(41,713,943)	71,351,595	29,637,652
Total liabilities and stockholders' equity	$ 38,454,609	$ (1,322,306)	$ 37,132,303

Footnotes

All of the adjustments with the exception of the following are a result of removing the operations of KES from the consolidation:

- ALJ included the expected proceeds from the sale of KES in cash
- ALJ adjusted cash to include the expected interest earned on the adjusted cash balance
- ALJ adjusted cash to remove any tax sharing payments that were made from KES to ALJ
- ALJ adjusted the entire balance of minority interest against additional paid in capital as a result of the sale of KES
- ALJ adjusted retained earnings as a result of any gains recognized from the sale of KES in prior period

THE PARTIES TO THE MERGER AGREEMENT

ALJ

ALJ is a holding company, whose primary asset is a majority share of the outstanding common stock and 100% of the voting securities of KES, the owner and operator of a steel mini-mill near Ashland, Kentucky, which we refer to herein as the "Mill."

ALJ has its principal offices at:

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

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

Our 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

KES

Our business is conducted through KES, our majority-owned subsidiary, which owns and operates the Mill. As a mini-mill producer of bar flats, KES 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 for generic types of applications, and special bar quality steel bar flats, where more precise customer specifications require the use of various alloys, customized equipment and special production procedures to ensure that the finished product meets critical end-use performance characteristics.

Optima

Optima Specialty Steel, Inc., headquartered in Miami, Florida, is one of North America's leading independent manufacturers of high-quality cold drawn seamless tubes and cold finished steel bars. As a steel processing specialist, the company leverages its technical expertise, skilled workforce and sophisticated equipment to produce highly engineered products including pressure-carbon, pressure-alloy, mechanical-carbon and mechanical-alloy tubing and specialty bars that meet its clients' exact order specifications. Optima is operated through its two wholly owned subsidiaries: South Lyon, Michigan-based Michigan Seamless Tube, LLC and Hammond, Indiana-based Niagara LaSalle Corporation.

Optima's current affiliated companies in the North American steel and metals industry include Warren Steel Holdings, LLC, a Warren, Ohio-based EAF steel mill; Steel Rolling Holdings, Inc., a Gibraltar, Michigan-based cold rolled processor; CC Metals & Alloys, LLC, a Calvert City, Kentucky producer of ferrosilicon; Felman Production, LLC, a New Haven, West Virginia producer of ferrosilicon manganese; and Felman Trading, Inc., a Miami-based ferroalloys trading company.

Merger Sub

KES Optima Acquisition Inc. is a wholly owned subsidiary of Optima that was formed for the purpose of the Merger and otherwise has no current operations.

THE SPECIAL MEETING

The accompanying proxy card is solicited on behalf of our Board of Directors, for use at our Special Meeting. Our stockholders are encouraged to review the information provided in this Proxy Statement in conjunction with our Annual Report for the year ended September 30, 2011; Quarterly Reports for the quarters ended June 30, 2012, March 31, 2012 and December 31, 2011; and the 2012 Annual Meeting Proxy Statement, all of which have been included with the proxy materials, are incorporated by reference in this Proxy Statement, and are also available at www.pinksheets.com and www.aljregionalholdings.com.

Date, Time and Place of Special Meeting

The Special Meeting will be held on December 21, 2012 at 8:00 a.m. Pacific Time at the offices of Morrison & Foerster LLP, 555 West Fifth Street, Suite 3500, Los Angeles, California 90013. This Proxy Statement and the accompanying proxy card will be first sent to stockholders on or about November 30, 2012.

Matters to be Considered

1. To approve the Merger as contemplated by the Merger Agreement.

2. To adjourn the Special Meeting, if necessary or appropriate to solicit additional proxies if there are not sufficient votes at the time of the Special Meeting to establish a quorum or to approve the Merger.

3. To act upon such other business as may properly come before the Special Meeting.

Recommendation of Our Board of Directors

Our Board of Directors unanimously recommends that you vote "FOR" each of the proposals described in this Proxy Statement.

In considering the recommendation of our Board of Directors, you should be aware that our directors and executive officers have interests in the Merger that are different from yours. See "Proposal No. 1 – The Merger and the Merger Agreement – Interests of Our Directors and Executive Officers in the Merger" beginning on page 55.

Solicitation

We will bear the entire cost of solicitation of proxies, including preparation, assembly, printing and mailing this Proxy Statement, the Proxy Card and any additional information furnished to stockholders pursuant to fulfillment requests. Copies of solicitation materials will be furnished to banks, brokerage houses, fiduciaries and custodians holding in their names shares of our stock beneficially owned by others to forward to such beneficial owners. We may reimburse persons representing beneficial owners of our stock for their costs of forwarding solicitation materials to such beneficial owners. Solicitation of proxies by mail may be supplemented by telephone or personal solicitation by our directors, officers or other regular employees. No additional compensation will be paid to directors, officers or other regular employees for such services.

Record Date; Quorum

Only holders of record of shares of ALJ Common Stock at the close of business on November 28, 2012 (the official record date) will be entitled to notice of and to vote at the Special Meeting and any adjournment thereof. At the close of business on November 28, 2012, we had outstanding and entitled to vote 57,267,498 shares of ALJ Common Stock.

Each holder of record of shares of ALJ Common Stock on the record date will be entitled to one vote for each share of ALJ Common Stock held by such holder on the record date on all matters to be voted upon at the Special Meeting.

A quorum of stockholders is necessary to hold a valid meeting. A quorum will be present if at least a majority of the outstanding shares of ALJ Common Stock entitled to vote are represented at the meeting, either in

person or by proxy. All votes will be tabulated by the inspector of elections appointed for the meeting by us, who will tabulate affirmative and negative votes, abstentions and broker non-votes. Votes for and against the proposals, abstentions and broker non-votes will each be counted for determining the presence of a quorum.

Internet Delivery of Proxy Materials

In addition to mailing a printed copy of our proxy materials to each stockholder of record, we are furnishing proxy materials, including this Proxy Statement, by providing access to such documents on the Internet.

Important Notice Regarding the Availability of Proxy Materials for the Special Meeting to Be Held on December 21, 2012

Our Proxy Statement and all accompanying materials are available at www.pinksheets.com and www.aljregionalholdings.com. You are encouraged to access and review all of the important information contained in the proxy materials before voting.

How You Can Vote

Stockholders of Record

You are a stockholder of record if at the close of business on the record date your shares were registered directly in your name with American Stock Transfer & Trust Company, LLC, our transfer agent. If you are a stockholder of record, you can vote your shares:

- **By Mail**. You may submit your vote by marking, dating, signing and mailing the enclosed proxy in the prepaid envelope. Giving a proxy will not affect your right to vote your shares if you attend the Special Meeting and want to vote in person. The shares represented by the proxies received in response to this solicitation and not properly revoked will be voted at the Special Meeting in accordance with the instructions therein.

- **In Person at the Special Meeting**. You may vote your shares in person at the Special Meeting. Even if you plan to attend the Special Meeting in person, we recommend that you also submit your Proxy Card by the applicable deadline so that your vote will be counted if you later decide not to attend the meeting.

Beneficial Owners

Stockholders whose shares are held in a brokerage account, or by another nominee, are considered the beneficial owners of shares held in "street name." Notices for these stockholders are being forwarded to beneficial owners, together with a voting instruction card. Beneficial owners have the right to direct their broker, trustee or nominee as to how to vote and also are invited to attend the Special Meeting. You should follow the instructions in the proxy materials or voting instructions provided by your broker or nominee in order to instruct your broker or other nominee on how to vote your shares. The availability of telephone and Internet voting will depend on the voting process of the broker or nominee.

Since a beneficial owner is not the stockholder of record, he or she may not vote these shares in person at the Special Meeting without a proxy from the broker, trustee or nominee that holds the shares, giving the beneficial owner the right to vote the shares at the meeting.

Broker Non-Votes

A broker non-vote occurs when a broker submits a proxy card with respect to shares of common stock held in street name but declines to vote on a particular matter because the broker has not received voting instructions from the beneficial owner. Under the rules that govern brokers who are voting with respect to shares held in street name, brokers have the discretion to vote such shares on certain routine matters, but not on non-routine matters. **Thus, if you hold your shares in street name and you do not instruct your broker how to vote on the proposal to approve the Merger, no votes will be cast on your behalf for such matter and this will be treated the same**

as if you had voted against the Merger. Your broker will, however, continue to have discretion to vote any uninstructed shares on the proposal to adjourn the Special Meeting, if necessary.

Voting and Revocability of Proxies

All valid proxies received before the Special Meeting will be exercised. All shares represented by a proxy will be voted, and where a proxy specifies a stockholder's choice with respect to any matter to be acted upon, the shares will be voted in accordance with that specification. If a stockholder returns a proxy but does not mark their voting preference, the individuals named as proxies will vote the shares **FOR** the proposal to approve the Merger, and **FOR** the proposal to adjourn the Special Meeting, if necessary. Proxy cards submitted by mail must be received no later than the Special Meeting to be voted at the Special Meeting.

Any stockholder who is a record holder may revoke any proxy given in response to this solicitation at any time before it is voted provided it was not irrevocable when it was delivered (for example, as a result of a voting agreement you have signed with respect to your shares). Your proxy may be revoked by filing with the Company's counsel, located at Morrison & Foerster LLP, 755 Page Mill Road, Palo Alto, California, 94304, Attention: Christopher M. Forrester, a written notice of revocation, or it may be revoked by a later-dated vote, by mail, or by attending the meeting and voting in person. Attendance at the meeting will not, by itself, revoke a proxy.

If a stockholder holds in street name, the stockholder should follow the directions provided by their broker or other nominee regarding how to revoke their proxy.

IMPORTANT

Please mark, sign and date the proxy card and return it at your earliest convenience, so that whether you intend to be present at the Special Meeting or not, your shares can be voted. This will not limit your rights to attend or vote at the Special Meeting.

PROPOSAL NO. 1

THE MERGER AND THE MERGER AGREEMENT

The following is a description of the material aspects of the Merger, including background information relating to the proposed Merger and the terms of the Merger Agreement. While we believe that the following description covers the material terms of the Merger, the Merger Agreement and other arrangements between Optima, us and KES, the description may not contain all of the information that is important to you. In particular, the following summary of the Merger Agreement is not complete and is qualified in its entirety by reference to the copy of the Merger Agreement attached as Annex A to this Proxy Statement and incorporated by reference herein. You should carefully read this Proxy Statement and the other documents to which we refer, including the Merger Agreement, for a complete understanding of the terms of the Merger.

Background of the Merger

During the past several years, our Board of Directors has sought to acquire businesses with operations complementary to KES. In furtherance of that goal, we have engaged in preliminary discussions with numerous potential targets and have had extensive discussions with three potential targets about an acquisition of those companies by us or KES. In each of these potential transactions, we have encountered difficulties in obtaining satisfactory acquisition financing given our limited cash and our limited ability to issue stock. Therefore, we have offered to acquire businesses utilizing structures relying heavily on seller financing. These structures have made us a less attractive buyer than other buyers who can offer immediate liquidity and have thus compromised our ability to consummate an acquisition.

On November 11, 2011, John Scheel, the Chief Executive Officer of ALJ and KES, received an unsolicited telephone call from a business broker ("ABC"). In that call, the ABC representative indicated that one of its clients, a large private equity firm (the "PE Firm"), had expressed an interest in purchasing the equity of KES. Subsequently, on November 14, 2011, the ABC representative sent Mr. Scheel an email containing a letter dated November 11, 2011 confirming the interest of the PE Firm and requesting a telephone conference on November 16, 2011 with Mr. Scheel and Jess Ravich, our Chairman, to discuss the matter further. Mr. Scheel provided a non-disclosure agreement to ABC in advance of the November 16 teleconference.

On November 22, 2011, a board meeting was noticed for November 28, 2011 to discuss the unsolicited bid and to consider options with respect to KES, including an update with respect to KES' ongoing discussions with a potential acquiree. In addition, Houlihan Lokey Capital, Inc. ("Houlihan") was asked to join a portion of the meeting to provide our Board of Directors with an overview of their qualifications to assist us in exploring options potentially to sell KES (the "Potential Transaction") to the PE Firm or another buyer. In advance of the meeting, representatives of Houlihan distributed materials for discussion at the meeting as well as a proposal letter regarding Houlihan's qualifications and possible engagement to assist with the Potential Transaction.

On November 28, 2011, our Board of Directors met to discuss the unsolicited offer from the PE Firm and to consider options with respect to KES, including an update with respect to KES' ongoing discussions with a potential acquiree. The meeting opened with review of our Board of Directors' fiduciary duties by Morrison & Foerster. Following this discussion, representatives of Houlihan presented their views on the valuation of KES, their knowledge of the PE Firm, KES and the industry, and discussed other potential buyers. As part of the discussion, Houlihan presented its qualifications to assist with a Potential Transaction. Houlihan also proposed terms of its engagement to act as our financial advisor in connection with a Potential Transaction (the "Proposed Terms"). After dismissing Houlihan from the meeting, our Board of Directors discussed Houlihan's qualifications, and in particular, its experience with industrial middle market companies. Our Board of Directors also considered any potential for perceived conflicts of interest as a result of the fact that two of its members (Messrs. Ravich and Byer) serve as senior level employees of Houlihan. On balance, our Board of Directors concluded that Houlihan's qualifications as well as its knowledge of KES, and the industry, outweighed any potential for perceived conflicts. At the conclusion of the meeting, our Board of Directors authorized and directed Mr. Scheel and Lee Squitieri to negotiate the terms of Houlihan's engagement letter and to execute and deliver such engagement letter on terms consistent with the Proposed Terms.

Over the next several weeks, Mr. Scheel extensively discussed the terms of the Houlihan engagement letter with representatives of Houlihan. As part of those discussions, Houlihan notified KES that it had determined that it could not advise on or render an opinion with respect to the fairness of the consideration to be paid in any Potential Transaction because of the fact that two members of our Board of Directors were employees of Houlihan (Messrs. Ravich and Byer).

In addition, Mr. Scheel, with assistance from our advisors, identified four other investment banks with significant experience in the industrials industry to make proposals to advise us with respect to a Potential Transaction, and in particular, as to the fairness, from a financial point of view, of the consideration involved therein. Subsequently, three large international investment banks made presentations to Mr. Scheel regarding their qualifications to assist the Board of Directors and their proposed fee structures. After extensive discussions with all three banks, Mr. Scheel instructed our legal advisors to locate an investment bank that could advise on the fairness of consideration to be paid in any Potential Transaction. Roth subsequently made a proposal to Mr. Scheel to advise our Board of Directors as to the fairness of the consideration to be received by ALJ in any Potential Transaction. Following a negotiation with Roth as to its fees, and further discussions with Houlihan to negotiate an appropriate credit to reflect the incremental cost of the fairness opinion, we entered into an engagement letter with Roth with respect to the provision of a fairness opinion to us on January 10, 2012, and entered into an engagement letter with Houlihan to provide advisory services to us on January 13, 2012.

Between January 13, 2012, and the end of January 2012, we worked extensively with Houlihan and Roth to provide information about KES, its operations, customers, suppliers, competitors, financial performance and prospects in order to provide Houlihan and Roth with an understanding of the business. KES also hosted tours of its facilities on January 26, 2012 and provided substantial documentation to the advisors.

From late January through February 24, 2012, Houlihan explored potential interest in acquiring KES by various bidders, including contacting several potential bidders and continuing discussions with the PE firm.

On February 24, 2012, our Board of Directors convened a meeting and invited representatives of Houlihan to discuss preliminary results regarding its inquiries as to potential purchasers of KES, as well as developments with respect to the PE Firm. At the meeting, representatives of Houlihan summarized their initial process of exploring a potential sale of KES and reported on the contacts with several potential bidders, expected process and timing. Our Board of Directors advised Houlihan to continue to engage with the potential bidders in order to drive the highest indications of interest.

Between February 24, 2012 and April 20, 2012, Houlihan continued to work with potential bidders and provided regular updates to Mr. Ravich and Mr. Scheel. As part of that discussion, Houlihan reviewed with management of KES and our Board of Directors a list of potential likely acquirers, with management providing input on such list.

On April 20, 2012, our Board of Directors convened a meeting and invited representatives of Houlihan to discuss the results of several indications of interest that were received by Houlihan for the purchase of KES' equity (on a cash-free and debt-free basis), which indications ranged from $80 million to $105 million in value (the "Indications of Interest"). At the meeting, representatives of Houlihan reviewed the list of parties that had been contacted regarding the Potential Transaction, summarized the Indications of Interest, and identified a few parties from whom Houlihan still expected to receive preliminary indications of interest (the "Additional Expected Bidders") and the expected timetable for those indications. One of the Indications of Interest was from Optima (the "Initial Optima Indication of Interest"). The Initial Optima Indication of Interest proposed a price of between $85 million to $100 million for the equity of KES, on a cash-free and debt-free basis. At the conclusion of the meeting, our Board of Directors authorized Houlihan to continue to work with preliminary bidders to refine their bids and work with the Additional Expected Bidders to obtain preliminary indications of interest, and discuss with creditors and constituents of KES a possible reduction of the amounts payable to those parties which would result in an increase in the amounts available to holders of ALJ Common Stock in the event of the Potential Transaction. Shortly following the board meeting, Mr. Ravich distributed an analysis to our Board of Directors as to the expected proceeds of a sale of KES in the immediate future as compared to a sale after another few years of operations. Houlihan shortly thereafter reported that the Additional Expected Bidders did not appear to be providing bids that exceeded the other Indications of Interest.

On May 19, 2012, our Board of Directors convened a meeting in preparation for its annual stockholders meeting. As part of the board meeting, our Board of Directors received a further update from Mr. Scheel regarding Houlihan's progress contacting potential bidders for KES. Based on the Indications of Interest received to-date through that time, the Board determined to terminate the process. Thereafter, Mr. Scheel notified Houlihan to cease further efforts to explore a sale of KES.

On May 24, 2012, our Board of Directors adopted a share repurchase program to acquire up to 2,000,000 shares of ALJ Common Stock at prevailing market prices, subject to a maximum price of $0.50 per share.

On June 8, 2012, Optima provided an unsolicited revised letter of intent to KES setting forth an unsolicited bid with a $110-$120 million purchase price, subject to further diligence (the "Revised Optima Indication of Interest"). On June 18, 2012, our Board of Directors convened a meeting to discuss the Revised Optima Indication of Interest. At that meeting, Mr. Scheel presented the Revised Optima Indication of Interest and described the conversations between representatives of Houlihan and Optima.

Thereafter, Mr. Scheel and KES' advisors prepared a data room of legal, business and accounting diligence materials to provide to Optima, and provided Optima with access to the data room. From that time on, representatives of ALJ and KES and Optima and their respective internal and external legal, accounting and, in the case of ALJ, financial advisors conducted due diligence reviews from an operational, financial, accounting, tax and legal perspective, including participating in discussions with members of the other party's management. From June 2012 through October 2012, senior officers of the two companies met frequently by telephone and in person as part of the ongoing due diligence efforts. During October and continuing through November, the parties and their legal and financial advisors continued their due diligence and engaged in negotiations with respect to a merger agreement.

On July 27, 2012, we held our annual stockholders meeting in New York. Following the annual meeting, our Board of Directors convened its regularly scheduled annual meeting. During the course of that meeting, Mr. Scheel updated our Board of Directors on the status of discussions with Optima regarding the acquisition of KES. During that discussion, Mr. Ravich proposed that if we were to proceed with the sale of KES, our Board of Directors should consider whether to return a portion of the net proceeds of such transaction to our stockholders through a tender offer. Our Board of Directors discussed this potential return to stockholders in detail and agreed to continue to consider the proposal should the proposed transaction suggested by the Optima Revised Indication of Interest (the "Proposed Transaction") be consummated. Our Board of Directors instructed Mr. Scheel to continue to move forward with both projects.

On September 13, 2012, our Board of Directors convened a meeting to discuss an update on the Proposed Transaction. In that meeting, our legal advisors provided an overview of a transaction structure and updated our Board of Directors on the status of diligence efforts. Morrison & Foerster also provided an analysis of the impact of the Proposed Transaction on our NOLs and an overview of the Board of Directors' fiduciary duties. Our Board of Directors asked several questions about the structure, including the return of cash to stockholders through the tender offer structure, preservation of the NOLs and the timing and process. At the conclusion of the meeting, our Board of Directors instructed Mr. Scheel and Mr. Ravich to continue discussions with Optima.

On September 25, 2012, our Board of Directors convened a meeting to discuss an update on the Proposed Transaction. In that meeting Mr. Scheel and our legal advisors provided a further update on the discussions with Optima, the proposed transaction structure and the expected timing of a proposed transaction. Our Board of Directors asked several questions about the structure, including the return of cash to stockholders through the tender offer structure, preservation of the NOLs and the timing and process. At the conclusion of the meeting, our Board of Directors instructed Mr. Scheel and Mr. Ravich to continue discussions with Optima.

In October 2012, Mr. Ravich discussed the Proposed Transaction with certain of the holders of KES' 13% Series A Preferred Stock and the holders of KES' Subordinated Loans. As a result of those discussions, holders of the 13% Series A Preferred Stock agreed to waive $4,355,516.39 in potential dividends in connection with the consummation of the Proposed Transaction, assuming the sale price met certain thresholds. In addition, Mr. Ravich spoke with Mr. Scheel with respect to the amount payable to Pinnacle in the event of a termination of KES' Management Agreement with Pinnacle occasioned by a sale of KES. Mr. Scheel agreed to calculate the termination

fee payable to Pinnacle based on 2012 financial performance, thereby yielding an additional reduction in the outstanding obligations that would otherwise be payable at the closing of the Proposed Transaction.

During October and early November, Optima's and ALJ's counsel worked extensively to prepare documentation for the Proposed Transaction. As part of that process, several conversations occurred and substantial amounts of correspondence were exchanged regarding the terms of a merger agreement and ancillary agreements. In addition, stockholder support agreements, purchase agreements with respect to certain of KES' securities were drafted and negotiated and various other agreements were prepared and negotiated.

On November 1, 2012, we convened a joint meeting of the Boards of Directors of ALJ and KES to review the terms of the Potential Transaction. At the request of the Boards of Directors, representatives of Morrison & Foerster, Houlihan and Roth attended portions of the meeting as well. In the meeting, Morrison & Foerster reviewed the terms of the transaction with the Boards of Directors, including, among other things, the following terms of a draft of the Merger Agreement: the representations and warranties, covenants, provisions with respect to alternative transactions, termination provisions and termination fee provisions as well as discussion of the remaining open items. Representatives of Morrison & Foerster also discussed the fiduciary duties of the directors under the circumstances as well as the necessary corporate approvals. Mr. Ravich and Mr. Scheel discussed the use of proceeds of the Proposed Transaction, including our offer to repurchase up to approximately 30,000,000 shares of our common stock in a tender offer at a price of between $0.80 and $0.86 per share. In addition, Mr. Ravich, Mr. Scheel and representatives of Houlihan and Roth reviewed the financial aspects of the Potential Transaction. Following extensive discussion, the Board unanimously determined it would approve the Proposed Transaction if certain remaining open items could be resolved in a satisfactory manner and instructed Mr. Ravich and Mr. Scheel to continue in their efforts to resolve such matters and report back to the Board. The Board also reviewed the Tender Offer documentation and determined that it would approve the Tender Offer subject to the satisfactory resolution of the issues remaining open regarding the Proposed Transaction.

Between November 1, 2012 and November 18, 2012, representatives of ALJ, KES and Optima worked to resolve the remaining open items with respect to the Proposed Transaction, which were all resolved by November 18, 2012. Additionally, during this period our representatives had several conversations pursuant to a confidentiality agreement with Joseph Corso, Jr., the holder of 12,139,000 shares of ALJ Common Stock to determine whether Mr. Corso would support the Proposed Transaction and whether he would want to tender his shares in the Tender Offer. At the conclusion of these discussions Mr. Corso and Mr. Ravich entered into the Voting and Tender Agreement pursuant to which Mr. Corso agreed to vote in favor of the Merger and tender his shares in the Tender Offer at $0.84 per share and Mr. Ravich agreed not to tender any of his shares in the Tender Offer.

On November 18, 2012, another joint meeting of the Boards of Directors of ALJ and KES was convened to consider approval of the Merger, Merger Agreement and the transactions contemplated thereby. At the request of our Board of Directors, representatives of Morrison & Foerster, Houlihan and Roth attended portions of the meeting as well. In the meeting, Morrison & Foerster reviewed the open items and the resolutions thereof, several questions were asked and a discussion ensued. Also at this meeting, Roth reviewed its financial analysis of the $112,500,000 in aggregate consideration to be paid in the transaction and rendered to our Board of Directors an oral opinion, confirmed by delivery of a written opinion, dated November 18, 2012, to the effect that, as of that date and based on and subject to the matters described in the opinion, the $48,117,222 in consideration to be received in the transaction by ALJ was fair, from a financial point of view, to ALJ and holders of ALJ Common Stock. Following extensive discussion, each of the Boards of Directors unanimously adopted the Merger Agreement and unanimously approved the transactions contemplated thereby, including the Merger. Our Board of Directors also unanimously determined to recommend that our stockholders vote in favor of the Merger and the other proposals relating to the Merger. Our Board of Directors again reviewed the Tender Offer documentation and approved the terms and conditions of and the announcement of the Tender Offer at a price between $0.84 and $0.86 per share, which offer is conditioned upon the closing of the Merger.

Reasons for the Merger

Our Board of Directors believes that the Merger and the Merger Agreement and the other transactions contemplated by the Merger Agreement are fair to, and in the best interests of, ALJ and its stockholders. In reaching this conclusion, our Board of Directors consulted with our management and legal and financial advisors and

considered the amount of the consideration payable in the Merger. In the course of reaching its determination, our Board of Directors considered the possibility of continuing to operate KES as a majority-owned subsidiary of ALJ. Our Board of Directors considered the perceived risks and uncertainties of this alternative to the Merger, the possible values to our stockholders arising from this alternative, and the uncertainty as to whether or when ALJ could grow KES' business. Our Board of Directors considered the following factors and potential benefits of the Merger (which are not listed in any relative order of importance), each of which it believed supported its decision:

- our historical performance relative to our operating plan and strategic goals, including unpredictability and volatility in demand for KES' products;
- the operating and market challenges that we face in executing our strategic plan as a result of:
    - the consolidation that has occurred in the industry and increased competition from larger competitors;
    - the current volatile state of the economy and general uncertainty surrounding economic conditions in both the near term and the long term, and the effect of this uncertainty on our market and on our customers' purchasing decisions; and
    - capital requirements for maintenance and repairs.
- KES' level of indebtedness and ability to raise additional capital on reasonable terms;
- the strategic review process undertaken by us;
- the value offered by Optima compared to the valuation proposed by other participants in our strategic process;
- the possibility for our stockholders to realize appreciation in their stock through the Tender Offer and the reinvestment of a portion of the proceeds of the Merger, compared to the possible alternatives to the sale of KES, including continuing to operate as an independent company, and the risks and uncertainties associated with our stand-alone operating plan;
- the value of the consideration to be paid pursuant to the Merger Agreement;
- the current and historical market prices of ALJ Common Stock and the fact that the expected unrestricted cash at ALJ (after giving effect to the estimated transaction costs, payoff of KES' debt, Series A Preferred Stock and Series B Common Stock and based on our current expectations and assuming a closing date of December 21, 2012) is expected to be approximately $50 million, which when divided by the number of outstanding shares of ALJ Common Stock on a fully diluted basis on November 28, 2012, equates to approximately $0.86 per share, representing a premium to historical prices, and a premium of approximately 105% over the last reported sale price of $0.42 on November 19, 2012, the last trading day prior to the public announcement of the Merger;
- the terms of the Merger Agreement;
- our belief that Optima is well suited to acquire and operate KES' business because of Optima's experience in the steel industry; and
- the opinion of Roth, dated November 18, 2012, to our Board of Directors, as to the fairness, from a financial point of view and as of such date, to ALJ and the holders of ALJ Common Stock of the $48,117,222 in consideration to be received by ALJ in the Merger, which opinion is based on and subject to the assumptions made, procedures followed, matters considered and qualifications and limitations on the review undertaken by Roth. **We urge you to read Roth's opinion, which is attached as Annex B to this Proxy Statement, carefully in its entirety as well as the information**

contained in “Proposal No. 1—The Merger and Merger Agreement—Opinion of Our Financial Advisor” beginning on page 45 for a description of the procedures followed, assumptions made, matters considered and qualifications and limitations on the review undertaken by Roth.

Our Board of Directors also considered a variety of risks and other potentially negative factors concerning the Merger Agreement and the Merger, including the following:

- the risk we will not be able to satisfy some or all of the conditions to Optima’s obligations to consummate the Merger;
- the risks and costs to us if the Merger does not close, including (i) that our directors, executive officers and other employees will have expended extensive time and effort and will have experienced significant distractions from their work during the pendency of the transaction, (ii) that we will have incurred significant transaction costs, and (iii) the potential negative market perception of our continuing business could potentially result in a loss of customers, business partners, channel partners and employees, any of which may have a material and adverse effect on our stock price and results of operations;
- the fact that our stockholders will not participate in any future earnings or growth of KES;
- the required vote of our stockholders;
- the requirement that we pay a termination fee, depending on the timing and circumstances surrounding the termination of the Merger Agreement;
- the fact that the Merger is contingent upon the completion of Optima’s Note Offering;
- the restrictions on the conduct of our business prior to the completion of the Merger, which may delay or prevent KES from undertaking business opportunities that may arise pending completion of the Merger; and
- the fact that our acquisition strategy after the Merger may not succeed.

The foregoing discussion summarizes the material factors considered by our Board of Directors in its consideration of the Merger. After considering these factors, our Board of Directors concluded that the positive factors relating to the Merger outweighed the potential negative factors. In view of the wide variety of factors considered by our Board of Directors, and the complexity of these matters, our Board of Directors did not find it practicable to quantify or otherwise assign relative weights to the foregoing factors. In addition, individual members of our Board of Directors may have assigned different weights to various factors. Our Board of Directors unanimously approved the Merger and recommends that stockholders approve the Merger Agreement and the Merger based upon the totality of the information presented to and considered by it.

Recommendation of Our Board of Directors

After careful consideration, our Board of Directors has unanimously (i) approved the Merger and the Merger Agreement and (ii) determined the Merger to be in the best interests of the Company and its stockholders, and recommends that the stockholders approve the Merger.

The Board of Directors unanimously recommends a vote “FOR” the proposal to approve the Merger as contemplated by the Merger Agreement.

Our Board of Directors has approved the Tender Offer. However, the Board of Directors makes no recommendation to any stockholder as to whether to tender or refrain from tendering any shares or as to the price or prices at which stockholders may choose to tender their shares in the Tender Offer.

Opinion of Our Financial Advisor

ALJ retained Roth to provide a fairness opinion to ALJ's Board of Directors in connection with the Merger. On November 18, 2012, at a meeting of ALJ's Board of Directors, Roth reviewed with the Board of Directors its financial analysis of the $112,500,000 in aggregate consideration to be paid in the Merger and rendered to the Board of Directors an oral opinion, confirmed by delivery of a written opinion dated November 18, 2012, to the effect that, as of that date and based on and subject to the matters described in the opinion, the $48,117,222 in consideration to be received in the Merger by ALJ was fair, from a financial point of view, to ALJ and holders of ALJ Common Stock.

The full text of Roth's written opinion, dated November 18, 2012, to our Board Directors, which describes, among other things, the assumptions made, procedures followed, factors considered and limitations on the review undertaken, is attached as Annex B to this Proxy Statement. You are urged to read the opinion carefully and in its entirety. The following summary of Roth's opinion is qualified in its entirety by reference to the full text of the opinion. **Roth delivered its opinion to our Board of Directors for the benefit and use of our Board of Directors (in its capacity as such) in connection with and for purposes of its evaluation of the $112,500,000 in aggregate consideration to be paid in the Merger from a financial point of view. The Roth opinion did not address any other terms, aspect or implication of the Merger, including, without limitation, the form or structure of the Merger, any other agreement, arrangement or understanding entered into in connection with the Merger or otherwise, including, without limitation, the Tender Offer, and no opinion or view was expressed as to the relative merits of the Merger in comparison to other strategies or transactions that might be available to KES or in which KES might engage or as to the underlying business decision of KES to proceed with or effect the Merger. Roth also expressed no opinion or recommendation as to how any stockholder should vote or act in connection with the Merger or any related matter, including, without limitation, the Tender Offer.**

In connection with its opinion, Roth, among other things:

- reviewed a draft of the execution version of the Merger Agreement, dated November 18, 2012, received by Roth on November 18, 2012;
- reviewed certain available financial statements and other business and financial information relating to KES that Roth deemed relevant to their inquiry;
- reviewed certain financial forecasts of KES prepared by the management of ALJ (the "Forecasts");
- discussed the past and current business, operations, financial condition and prospects of KES with the management of ALJ;
- compared the financial performance of KES, with that of certain publicly traded companies Roth deemed relevant;
- compared certain financial terms of the Merger to financial terms, to the extent publicly available, of certain other transactions Roth deemed relevant; and
- performed such other analyses and considered such other information and factors as Roth deemed appropriate.

In conducting its review and arriving at its opinion, Roth did not independently verify any of the financial and other information and data publicly available or provided to or otherwise reviewed by or discussed with it and assumed and relied upon such information being accurate and complete in all material respects, and further relied upon the assurances of management of ALJ and KES that they were not aware of any facts that would make any such information inaccurate, incomplete or misleading in any material respect. With respect to the Forecasts, Roth assumed, upon the direction of ALJ's management, that they had been reasonably prepared on bases reflecting the best currently available estimates and good faith judgments of ALJ's management as to the future financial performance of KES. Roth was not engaged to assess the achievability of any projections or the assumptions on

which they were based, and Roth expressed no view as to such projections or assumptions. In addition, Roth did not assume any responsibility for any independent valuation or appraisal of the assets or liabilities, including any ongoing litigation and administrative investigations, of KES, nor were they furnished with any such valuation or appraisal, nor did they make any physical inspection of the properties or assets of KES. Roth did not evaluate the solvency or creditworthiness of KES or Optima under any applicable law relating to bankruptcy, insolvency, fraudulent transfer or similar matters. Roth expressed no opinion regarding the liquidation value of KES or any other entity. Without limiting the generality of the foregoing, Roth undertook no independent analysis of any pending or threatened litigation, regulatory action, possible unasserted claims or other contingent liabilities, to which KES or any of its affiliates is a party or may be subject, and at the direction of ALJ and with its consent, Roth made no assumption concerning, and therefore did not consider, the possible assertion of claims, outcomes or damages arising out of any such matters.

Roth also assumed, at ALJ's direction, that the Merger would be consummated in accordance with the terms set forth in the Merger Agreement and any related documents (the "Transaction Documents") without waiver, modification or amendment of any material term, and in compliance with applicable federal, state and local statutes, rules, regulations and ordinances, that such Transaction Documents would be enforceable against each of the parties thereto in accordance with their respective terms, that the representations and warranties of each party in the Transaction Documents were true and correct, that each party would perform on a timely basis all covenants and agreements required to be performed by it under the Transaction Documents and that all conditions to the consummation of the Merger would be satisfied without waiver thereof. Additionally, Roth assumed, at ALJ's direction, that all necessary governmental, regulatory and other approvals, consents, releases and waivers required for the Merger would be obtained and that in the course of obtaining any of the foregoing, no modification, delay, limitation, restriction or condition would be imposed or waivers made that would have had an adverse effect on KES or on the contemplated benefits of the Transaction. Roth further assumed, at ALJ's direction, that the Transaction Documents when signed would conform to the last drafts of the Transaction Documents provided to Roth in all respects material to their analysis, and that the Merger would be consummated in all material respects as described in the last drafts of the agreements reviewed by Roth. Roth further assumed, at ALJ's direction, that the approximately $48,117,222 in consideration to be received by ALJ in the Merger would be distributed pro-rata to the holders of ALJ Common Stock, although Roth understood that, in fact, no such distribution would necessarily occur.

The Roth opinion addressed only the fairness, from a financial point of view, to ALJ and to the holders of ALJ Common Stock, of the $48,117,222 in consideration to be received by ALJ in the Merger and no opinion or view was expressed with respect to any consideration received in connection with the Merger by the holders of any class of securities, creditors or other constituencies of any party. The Roth opinion did not in any manner address any other term, aspect or implication of the Merger, including, without limitation, the form or structure of the Merger or any agreement, arrangement or understanding entered into in connection with the Merger or otherwise, including, without limitation, the fairness of the amount or nature of, or any other aspect relating to (i) any compensation to any officers, directors or employees of any party to the Merger, or any class of such persons or (ii) the Merger Agreement. Roth was not requested to, and Roth did not, participate in the negotiations of the terms of the Merger, nor was Roth requested to, and Roth did not, provide any advice or services in connection with the Merger other than the delivery of the Roth opinion. Roth expressed no view or opinion as to any such matters. The Roth opinion also did not address the relative merits of the Merger as compared to any alternative business strategies or transactions that might exist for ALJ or KES, the underlying business decision of ALJ or KES to proceed with the Merger, or the effects of any other transaction in which ALJ or KES might engage.

The Roth opinion was necessarily based on economic, market and other conditions as they existed and could be evaluated on, and the information made available to Roth on, the date of the opinion. It should be understood that subsequent developments may affect Roth's opinion, and Roth does not have any obligation to update, revise or reaffirm its opinion. The issuance of the Roth opinion was approved by the Roth Fairness Opinion Review Committee. Roth expressed no opinion as to the underlying valuation, future performance or long-term viability of ALJ or KES. In addition, Roth expressed no opinion or recommendation as to how any stockholder should vote or act in connection with the Merger or any related matter.

This summary is not a complete description of Roth's opinion or the financial analyses performed and factors considered by Roth in connection with its opinion. The preparation of a financial opinion is a complex analytical process involving various determinations as to the most appropriate and relevant methods of financial analysis and

the application of those methods to the particular circumstances and, therefore, a financial opinion is not readily susceptible to summary description. Roth arrived at its ultimate opinion based on the results of all analyses undertaken by it and assessed as a whole, and did not draw, in isolation, conclusions from or with regard to any one factor or method of analysis for purposes of its opinion. Accordingly, Roth believes that its analyses and this summary must be considered as a whole and that selecting portions of its analyses and factors or focusing on information presented in tabular format, without considering all analyses and factors or the narrative description of the analyses, could create a misleading or incomplete view of the processes underlying Roth's analyses and opinion.

In performing its analyses, Roth considered industry performance, general business, economic, market and financial conditions and other matters existing as of the date of its opinion, many of which are beyond KES' control. No company, business or transaction used in the analyses is identical to KES or the Merger, and an evaluation of the results of those analyses is not entirely mathematical. Rather, the analyses involve complex considerations and judgments concerning financial and operating characteristics and other factors that could affect the acquisition, public trading or other values of the companies, business segments or transactions analyzed.

The assumptions and estimates contained in Roth's analyses and the ranges of valuations resulting from any particular analysis are not necessarily indicative of actual values or future results, which may be significantly more or less favorable than those suggested by its analyses. In addition, analyses relating to the value of businesses or securities do not purport to be appraisals or to reflect the prices at which businesses or securities actually may be sold or acquired. Accordingly, the assumptions and estimates used in, and the results derived from, Roth's analyses are inherently subject to substantial uncertainty.

Roth was not requested to, and it did not, recommend the specific consideration payable in the Merger. The type and amount of consideration payable in the Merger was determined through negotiation between Optima, ALJ and KES and was approved by KES' and ALJ's boards of directors. The decisions to enter into the Merger Agreement were solely those of KES' and ALJ's boards of directors, respectively. Roth's opinion and financial analysis were only one of many factors considered by KES' and ALJ's boards of directors in their respective evaluations of the Merger and should not be viewed as determinative of the views of KES' or ALJ's board of directors or management with respect to the Merger or the merger consideration.

The following represents a brief summary of the material financial analyses presented by Roth to ALJ's Board of Directors in connection with its opinion. **The financial analyses summarized below include information presented in tabular format. In order to fully understand the financial analyses performed by Roth, the tables must be read together with the text of each summary. The tables alone do not constitute a complete description of the financial analyses performed by Roth. Considering the data set forth in the tables below without considering the full narrative description of the financial analyses, including the methodologies and assumptions underlying the analyses, could create a misleading or incomplete view of the financial analyses performed by Roth.**

Comparable Public Company Trading Analysis

Roth reviewed and compared certain financial and operating information and measurements relating to KES and publicly available financial stock market information of the following eight publicly traded steel, blast furnace, rolling mill, metal forgings and stampings, ferroalloy ores and iron and steel foundry companies. Although none of the selected publicly traded companies is directly comparable to KES, the companies were chosen because they have certain characteristics that are similar to those of KES. The companies were as follows:

- Friedman Industries Inc.
- Webco Industries Inc.
- AK Steel Holding Corporation
- Grupo Simec S.A.B. de C.V.
- Steel Dynamics Inc.

- Commercial Metals Company
- Nucor Corporation
- Worthington Industries, Inc.

Roth, among other things, reviewed enterprise values of the selected companies, calculated as equity values based on closing stock prices on November 16, 2012, plus debt, preferred stock, and minority interest, less cash, cash equivalents, and short-term and long-term investments, as a multiple of calendar year 2011(actual) and 2012 and 2013 estimated revenue and earnings before interest, taxes, depreciation, and amortization, commonly referred to as EBITDA. In addition, Roth reviewed enterprise values as a multiple of net tangible assets (as of June 30, 2012). Financial data of the selected companies were based on publicly available research analysts' estimates, public filings, and other publicly available information. Financial data of KES were based on internal estimates of ALJ's management.

The following table summarizes the results of these calculations for KES as compared to the selected companies.

Comparable Public Company Trading Analysis

Comparable Companies	**Min**	**25th Percentile**	**Median**	**75th Percentile**	**Max**	**Transaction Metrics**
2011 EV/Revenue	0.3x	0.3x	0.5x	0.8x	0.9x	0.7x
2012E EV/Revenue	0.3x	0.4x	0.7x	0.8x	0.8x	0.7x
2013E EV/Revenue	0.3x	0.4x	0.6x	0.8x	0.8x	0.7x
2011 EV/EBITDA	3.4x	5.5x	7.4x	9.0x	12.7x	6.7x
2012E EV/EBITDA	3.1x	5.1x	7.1x	7.9x	8.4x	7.4x
2013E EV/EBITDA	4.6x	5.5x	5.9x	6.7x	10.5x	7.4x
EV/Net Tangible Assets	0.4x	0.7x	0.8x	1.1x	1.3x	2.8x

Selected Transactions Analysis

Roth performed an analysis of selected transactions to compare multiples paid in other transactions to the multiples implied in the Merger. Roth analyzed a group of seventeen mergers and acquisitions transactions that were announced within the last five years in sectors focused on steel companies, diversified metals, and other industrial manufacturing companies, where the target company had an implied enterprise value of between $40 million and $2.5 billion and where there was a change of control. The selected transactions are set forth below:

Acquirer	Target
• General Cable Corp.	• Phelps Dodge International Corp.
• JSW Steel Ltd.	• Southern Iron & Steel Company Ltd.
• EVRAZ plc	• Evraz Claymont Steel Holdings, Inc.

- China Steel Corp.
- Dragon Steel Corporation
- Open Joint-Stock Company Severstal
- RG Steel Warren, LLC
- Open Joint-Stock Company Severstal
- Severstal Wheeling Holding
- IBC Advanced Alloys Corp
- Nonferrous Products, Inc.
- ArcelorMittal
- ArcelorMittal Laplace, LLC
- Bradken Limited
- AmeriCast Technologies, Inc.
- Gerdau Ameristeel US, Inc.
- TAMCO Steel, Inc.
- Shandong Iron and Steel Company Ltd.
- Laiwu Steel Corporation
- SIFCO Industries Inc.
- T&W Forge, Inc.
- Strato Transit Components LLC
- Eagle Bridge Machine & Tool, Inc.
- Kataman Metals LLC
- Hussey Cooper, Ltd.
- Lincoln Electric Holdings Inc.
- Weartech International, Inc.
- Nucor Corporation
- Skyline Steel L.L.C.
- JSW Steel Ltd.
- JSW ISPAT Steel Limited

While none of the companies that participated in the selected transactions are directly comparable to KES and none of the transactions in the selected transactions analysis is directly comparable to the proposed Merger, Roth selected these transactions because each of the target companies in the selected transactions has certain characteristics that are similar to those of KES.

Roth reviewed, among other things, enterprise values of the selected transactions, calculated as the enterprise value implied for the target company based on the consideration payable in the selected transactions, as a multiple of the target company's latest 12 months trailing revenue and EBITDA.

The following table summarizes the results of these calculations for KES as compared to the selected companies:

Selected Precedent Transactions

	Min	25th Percentile	Median	75th Percentile	Max	Transaction Metrics
EV/Trailing Revenue	0.1x	0.5x	0.8x	1.4x	1.9x	0.7x
EV/Trailing EBITDA	6.2x	7.0x	8.2x	11.3x	17.0x	7.4x

Discounted Cash Flow Analysis

Roth performed a discounted cash flow analysis of KES based on the Forecasts to calculate the discounted cash flow range using discount rates ranging from 9.7% to 13.7%, reflecting an estimate of the weighted average cost of capital of KES. Roth calculated the implied discounted cash flow ranges using illustrative terminal EBITDA multiples ranging from 4.0x to 8.0x and, separately, statutory tax rates ranging from 8% to 43%.

The following table summarizes the results of these calculations for KES.

DCF based upon Management Projections

KES DCF Range

Net Present Value Sensitivity – Terminal EBITDA Multiples Discount Rate					
Terminal EBITDA Multiple	9.5%	10.5%	11.5%	12.5%	13.5%
4.0 x	74.7	72.1	69.7	67.4	65.2
5.0 x	85.2	82.1	79.3	76.6	74.0
6.0 x	95.7	92.2	88.9	85.8	82.8
7.0 x	106.1	102.2	98.5	94.9	91.6
8.0 x	116.6	112.3	108.1	104.1	100.4

Net Present Value Sensitivity – Statutory Tax Rate Discount Rate					
Statutory Tax Rate	9.5%	10.5%	11.5%	12.5%	13.5%
8%	117.8	113.9	110.1	106.6	103.2
18%	111.5	107.7	104.1	100.6	97.4
28%	105.1	101.5	98.0	94.7	91.5
38%	98.8	95.3	91.9	88.7	85.7
43%	95.7	92.2	88.9	85.8	82.8

Transaction Metrics
$112.5

Miscellaneous

Roth has acted as financial advisor to the Board of Directors of ALJ solely to render a fairness opinion in connection with the Merger. Roth became entitled to a customary fee for their services upon rendering their opinion to the Board of Directors of ALJ. The fee for their opinion is not contingent upon the consummation of the Merger. In addition, ALJ has agreed to indemnify Roth for certain liabilities and other items arising out their engagement and to reimburse Roth for certain expenses in connection with their services. Roth, as part of its investment banking business, is continually engaged in the valuation of businesses and their securities in connection with mergers and acquisitions, negotiated underwritings, secondary distributions of listed and unlisted securities, private placements and valuations for estate, corporate and other purposes. Roth may in the future provide investment banking and other financial services to ALJ for which it would expect to receive compensation. Roth has not otherwise had a material relationship with, nor otherwise received fees from, ALJ or KES or any other parties to the Merger during the two years preceding the date of their opinion. Roth may, in the future, provide investment banking and financial advisory services to ALJ, other parties to the Merger or entities that are affiliated with ALJ or other parties to the Merger, for which Roth would expect to receive compensation. Roth is a full service securities firm engaged in securities trading and brokerage activities, as well as providing investment banking and other financial services. In the ordinary course of business, Roth and its affiliates may acquire, hold or sell, for their and their affiliates' own accounts and for the accounts of customers, equity, debt and other securities and financial instruments (including bank loans and other obligations) of ALJ and the other parties to the Merger, and, accordingly, may at any time hold a long or a short position in such securities. ALJ selected Roth to provide a fairness opinion to ALJ's Board of Directors in connection with the Merger on the basis of Roth's experience in similar transactions and its reputation in the investment community.

Financial Projections

In connection with Optima's due diligence review, ALJ provided to Optima the Forecasts for KES for fiscal year 2013 through 2017. Neither ALJ nor KES typically prepare detailed forecasts or projections of its expected financial performance for extended periods due to, among other things, the inherent difficulty of accurately predicting future periods and the likelihood that the underlying assumptions and estimates would remain accurate. However, in connection with the Merger, ALJ also provided the Forecasts to Roth in connection with its opinion. The Forecasts were not prepared with a view toward public disclosure, nor were they prepared with a view toward compliance with published guidelines of the SEC, the guidelines established by the American Institute of Certified Public Accountants for preparation and presentation of financial forecasts, or generally accepted accounting principles. Neither ALJ's independent registered public accounting firm, nor any other independent accountants,

have compiled, examined or performed any procedures with respect to the Forecasts included below, nor have they expressed any opinion or any other form of assurance on such information or its achievability, and they assume no responsibility for, and disclaim any association with, the Forecasts.

The Forecasts reflect numerous estimates and assumptions with respect to industry performance, general business, economic, market and financial conditions and other future events, as well as matters specific to KES' business, all of which are difficult to predict and many of which are beyond KES' control. The Forecasts are subjective in many respects and thus are susceptible to multiple interpretations and periodic revisions based on actual experience and business developments. As such, the Forecasts constitute forward-looking information and are subject to risks and uncertainties that could cause actual results to differ materially from the results forecasted in such Forecasts, including those risks discussed elsewhere in this Proxy Statement under the heading "*Cautionary Statement Regarding Forward-Looking Statements,*" at page 8 and the various risks set forth in this Proxy Statement, the Company's Annual Report for the fiscal year ended September 30, 2011 and the Tender Offer materials. There can be no assurance that the projected results will be realized or that actual results will not be significantly higher or lower than projected. The Forecasts cover multiple fiscal years and such information by its nature becomes less predictive with each successive fiscal year. In addition, the Forecasts will be affected by KES' ability to achieve strategic goals, objectives and targets over the applicable periods. The assumptions upon which the Forecasts were based necessarily involve judgments with respect to, among other things, future economic and competitive conditions and financial market conditions, all of which are difficult or impossible to predict accurately and many of which are beyond KES' control. The Forecasts also reflect assumptions as to certain business decisions that are subject to change. Such Forecasts cannot, therefore, be considered a guaranty of future operating results, and this information should not be relied on as such. The inclusion of this information should not be regarded as an indication that ALJ, Optima or Merger Sub, KES, Roth, any of their respective affiliates or representatives or anyone who received this information then considered, or now considers, it necessarily predictive of actual future events, and this information should not be relied upon as such. None of ALJ, Optima, Merger Sub, KES, Roth, any of their respective affiliates or representatives or any other person assumes any responsibility for the validity, reasonableness, accuracy or completeness of the Forecasts described below. None of ALJ, Optima, Merger Sub, KES, Roth, any of their respective affiliates or representatives intends to, and each of them disclaims any obligation to, update, revise or correct such Forecasts if they are or become inaccurate (even in the short term).

The Forecasts do not take into account any circumstances or events occurring after the date they were prepared, including the announcement of the potential acquisition of KES by Optima pursuant to the Merger Agreement. There can be no assurance that the announcement of the Merger will not cause customers of KES to delay or cancel purchases of KES' products and services pending the consummation of the Merger or the clarification of Optima's intentions with respect to the conduct of KES' business thereafter. Any such delay or cancellation of customer sales is likely to adversely affect the ability of KES to achieve the results reflected in such Forecasts. Further, the Forecasts do not take into account the effect of any failure to occur of the Merger and should not be viewed as accurate or continuing in that context.

The inclusion of the Forecasts herein should not be deemed an admission or representation by ALJ, Optima, Merger Sub, or KES that they are viewed by ALJ, Optima, Merger Sub or KES as material information of KES.

These internal Forecasts are not being included in this Proxy Statement to influence your decision whether to adopt the proposal relating to the Merger Agreement or because we believe they are material, but are being included because they were made available by ALJ to its advisors and to Optima. The information from the Forecasts should be evaluated, if at all, in conjunction with the historical financial statements and other information regarding ALJ contained elsewhere in this Proxy Statement and the materials provided with the proxy materials. In light of the foregoing factors and the uncertainties inherent in the Forecasts, stockholders are cautioned not to place undue, if any, reliance on the Forecasts included in this Proxy Statement.

The Forecasts that we provided to Optima and Roth are summarized in the following table.

KES

	FY 2013	**FY 2014**	**FY 2015**	**FY 2016**	**FY 2017**
Total Revenue	**$158,730,572**	**$159,704,512**	**$158,910,752**	**$158,910,752**	**$158,910,752**
Total COS	**137,114,155**	**136,325,618**	**135,978,106**	**136,011,922**	**136,014,437**
Gross Profit	**$21,616,417**	**$23,378,894**	**$22,932,646**	**$22,898,830**	**$22,896,315**
Operating Expenses:					
SG&A Expenses	6,750,000	6,750,000	6,750,000	6,750,000	6,750,000
Management Fees		-	-	-	-
Total Expenses	**$6,750,000**	**$6,750,000**	**$6,750,000**	**$6,750,000**	**$6,750,000**
Operating Profit Steel Operations	$14,866,417	$16,628,894	$16,182,646	$16,148,830	$16,146,315
Net Income Before Taxes & Interest	14,866,417	16,628,894	16,182,646	16,148,830	16,146,315
Interest Expense		-	-	-	-
Interest Expense LOC	296,225	-	-	-	-
Interest Expense Term Note	100,208	-	-	-	-
Interest Expense 8% Notes	1,582,249	1,582,249	62,249	-	-
Interest Expense 13% Preferred	771,875	771,875	771,875	-	-
Amortization	177,927	-	-	-	-
Loan Fees	180,000	180,000	180,000	180,000	180,000
Management incentive	1,513,780	1,741,176	1,669,776	1,664,366	1,663,963
KY Taxes	811,544	940,020	1,025,906	1,086,335	1,086,176
Tax Sharing	1,113,505	2,213,194	2,134,869	2,378,167	2,388,417
Total	7,251,923	7,428,514	5,844,676	5,308,868	5,318,557
Net Income	**$7,614,494**	**$9,200,380**	**$10,337,970**	**$10,839,962**	**$10,827,758**
EBITDAM	**$15,119,158**	**$16,882,349**	**$16,436,101**	**$16,402,285**	**$16,399,770**

Financing

The total purchase price of $112.5 million plus certain expenses of Optima is expected to be funded by a combination of:

- $20 million of equity contributions to Optima from the Equity Sponsors (as defined below),
- $50.5 million of debt financing from the Note Offering,
- $25 million debt financing in the form of a drawdown of Optima's existing revolving credit facility with PNC Bank, and
- $20.5 million of Optima's cash on hand.

Equity Financing

In connection with the execution and delivery of the Merger Agreement, the three individuals who are the ultimate beneficial owners of Optima (collectively, the "Equity Sponsors"), have given commitments to Optima to provide an aggregate of approximately $20 million of the Merger consideration in the form of equity financing.

Debt Financing – Senior Secured Notes

In December 2011, Optima issued and sold $175 million in aggregate principal amount of senior secured notes 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 and noteholder collateral agent. The senior secured notes have a fixed annual interest rate of 12.5%, paid every six months, a maturity date of December 15, 2016 and rank senior in right of payment to all of Optima's future subordinated indebtedness and equal in right of payment with all of Optima's existing and future senior indebtedness.

Pursuant to the Merger Agreement, Optima has agreed to use reasonable best efforts to arrange, and to obtain a closing of, no later than February 28, 2013, the sale of an additional amount of senior secured notes for gross proceeds to Optima of not less than $50 million.

Debt Financing – PNC Bank Credit Facility

In April 2012, Optima entered into a $40 million senior secured revolving credit facility provided by PNC Bank (as Lender and as Agent). The facility also includes a $10 million accordion facility which can be exercised at Optima's discretion that would bring the maximum amount available under the facility to $50 million. Optima's credit facility with PNC Bank is an asset based loan secured by Optima's inventory and accounts receivable.

In connection with the Merger, Optima intends to draw down up to $25 million of its credit facility with PNC Bank to fund that portion of the total purchase price.

Financing Closing Conditions

The closing of the Merger is conditioned on consummation of the Note Offering for at least $50 million in gross proceeds to Optima. Under the Merger Agreement, if the Note Offering is not consummated by the Financing Confirmation Date, we may terminate the Merger Agreement on or before December 31, 2012. If we do not terminate the Merger Agreement by December 31, 2012 and the Note Offering is not subsequently consummated by February 28, 2013, we or Optima may terminate the Merger Agreement and 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 reason for the termination is Optima's failure to consummate the Note Offering). Whether or not we are entitled to a termination fee, termination of the Merger Agreement by us does not preclude us from pursuing other rights and remedies under the Merger Agreement.

Use of Proceeds from the Merger

Post-Closing Business and Investment of Proceeds from the Merger

If the Merger is consummated, we will have no or nominal operations, and no material assets other than the cash proceeds of the Merger and our cash on hand. 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, or for other strategic options. No specific acquisition targets have been determined at this time. Until we select and acquire another business, you will be unable to assess the merits or risks of the business which we ultimately will operate. Although it is our current intent to make such an investment or acquisition of control, there can be no guarantee that we will identify a suitable target within any particular time frame, or at all. Such a target company (or assets) might be in any industry.

If the Merger is not consummated because it is not approved by the holders of a majority of our outstanding shares, the Note Offering is not completed or otherwise, then either we or Optima may terminate the Merger Agreement. In such event, our Board of Directors, along with our management, will reassess our options in light of our strategic goals and any alternatives that may be available to us.

The following is a *pro forma* balance sheet showing the projected financial condition of ALJ immediately following the closing of the Merger, and as such does not include any operations of KES:

ALJ Regional Holdings, Inc.
Post-Closing Balance Sheet

Assets	
Current assets:	
Cash and cash equivalents	$ 50,363,222
Prepaid expenses and other current assets	109,780
Total current assets	50,473,002
Investment in Bellator	90,228
Total other assets	90,228
Total assets	$ 50,563,230
Common stock, $0.01par value; authorized – 100,000,000 shares; issued – 57,267,498 shares	$ 572,675
Additional paid-in capital	354,547,808
Accumulated deficit	(303,727,677)
Treasury stock – 607,500 shares, at cost	(829,576)
Total stockholders' equity	50,563,230
Total liabilities and stockholders' equity	$ 50,563,230

Footnotes:

The above *pro forma* balance sheet was prepared in anticipation of the execution of the sale of KES on or before December 31, 2012. This balance sheet reflects estimated amounts derived from the sale of KES.

Cash and cash equivalents includes the following estimated amounts:

- $47.7 million in proceeds from the sale of KES
- $268,000 for the full payoff of Subordinated Loans
- $119,000 in proceeds from the sale of Series B Common Stock of KES
- $46,000 from the exercise of stock options

ALJ removed $3.1 million from the balance sheet related to its deferred tax asset, primarily related to the tax benefits from ALJ's NOLs. In order to recognize the deferred tax asset, ALJ must have an asset with a history of taxable income. With the sale of KES, ALJ no longer has an asset with a history of taxable income, and, accordingly, must eliminate the deferred tax asset. In the future, ALJ can recognize additional deferred tax asset amounts related to the NOLs if it acquires another asset with a history of taxable income.

In addition, ALJ has accrued a liability for AMT and state tax in the amount of approximately $1,900,000, and has reserved an equal, offsetting amount of cash, neither of which have been reflected in the above *pro forma* balance sheet.

The following is a *pro forma* statement of operations showing the projected financial performance of ALJ for the 3 months ending December 31, 2012 and the 6 months ending March 31, 2013 following the closing of the Merger, and as such does not include any operations of KES:

ALJ Regional Holdings, Inc.
Statement of Operations
For the 3 months ending December 31, 2012 and the 6 months ending March 31, 2013

	3 months ending 31-Dec-12	6 months ending 31-Mar-13
NET SALES	$ -	$ -
COSTS AND EXPENSES		
Cost of Sales	-	-
Selling	-	-
General and administrative	135,265	275,530
Total cost of operations	135,265	275,530
Income from Operations	(135,265)	(275,530)
Interest Income	46,351	174,196
Income before Operations	(88,914)	(101,334)
Tax	-	-
Net Income	$ (88,914)	$ (101,334)
Basic shares outstanding	57,267,498	57,267,498
Diluted shares outstanding	59,467,498	59,467,498
Basic earnings per share	$ 0.00	$ 0.00
Diluted earnings per share	$ 0.00	$ 0.00

Footnotes:

The attached income statements include ALJ's normal operations without giving effect to the gain on the sale of KES. Interest income is computed based on ALJ's cash balances on a monthly basis. ALJ's expenses include amounts related to normal accounting, tax, legal, salaries, listing fees, directors' fees and other related expenses.

The Tender Offer

We commenced the Tender Offer on November 19, 2012, whereby we are offering to holders of ALJ Common Stock the opportunity to tender all or a portion of their shares of ALJ Common Stock in exchange for cash. We plan to consummate the Tender Offer as soon as possible after the Merger closing and receipt of the Merger consideration.

In the Tender Offer, we are offering to purchase up to 30,000,000 shares of ALJ Common Stock at a purchase price not greater than $0.86 nor less than $0.84 per share, net to the seller in cash, less any applicable withholding taxes and without interest. A holder of ALJ Common Stock who wishes to participate must complete a letter of transmittal indicating the price within that range at which they are tendering their shares and the number of shares they are tendering. We will then select the single lowest price (in multiples of $0.01) within that price range that will allow us to purchase 30,000,000 shares (or a lower amount if not enough shares are properly tendered to allow us to purchase 30,000,000 shares). All shares will be acquired at that price, even in the case of shares tendered at a lower price, but we will not purchase any shares tendered at a price above the purchase price.

Interests of Our Directors and Executive Officers in the Merger

In considering the recommendation of our Board of Directors to vote for the proposal to approve the Merger, you should be aware that some of our directors and executive officers may have personal interests in the Merger that are, or may be, different from, or in addition to, your interests.

All of our directors and executive officers own shares of ALJ Common Stock or options to purchase shares of ALJ Common Stock, and to that extent, their interests in the Merger are the same as that of other holders of ALJ Common Stock. See "Security Ownership of Certain Beneficial Owners and Management," beginning on page 90. However, as discussed below, three of our directors also own securities of KES, which will be repaid or otherwise liquidated in connection with the Merger. Further, 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 Management Agreement. John Scheel, President, our Chief Executive Officer and Class I Director, is a principal of and receives compensation from Pinnacle. 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 for 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 aggregate amount of Subordinated Loans 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 amount 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 amount 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.

The following table summarizes the portion of the total consideration of $112,500,000 that is expected to be received at the Merger closing based on current estimates by Messrs. Ravich, Fritz and Byer and by Libra Securities, an affiliate of Mr. Ravich, and Pinnacle, an affiliate of Mr. Scheel, assuming we close the Merger on December 21, 2012:

MERGER CONSIDERATION RECEIVED

	Jess Ravich	Robert Fritz	Hal Byer	Libra Securities	Pinnacle***
Subordinated Loans	$3,323,225*	$186,544**	$166,437	$3,909,571	$0
Series B Common Stock of KES	$1,164,772 *	$107,380**	$58,910	$2,726,998	$0
Series A Preferred Stock of KES	$2,387,818	$0	$0	$1,432,691	$0
Total	$6,875,815	$293,924	$225,346	$8,069,260	$0

* Including Ravich Revocable Trust of 1989 but not Ravich Children Permanent Trust.

** Including Fritz Family Partnership.

*** Pinnacle will receive $5,146,000 in connection with the termination of the Management Agreement.

Messrs. Scheel, Ravich and Squitieri also have rights to indemnification and directors' and officers' liability in respect to their service as directors and/or officers of KES that will survive the completion of the Merger.

Dissenters' Rights

You will not experience any change in your rights as a stockholder as a result of the Merger. None of Delaware law, our certificate of incorporation or bylaws provides for appraisal or other similar rights for dissenting stockholders in connection with the Merger, and we do not intend to independently provide stockholders with any such right. Accordingly, you will have no right to dissent and obtain payment for your shares in connection with the Merger. Shares of ALJ Common Stock will remain quoted on the Pink Sheets following the closing of the Merger.

U.S. Federal Income Tax Consequences of the Merger

The following is a summary of the anticipated U.S. federal income tax consequences to us as a result of the Merger. This discussion does not cover all aspects of U.S. federal income taxation and does not address local, foreign, or other tax laws. This summary is based on the tax laws of the United States, including the Internal Revenue Code, its legislative history, existing and proposed regulations thereunder, published rulings and court decisions, all as currently in effect and subject to change at any time, possibly with retroactive effect.

Section 382 of the Code contains rules that limit the ability of a company that undergoes an "ownership change" to use its NOLs and certain built-in losses recognized in years after the ownership change. The Merger will not result in an ownership change under Section 382 of the Code since no stock in the Company will be transferred in the Merger.

The Merger Agreement provides that the Company will join in a Section 338(h)(10) election, the effect of which is to treat the Merger as a sale of the assets of KES for U.S. federal income tax purposes. At present, we anticipate recognizing a gain for federal income tax purposes on the Merger equal to the difference between the purchase price (less transaction costs) and our tax basis in the assets being sold. We anticipate using a substantial portion of our NOL carryforwards to offset the gain recognized as a result of the Merger. As of June 30, 2012, we estimate that our NOL carryforwards for federal income tax purposes are approximately $259 million. We anticipate, however, that we will incur some amount of alternative minimum tax ("AMT") on the gain, due to AMT limitations on the use of NOLs. The Merger may also produce tax liability in certain states which may not be offset by our NOL carryforwards in those certain states due to state statutes limiting the use of such NOL carryforwards. As of the date of this Proxy Statement, we estimate the aggregate amount of AMT and such state tax liabilities to be approximately $1,900,000. The Merger will not result in any gain or loss to our stockholders.

However, stockholders may recognize gain or loss or dividend income as a result of the Tender Offer. See "U.S. Federal Income Tax Consequences of the Tender Offer."

THE FOREGOING DISCUSSION IS INCLUDED FOR GENERAL INFORMATION ONLY AND IS BASED ON THE LAW AS CURRENTLY IN EFFECT.

Regulatory Matters

Under the provisions of the HSR Act and the rules and regulations promulgated thereunder by the FTC, the Merger may not be completed until notification and report forms have been filed with the Antitrust Division and the FTC by each of ALJ and Optima, and the applicable waiting period has expired or been terminated. ALJ and Optima filed their respective notification and report forms with the Antitrust Division and the FTC under the HSR Act on October 31, 2012. The waiting period under the HSR Act, therefore, will expire at 11:59 p.m., New York City time, on November 30, 2012 unless earlier terminated or extended by a request for additional information and documentary material, which we refer to herein as a "second request."

If within the 30-day waiting period the Antitrust Division or the FTC were to issue a second request, the waiting period under the HSR Act would be extended until 30 days following the date on which both ALJ and Optima certify substantial compliance with the second request, unless the Antitrust Division or the FTC terminates the additional waiting period before its expiration. If the Antitrust Division or the FTC believes the Merger would violate the U.S. federal antitrust laws by substantially lessening competition in any line of commerce affecting U.S. consumers, it has the authority to challenge the Merger by seeking a federal court order to enjoin the Merger before or after expiration or termination of the HSR Act waiting period. U.S. state attorneys general or private parties could also bring legal action.

Although we expect that the required clearance under the HSR Act will be obtained, we cannot assure you that such clearance will be timely obtained or obtained at all or that the granting of such clearance will not involve the imposition of additional conditions on the completion of the Merger, including the requirement to divest assets, or require changes to the terms of the Merger Agreement. These conditions or changes could result in the conditions to the Merger not being satisfied.

RISKS YOU SHOULD TAKE INTO ACCOUNT IN DECIDING HOW TO VOTE ON THE MERGER PROPOSAL

You should carefully consider the special risk considerations described below as well as other information provided to you or referenced in this Proxy Statement in deciding how to vote on the Merger proposal. The special risk considerations described below are not the only ones facing us. For a discussion of additional risk considerations, we refer you to the Company's Annual Report for the fiscal year ended September 30, 2011, available at www.pinksheets.com and www.aljregionalholdings.com. Additional considerations not presently known to us or that we currently believe are immaterial may also adversely affect our business operations. If any of the following special risk considerations actually occur, our business, financial condition or results of operations could be materially adversely affected, the value of our common shares could decline, and you may lose all or part of your investment.

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, that we obtain stockholder approval of the Merger, the expiration or termination of any waiting period under the HSR Act, the consummation of the Note Offering and the absence of any Law or Governmental Order (each as defined in the Merger Agreement) prohibiting the Merger. In addition, Optima may terminate the Merger Agreement if the Merger has not been completed on or before February 28, 2013, as well as under other circumstances described under "Proposal No. 1—The Merger and Merger Agreement—Termination of the Merger Agreement," beginning on page 79. We cannot guarantee that we 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 are unable to meet all of the closing conditions, Optima is not obligated to consummate the Merger. We also cannot be sure that other circumstances, for example, a material adverse effect, will not arise that would allow Optima to terminate the Merger Agreement prior to closing.

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. As described in further detail in the section entitled "Proposal No. 1—The Merger and the Merger Agreement—Interests of Our Directors and Executive Officers in the Merger" on page 55, 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 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. In addition, rules promulgated by the SEC impose various practice requirements on broker-dealers who sell securities that fail to meet certain criteria set forth in those rules to persons other than established customers and accredited investors. Consequently, these rules may deter broker-dealers from recommending or selling our common stock, which may further affect the liquidity of our common stock. It would also make it more difficult for us to raise additional capital.

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 (as defined below) or by any of ALJ, KES or Optima as a result of the requisite stockholder approval not being obtained or the Merger failing to close by February 28, 2013, if, in each case, 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.

See the sections entitled "Proposal No. 1—The Merger and the Merger Agreement—No Solicitation of Alternative Proposals," on page 73, "—Changes in Board Recommendation," on page 74, "—Efforts to Obtain Required Stockholder Votes," on page 75 and "—Expenses and Termination Fees; Liability for Breach" on page 80 for more information.

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.

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 (which is a condition of the Tender Offer), 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 the successful closing by Optima of its planned Note Offering. Although Optima has agreed to use its reasonable best efforts to consummate the Note Offering, there can be no assurances that Optima will be able to issue and sell a sufficient amount of senior secured notes. There can also be no assurances that Optima's other anticipated financing sources will be available. As of the date hereof, no alternative financing arrangements or alternative financing plans have been made in the event the financing described herein is not available to Optima as anticipated. 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, KES and ALJ have the right to terminate the Merger Agreement, upon written notice to Optima, no later than December 31, 2012, if the Note Offering shall not have been consummated for at least $50 million in gross proceeds to Optima by the Financing Confirmation Date, which is expected to occur on or around December 20, 2012.

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 (assuming it is not terminated by us by December 31, 2012 as described above) is terminated by either Optima, on the one hand, or ALJ or KES, on the other hand, if the closing of the Merger shall not have occurred on or prior to February 28, 2013 as a result of the Note Offering not being consummated for at least $50 million in gross proceeds to Optima on or prior to such date or if the Merger Agreement is terminated by Optima because the Note Offering cannot be reasonably consummated by such date.

The outcomes of legal proceedings in connection with the Merger, which may or may not arise after the announcement of the Merger, will be uncertain and could delay or prevent the completion of the Merger.

After the announcement of the Merger, lawsuits may be filed against us, which could delay or prevent the Merger from becoming effective within the agreed-upon timeframe. Further, the costs of defending or otherwise responding to these lawsuits also could reduce proceeds available to us after the Merger.

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.

Our stockholders likely will not be afforded an opportunity to vote on any future acquisitions, unless such vote is required by law.

We likely will not hold a stockholder vote before we consummate a future acquisition unless the acquisition would require stockholder approval under applicable state law or if we decide to hold a stockholder vote for business or other legal reasons. Accordingly, our stockholders will likely not have control over the future direction of our business.

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 issue notes or other debt securities, or otherwise incur substantial debt, to complete an acquisition, which may adversely affect our leverage and financial condition and thus negatively impact the value of our stockholders' investment in us.

Although we have no commitments as of the date hereof to issue any notes or other debt securities, or to otherwise incur outstanding debt, we may choose to incur substantial debt to complete an acquisition. The incurrence of debt could have a variety of negative effects, including:

- default and foreclosure on our assets if our operating revenues after an acquisition are insufficient to repay our debt obligations;

- acceleration of our obligations to repay the indebtedness even if we make all principal and interest payments when due if we breach certain covenants that require the maintenance of certain financial ratios or reserves without a waiver or renegotiation of that covenant;
- our immediate payment of all principal and accrued interest, if any, if the debt security is payable on demand;
- our inability to obtain necessary additional financing if the debt security contains covenants restricting our ability to obtain such financing while the debt security is outstanding;
- our inability to pay dividends on our common stock;
- using a substantial portion of our cash flow to pay principal and interest on our debt, which will reduce the funds available for dividends on our common stock if declared, expenses, capital expenditures, acquisitions and other general corporate purposes;
- limitations on our flexibility in planning for and reacting to changes in our business and in the industry in which we operate;
- increased vulnerability to adverse changes in general economic, industry and competitive conditions and adverse changes in government regulation; and
- limitations on our ability to borrow additional amounts for expenses, capital expenditures, acquisitions, debt service requirements, execution of our strategy and other purposes and other disadvantages compared to our competitors who have less debt.

We cannot assure you that any 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 with 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, and we may not be able to retain key employees of the acquired companies or maintain good relations with their clients or suppliers.

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.

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 our initial 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 our initial 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.

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.

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 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.

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, Jess Ravich, our Chairman and a 19.5% (22.1% on a fully diluted basis) stockholder of ALJ Common Stock, has agreed not to tender shares pursuant to the Voting and Tender Agreement, and Joseph Corso, Jr., a 21.2%

(20.4% on a fully diluted basis) stockholder of ALJ Common Stock and who does not otherwise currently participate in our management, has 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.

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 hold 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 ALJ's 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.

MERGER AGREEMENT

The following is a summary of the material terms of the Merger Agreement. This summary does not purport to describe all the terms of the Merger Agreement and is qualified by reference to the complete Merger Agreement, which is attached as Annex A to this Proxy Statement. We urge you to read the Merger Agreement carefully and in its entirety because it, and not the summary set forth in this Proxy Statement, is the legal document that governs the Merger.

The terms of the Merger Agreement (such as the representations and warranties) are intended to govern the contractual rights and relationships, and allocate risks, between the parties in relation to the Merger. The Merger Agreement contains representations and warranties that ALJ and KES, on the one hand, and Optima and Merger Sub, on the other hand, made to each other as of specific dates. The representations and warranties were negotiated between the parties with the principal purpose of setting forth their respective rights with respect to their obligations to consummate the Merger and may be subject to important limitations and qualifications as set forth therein, including a contractual standard of materiality different from that generally applicable under federal securities laws. In addition, certain representations and warranties relate to information that is not known currently by either party and have been negotiated such that the risk that such representations or warranties are ultimately shown to not be true is allocated between the parties.

In addition, such representations and warranties are qualified by information in confidential disclosure schedules that ALJ and Optima have exchanged in connection with signing the Merger Agreement. While we do not believe that the disclosure schedules contain information which has not been previously publicly disclosed and that the securities laws require to be publicly disclosed, the disclosure schedules do contain information that modifies, qualifies and creates exceptions to the representations and warranties set forth in the attached Merger Agreement. Accordingly, you should not rely on the representations and warranties as characterizations of the actual state of facts, since they are modified by the underlying disclosure schedules. These disclosure schedules contain certain information that has been included in our prior public disclosures, as well as additional non-public information. Moreover, information concerning the subject matter of the representations and warranties may have changed since the date of the Merger Agreement, which subsequent information may or may not be fully reflected in our public disclosures.

Terms of the Merger; Merger Consideration

The Merger Agreement provides that, at the effective time of the Merger, Merger Sub will merge with and into KES. KES will be the surviving corporation in the Merger and will become a wholly owned subsidiary of Optima.

Immediately prior to the Merger each outstanding share of Series B Common Stock of KES and Series A Preferred Stock of KES will be purchased by Merger Sub. At the closing of the Merger, any outstanding shares of KES Series A Preferred Stock and Series B Common Stock not so purchased by Merger Sub (we currently expect there will be no such shares), will be purchased for cash equal to the "Preferred Stock Per Share Amount" or "Series B Common Stock Per Share Amount," as applicable, and each share of Series A Common Stock will be converted into a right to receive the "Series A Common Stock Per Share Amount."

- "Company Common Stock Merger Consideration" means the aggregate amount of cash equal to the difference obtained by subtracting from the Total Purchase Price the sum of (a) the Company Debt Payoff Amount and transaction expenses and (b) the Preferred Stock Purchase Consideration.

- The "Preferred Stock Per Share Amount" means the sum of: (a) one thousand dollars ($1,000) and (b) the aggregate amount of accrued dividends on each share of KES preferred stock outstanding and unpaid as of the closing date.

- The "Series A Common Stock Per Share Amount" means the amount in cash equal to the quotient obtained by dividing (a) the "Series A Common Stock Merger Consideration" by (b) the aggregate number of shares of KES Series A Common Stock issued and outstanding as of immediately prior to the effective time.

- "Series A Common Stock Merger Consideration" means an amount in cash equal to the product obtained by multiplying the Company Common Stock Consideration by a fraction, the numerator of which shall be the aggregate number of Series A Common Stock issued and outstanding and the denominator of which shall be the aggregate number of shares of Company Common Stock issued and outstanding immediately prior to the effective time.

- The "Series B Common Stock Per Share Amount" shall mean an amount in cash equal to the Series A Common Stock Per Share Amount.

- The "Series B Common Stock Purchase Consideration" shall mean an aggregate amount of cash equal to the product obtained by multiplying (a) the total number of shares of Series B Common Stock issued and outstanding as of immediately prior to the effective time by (b) the Series B Common Stock Per Share Amount.

- The "Company Debt Payoff Amount" is the amount of cash equal to the aggregate amount of company debt, which is comprised of all (i) obligations of KES for borrowed money whether evidenced by notes, bonds or similar instruments (including all unpaid principal and accrued and unpaid interest owed by KES under the Credit Agreement (as defined in the Merger Agreement) and under the Subordinated Loans), (ii) any interest on and any premiums, prepayment or termination fees or other fees, costs or expenses (including breakage costs) due upon prepayment of any of the foregoing, (iii) any payment obligations to KES employees triggered as a result of the execution of the Merger Agreement or consummation of the Merger, (iv) any amounts payable by the Company upon termination of the Management Agreement and (v) any amounts payable by KES to ALJ pursuant to the Tax Sharing Agreement.

- The "Preferred Stock Purchase Consideration" means the aggregate amount of cash equal to the product obtained by multiplying (a) the total number of shares of KES preferred stock issued and outstanding as of immediately prior to the effective time by (b) the "Preferred Stock Per Share Amount."

- The “Total Purchase Price” means $112,500,000.

The amount in cash that ALJ will receive upon the consummation of the Merger is the product of the Series A Common Stock Per Share Amount and Series B Common Stock Per Share Amount, as applicable, and the total amount of KES common stock (both Series A Common Stock and Series B Common Stock of KES) held by ALJ immediately prior to the effective time of the Merger plus any amounts ALJ receives as part of the Company Debt Payoff Amount.

Completion of the Merger

Unless the parties agree otherwise or the Merger Agreement is terminated pursuant to its terms, the closing of the Merger will take place no later than the second business day after all conditions to the completion of the Merger have been satisfied or waived. The Merger will be effective when the parties duly file a certificate of merger with the Secretary of State of the State of Delaware, or at such later time as the parties agree and specify in such certificate of merger.

In the event the stockholders approve the Merger, ALJ and Optima currently expect the closing of the Merger to occur promptly following the Special Meeting, but not earlier than December 21, 2012. However, as the Merger is subject to various regulatory clearances and the satisfaction or waiver of other conditions described in the Merger Agreement, including Optima’s consummation of the Note Offering, it is possible that factors outside the control of ALJ and Optima could result in the Merger being completed at a later time or not at all.

Representations and Warranties

The Merger Agreement contains a number of customary representations and warranties applicable to KES, subject in some cases to customary qualifications, relating to, among other things, the following:

- organization, standing and corporate power;
- authority with respect to the execution and delivery of the Merger Agreement, and the due and valid execution and delivery and enforceability of the Merger Agreement;
- absence of conflicts with, or violations of, organizational documents, other contracts and applicable laws;
- required regulatory filings and consents and approvals of governmental entities;
- capital structure of KES;
- ownership of subsidiaries;
- financial statements;
- accounts receivable and bank accounts;
- inventories;
- absence of certain changes since June 30, 2012 to the date of execution of the Merger Agreement;
- absence of undisclosed liabilities;
- assets;
- material contracts;

- compliance with applicable laws;
- absence of certain litigation;
- benefits matters and ERISA compliance;
- leased and owned real property;
- intellectual property;
- environmental matters;
- contracts with certain affiliates;
- tax matters;
- brokers' fees payable in connection with the Merger;
- insurance matters;
- employee and labor matters; and
- required votes to approve the Merger.

The Merger Agreement contains a number of customary representations and warranties applicable to ALJ, subject in some cases to customary qualifications, relating to, among other things, the following:

- organization, valid existence and good standing;
- authorization, valid execution and delivery, and enforceability of the Merger Agreement;
- absence of conflicts with, or violations of, organizational documents, other contracts and applicable laws;
- required regulatory filings and consents and approvals of governmental entities;
- title to and transfer of KES shares;
- absence of litigation;
- brokers' fees payable in connection with the Merger;
- the filing of reports with the Pink Sheets;
- information contained in this Proxy Statement;
- the fairness opinion delivered to the ALJ Board of Directors with respect to the Merger; and
- ALJ's eligibility to make a Section 338(h)(10) tax election with respect to the Merger.

Certain representations and warranties in the Merger Agreement provide exceptions for items that are not reasonably likely to have a "Material Adverse Effect." For purposes of the Merger Agreement, a "Material Adverse Effect" means a change, development, event or occurrence that, either individually or in the aggregate with other changes, developments, events or occurrences, has a material adverse effect (a) on the business, results of operations

or condition (financial or otherwise) of KES, taken as a whole, or (b) the ability of KES to consummate the transactions contemplated by the Merger Agreement, other than one:

- affecting companies in the ferrous metals or steelmaking businesses generally;
- resulting from general economic, business, social, political or regulatory conditions;
- resulting from the announcement of the Merger Agreement (including any impact of the announcement on employees or contract counterparties);
- resulting from any actions required under the Merger Agreement to obtain any approval, waiver or consent from any person or governmental authority;
- resulting from changes in laws, rules or regulations of general applicability or of applicability generally within the industry or geographic area in which KES is located or interpretations thereof by governmental authority;
- resulting from changes in GAAP;
- due to KES' failure to meet internal projections or forecasts;
- resulting from any actions made or brought by any of the current or former stockholders of ALJ (on their own behalf or on behalf of ALJ) resulting from, relating to or arising out of the Merger Agreement or any of the transactions contemplated thereby;
- resulting from the failure of KES to obtain the prior written consent of a certain equipment lessor to the Merger under an equipment lease; or
- resulting from any action or omission taken with the prior written consent of Merger Sub or Optima, or as otherwise expressly permitted or required by the Merger Agreement, or any action otherwise taken by Merger Sub, Optima or any of their respective affiliates.

except, with respect to the first, second and fifth bullet points, to the extent that any such event, alone or in combination, disproportionately has a greater adverse impact on KES, taken as a whole, as compared to other companies in the ferrous metals or steelmaking businesses in the United States (and only to such greater extent).

The Merger Agreement also contains a number of customary representations and warranties applicable to Optima and Merger Sub, subject in some cases to customary qualifications, relating to, among other things, the following:

- organization, valid existence and good standing;
- authorization, valid execution and delivery, and enforceability of the Merger Agreement;
- absence of conflicts with, or violations of, organizational documents, other contracts and applicable laws;
- required regulatory filings and consents and approvals of governmental entities;
- capitalization and operation of Merger Sub;
- absence of litigation;
- sufficiency of funds;

- acquisition of KES capital stock for investment purposes;
- independent investigation and verification of KES;
- brokers' fees payable in connection with the Merger; and
- information contained in this Proxy Statement.

Conduct of Business Pending the Merger

Under the Merger Agreement, we have agreed that, pending the closing, KES shall conduct its business in all material respects only in the ordinary course and consistent with past practice and to exercise commercially reasonable efforts to preserve substantially intact its business organization and to preserve its business relationships.

We have also agreed that, between the date of the Merger Agreement and the effective time of the Merger, except as expressly contemplated by the Merger Agreement or as consented to by Optima, KES will not:

- merge or consolidate with, or acquire an interest in, any person or otherwise acquire any material assets, except for purchases of inventory in the ordinary course of business consistent with past practice;
- sell or otherwise dispose of, or encumber, any material properties or assets, except pursuant to existing contracts or commitments, or for dispositions in the ordinary course of business consistent with past practice;
- incur, assume or guarantee any indebtedness for borrowed money, except pursuant to KES' existing line of credit in the ordinary course of business;
- issue, sell, pledge, dispose of, grant, encumber or redeem any capital stock of KES or other equity interests, notes, bonds or other securities of KES, or any option, warrant or other right to acquire the same;
- increase the compensation or benefits payable by it to its employees or contractors except for increases in compensation or benefits in the ordinary course of business;
- enter into any employment contract or independent contractor contract with any new employee or contractor that cannot be terminated by KES upon notice of ninety (90) days or less without material penalty or premium and provides for annual salary after the date hereof in excess of certain thresholds specified in the Merger Agreement;
- make any change in any material accounting policies customarily followed by it (other than changes required by GAAP);
- amend its organizational documents;
- enter into or make any material amendment, modification or other change to any management contracts, partnership agreements, joint venture agreements, limited liability operating agreements and/or any other material agreements other than in the ordinary course of business;
- declare, set aside, make or pay any dividend or other distribution, payable in cash, stock, property or otherwise, with respect to any KES capital stock;
- reclassify, combine, split, subdivide or redeem, or purchase or otherwise acquire, directly or indirectly, any of its capital stock;

- make any loans, advances or capital contributions, except for employee loans or advances for travel and reasonable business expenses and extended payment terms for customers, in each case subject to applicable law and only in the ordinary course of business;

- make, authorize or make any commitment with respect to any capital expenditures or other expenditures in excess of $250,000, for any particular fiscal year;

- make or direct to be made any equity investments in any entity;

- grant any severance or termination pay or benefits to any director, officer or other employee of the Company or establish, adopt or enter into any new employee benefit plan;

- enter into any new line of business;

- change any tax election, file any amended tax return, settle any tax claim or assessment, or consent to any extension or waiver of the limitation period applicable to any tax claim or assessment;

- settle, pay, discharge or satisfy any liability or obligation (absolute, accrued, asserted or unasserted, contingent or otherwise), including any action, other than in the ordinary course of business, and other than those that involve only the payment or receipt of money in an amount in the aggregate of less than $250,000;

- enter into or amend any contract that subjects KES or Optima or any of its subsidiaries to any non-competition, "most-favored nation," or other exclusive rights of any type or scope or that otherwise restricts in a material respect KES or, upon completion of the Merger, Optima or any of its subsidiaries, from engaging or competing in any material line of business, in any location;

- except for any D&O insurance policy and related side policies, terminate, cancel, amend or modify any insurance coverage policy maintained by KES that is not promptly replaced by a comparable amount of insurance coverage; or

- announce an intention to enter into, or enter into, any formal or informal contract or otherwise make a commitment to do any of the foregoing.

No Solicitation of Alternative Proposals

We have agreed that until the Closing, neither KES nor ALJ shall, and KES and ALJ shall cause their respective affiliates, directors, officers, stockholders, agents and other representatives not to, directly or indirectly (i) solicit, initiate or knowingly encourage the submission of, any Company Takeover Proposal (as defined below), or (ii) participate in any discussions or negotiations regarding, or furnish to any person any information regarding KES in connection with, or take any other action to facilitate knowingly the making of any inquiry or any proposal that constitutes, or would reasonably be expected to lead to, any Company Takeover Proposal. ALJ and KES have agreed that any such negotiations in progress as of the date of the Merger Agreement will be terminated or suspended during such period.

The term "Company Takeover Proposal" means any proposal or offer from any person relating to: (i) a merger, consolidation, tender offer, exchange offer, binding share exchange, joint venture, dissolution, recapitalization, liquidation, acquisition or other similar transaction involving KES or ALJ; (ii) the acquisition after the date of the Merger Agreement by any person in any manner of a number of shares of any class of equity securities of KES or ALJ equal to or greater than fifteen percent (15%) of the voting securities of KES or ALJ, as applicable, outstanding before such acquisition; or (iii) the acquisition by any person in any manner, directly or indirectly, of assets that constitute fifteen percent (15%) or more of the net revenues, net income or assets of KES or ALJ, in each case other than the Merger.

Notwithstanding the restrictions described above, prior to obtaining the relevant stockholder approval, ALJ or KES may, in response to a Company Takeover Proposal made after the date of the Merger Agreement, that did not result from a breach of the restrictions described above and that the ALJ Board of Directors or KES Board of Directors determines in good faith after consultation with outside counsel and an independent financial advisor of nationally recognized reputation is or is reasonably likely to result in a Superior Company Proposal (as defined below), or may result in a Superior Company Proposal after clarification from the person making such Company Takeover Proposal regarding the material terms and conditions thereof, and subject to providing prior written notice of its decision to take such action to Optima: (i) furnish information with respect to ALJ or KES to the person making such Company Takeover Proposal pursuant to a confidentiality agreement not less restrictive of the other party (except with respect to any standstill provision) than the confidentiality agreement between KES and Optima, provided that all such information not previously provided to Optima is provided or made available on a substantially concurrent basis to Optima and (ii) participate in discussions or negotiations with the person making such Company Takeover Proposal regarding such Company Takeover Proposal.

"Superior Company Proposal" means any written offer made by a third party that (i) if consummated would result in such third party acquiring, directly or indirectly, at least a majority of the voting power of the KES common stock or all or substantially all the assets of KES, including through an acquisition of a majority of the voting power of the capital stock of ALJ and (ii) that the KES Board of Directors or ALJ Board of Directors has determined in good faith, after consultation with its outside counsel and financial advisors, to be (a) superior from a financial point of view to the holders of KES capital stock or ALJ capital stock, as applicable, to the Merger (after consulting with an independent financial advisor of nationally recognized reputation), taking into account all the terms and conditions of such proposal and the Merger Agreement and (b) reasonably capable of being consummated by such third party.

The Merger Agreement requires that KES or ALJ, as applicable, shall advise Optima orally and in writing of any Company Takeover Proposal or any inquiry with respect to, or that would reasonably be expected to lead to or contemplates, any Company Takeover Proposal, within 48 hours of the receipt by members of the KES Board of Directors or ALJ Board of Directors. Any such notification shall include the identity of the person making any such Company Takeover Proposal or inquiry. KES is required to keep Optima reasonably informed of the status of, and is required to promptly advise Optima of any material amendments to the terms of, any such Company Takeover Proposal or inquiry.

Changes in Board Recommendation

We have agreed that neither the ALJ Board of Directors nor the KES Board of Directors, as applicable, will (i) withdraw or modify, or propose to withdraw or modify, the approval or recommendation by the KES Board of Directors or the ALJ Board of Directors of the Merger Agreement, as applicable or approve or recommend, or propose to approve or recommend, any Company Takeover Proposal (in each case, a "Change in Recommendation") or (ii) approve, cause or permit KES or ALJ to enter into any letter of intent, agreement in principle, acquisition agreement or similar agreement relating to any Company Takeover Proposal.

Notwithstanding the restrictions described above, at any time prior to obtaining the relevant stockholder approval, if the KES Board of Directors or ALJ Board of Directors, as applicable, determines after consultation with outside counsel that a failure to do so would be inconsistent with such Board's fiduciary obligations under applicable laws, the KES Board of Directors or ALJ Board of Directors may, in response to a Superior Company Proposal, (i) make a Change in Recommendation or (ii) terminate the Merger Agreement in order to enter into an acquisition agreement with respect to a Superior Company Proposal.

Any such determination to make a Change in Recommendation or terminate the Merger Agreement shall not be made prior to the second business day following delivery to Optima of a written notice advising Optima of the decision to make a Change in Recommendation or terminate the Merger Agreement to accept a Superior Company Proposal, in which case the notice shall also specify the terms and conditions of the Superior Company Proposal and identify the person making such proposal. If promptly requested by Optima during such two business day period after delivery of the Change in Recommendation notice, ALJ and KES will engage in reasonable, good faith negotiations with Optima regarding any proposed modifications to the Merger Agreement. If Optima makes any proposed modifications, neither the ALJ Board of Directors nor KES Board of Directors may make a Change in

Recommendation or terminate the Merger Agreement unless and until the ALJ Board of Directors or KES Board of Directors, as the case may be, determines in good faith, after consultation with its outside counsel and financial advisors, that the Company Takeover Proposal causing the proposed Change in Recommendation continues to constitute a Superior Company Proposal, after taking into account any changes in the Merger Agreement proposed by Optima.

If the Merger Agreement is terminated by ALJ or KES to pursue a Superior Company Proposal, KES may be required to pay Optima a termination fee of 3.0% of the total purchase price, or $3,375,000. See the sections entitled "Proposal No. 1—Expenses and Termination Fees; Liability for Breach" on page 80 and "—Interests of Our Directors and Executive Officers in the Merger" on page 51 for more information.

Efforts to Obtain Required Stockholder Votes

ALJ has agreed to hold the Special Meeting for the purpose of considering the approval of the Merger. The Merger Agreement requires ALJ to use commercially reasonable efforts to hold its special stockholders meeting for the purpose of considering the approval of the Merger even if its Board of Directors no longer recommends the proposal. Unless the ALJ Board of Directors changes its recommendation as to the Merger, ALJ also must use commercially reasonable efforts to obtain stockholder approval of the Merger. The ALJ Board of Directors has approved the Merger, the Merger Agreement and the principal terms thereof and has adopted resolutions directing that such proposal be submitted to ALJ stockholders for their consideration.

Efforts to Complete the Merger

The parties have each agreed to use commercially reasonable efforts to take all reasonable actions and do all reasonable things necessary, proper or advisable, under laws, contract or otherwise, to consummate and make effective, as soon as reasonably practicable, the Merger, including, the satisfaction of all conditions to the Merger described under "Conditions to Completion of the Merger" below to be satisfied.

Optima and Merger Sub have each agreed to not engage in any action or enter into any transaction or permit any action to be taken or transaction to be entered into that would reasonably be expected to materially delay the consummation of, or otherwise adversely affect, the Merger. Without limiting the generality of the foregoing restriction, Optima agreed that it and its subsidiaries will not acquire (whether by merger, consolidation, stock or asset purchase or otherwise), or agree to so acquire, any material amounts of assets of or equity in any person or any business or division thereof, unless that acquisition or agreement would not (i) impose any delay in the consummation of the Merger or (ii) increase the risk of any governmental authority prohibiting the consummation of the Merger.

Additionally, the parties have each agreed to:

- use all commercially reasonable efforts to obtain all permits, authorizations, consents, orders and approvals of all governmental authorities that may be or become necessary for its execution and delivery of, and the performance of its obligations pursuant to, the Merger Agreement and to cooperate fully with the other party in promptly seeking to obtain all such permits, authorizations, consents, orders and approvals;

- make an appropriate filing pursuant to the applicable antitrust laws with respect to the Merger as soon as practicable after the date of the Merger Agreement;

- supply as promptly as practicable to the appropriate governmental authorities any additional information and documentary material that may be requested pursuant to the Merger;

- jointly approve and jointly control all filings, applications, notices, analyses, appearances, presentations, memoranda, submissions, briefs, arguments, opinions and proposals made or submitted by or on behalf of any party before any governmental authority in connection with the approval of the Merger (except with respect to taxes);

- except as prohibited by law, notify the other party of any communication that one party receives from any governmental authority relating to the approval or disapproval of the Merger; and

- consult and offer the other party a meaningful opportunity to participate in any meetings or substantive discussions with any governmental authority with respect to the approval or disapproval of the Merger.

Labor Matters; Employee Benefits Matters

Optima and Merger Sub have agreed to recognize, and will cause the surviving corporation to recognize, the Union as the bargaining representative for the "Employees" (as defined in the Collective Bargaining Agreement). Optima has agreed to accept, and cause the surviving corporation to accept, the Collective Bargaining Agreement establishing the terms and conditions of employment of such Employees, and shall cause the surviving corporation to continue to honor the Collective Bargaining Agreement in accordance with its terms.

The parties have agreed that, for a period of one year after the effective time of the Merger, Optima will provide or cause KES to provide compensation and benefits to KES employees that, taken as a whole, are substantially similar in the aggregate to those provided to such employees as of the effective time of the Merger, unless otherwise required on account of collective bargaining.

With respect to any employee benefit plans, the parties have also agreed that for purposes of determining eligibility to participate and vesting, each employee's service with KES, shall be treated as service with Optima. In addition, Optima is required to use commercially reasonable efforts to waive, or cause to be waived, any pre-existing condition limitations, exclusions, actively-at-work requirements and waiting periods under any employee benefit plan in which KES employees (and their eligible dependents) will be eligible to participate following the Merger, except to the extent that such pre-existing condition limitations, exclusions, actively-at-work requirements and waiting periods would have been applicable under the comparable KES employee benefit plan immediately prior to the completion of the Merger.

Optima must also use commercially reasonable efforts to recognize, or cause to be recognized, the dollar amount of all co-payments, deductibles and similar expenses incurred by each KES employee (and eligible dependents) during the calendar year in which the effective time of the Merger occurs for purposes of satisfying such year's deductible and co-payment limitations under the relevant employee benefit plans in which they will be eligible to participate from and after the effective time of the Merger.

The parties have agreed that none of the provisions described above will require Optima to continue the employment of any specific person following the completion of the Merger; provided that any termination of KES employees must be effected in accordance with the terms of the Collective Bargaining Agreement and all applicable laws.

Note Offering

Optima has agreed to use reasonable best efforts to arrange, and to obtain a closing of, 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 and noteholder collateral agent, for not less than $50 million in gross proceeds. The consummation of the Note Offering will require, among other things, consents from Optima's existing senior lenders and noteholders.

KES has agreed to provide reasonable cooperation in connection with the arrangement of the Note Offering as may be reasonably requested by Optima, including (i) participation in meetings, drafting sessions, presentations, road shows, due diligence and sessions with the financing sources, investors and rating agencies; (ii) furnishing Optima and the financing sources as promptly as practicable with financial and other pertinent information of the type and form customarily included in offering documents used in private placements and other documents required to satisfy any customary negative assurance opinion, to consummate the Note Offering at the time the Note Offering is to be consummated; (iii) assisting Optima and its financing sources in the preparation of any offering documents, private placement memoranda and other informational and marketing materials for any portion of the Note Offering

and materials for rating agency presentations; (iv) reasonably cooperating with the marketing efforts of Optima and the financing sources for any portion of the Note Offering; (v) executing and delivering any necessary pledge and security documents and otherwise reasonably facilitating the granting of a security interest in collateral, guarantees, mortgages, other definitive financing documents or other certificates or documents as reasonably requested by Optima; (vi) obtaining customary authorization letters with respect to the offering memoranda and consents of accountants for use of their reports in any materials relating to the Note Offering and (vii) taking all necessary corporate actions, subject to the occurrence of the Closing, necessary to permit the consummation of the Note Offering. Optima has agreed to reimburse KES and ALJ for all reasonable out-of-pocket legal and accounting fees and expenses incurred in providing such cooperation.

Indemnification and Insurance

Optima has agreed that, from and after the effective time of the Merger until the sixth anniversary of the effective time of the Merger, Optima shall cause the surviving corporation to, comply with all obligations of KES in existence or in effect on the date of the Merger Agreement under its certificate of incorporation and bylaws to indemnify, defend and hold harmless each person who is now, or has been at any time prior to the date of the Merger Agreement, or who becomes such prior to the effective time of the Merger, an officer, director or fiduciary of KES (with all such persons referred to as "indemnified D&O parties") against any and all losses, claims, damages, costs, expenses, fines, liabilities or judgments or amounts that are paid in settlement in connection with any claim, action, suit, proceeding or investigation based in whole or in part on or arising in whole or in part out of the fact that such person is or was an indemnified D&O party whether pertaining to any action or omission existing or occurring at or prior to the effective time of the Merger and whether asserted or claimed prior to, or at or after, the effective time of the Merger, including those related to the Merger.

Prior to the effective time of the Merger, KES may obtain six-year "tail" insurance policies with respect to directors' and officers' liability insurance, in an amount and scope no less favorable than ALJ's existing policy for claims arising from facts or events occurring prior to the effective time at a cost that is reasonable and customary. If KES has not obtained such tail policy prior to the effective time of the Merger, the surviving corporation will provide for no less than six years an insurance policy for all former and current directors, officers or fiduciaries of KES covering events occurring at or prior to the effective time of the Merger, with such insurance policy being not less favorable taken as a whole than the existing policy of ALJ.

Other Covenants and Agreements

The Merger Agreement contains certain other covenants and agreements, including those relating to:

- preparation by ALJ of this Proxy Statement, with ALJ providing to Optima a reasonable opportunity to review and comment in advance;
- cooperation between the parties in connection with public announcements;
- the granting of reasonable access by KES to Optima of certain information and employees of KES during the period prior to the effective time of the Merger, with all information remaining confidential;
- Optima's payment of all transfer, documentary, sales, use and other taxes incurred in connection with the Merger;
- until the closing, on or before the 21st day of each month, delivery by KES to Optima unaudited financial statements of KES as at and for the monthly period ending on the last day of the preceding month;
- certain of our stockholders having delivered a stockholder support agreement providing that such stockholders will vote in favor of the Merger;

- delivery by ALJ to Optima, following the affirmative vote of a majority of the outstanding shares of ALJ Common Stock in favor of the Merger, a written consent and approval of ALJ as the sole holder of KES' voting stock approving the adoption of the Merger Agreement and the Merger;
- efforts as required by ALJ and KES to terminate the Tax Sharing Agreement and Management Agreement with effect from closing; and
- prior to the closing, prompt notification by any party to the other party after obtaining knowledge of the occurrence of any event, circumstance or fact arising subsequent to the date of the Merger Agreement that would result in failure to satisfy (i) the conditions to obligations of KES to effect the Merger or (ii) the conditions to obligations of Optima and Merger Sub to effect the Merger.

Conditions to the Merger

Conditions to Each Party's Obligations. Each party's obligation to complete the Merger is subject to the satisfaction, prior to the consummation of the Merger, of the following conditions:

- the Merger Agreement must have been approved by ALJ as the holder of all of the outstanding Series A Common Stock of KES;
- the Merger must have been approved by the affirmative vote of a majority of the holders of outstanding ALJ Common Stock;
- termination of the Tax Sharing Agreement between ALJ and KES in its entirety, provided that provision shall have been made for all payments thereunder for periods (including partial periods) prior to the closing date;
- the execution of a stock purchase agreement by Merger Sub, KES and all the holders of outstanding Series B Common Stock and Series A Preferred Stock of KES and compliance with the terms thereof required to be complied with prior to the closing;
- termination of each of the Management Agreement and Fee and Reimbursement Agreement in its entirety; and
- all closing deliverables, including payment of the purchase price, must have been received or the requirement to deliver such items must have been waived by the appropriate party.

Conditions to KES' Obligations. The obligation of KES to effect the Merger is subject to the satisfaction or waiver of the following additional conditions:

- the representations and warranties of Optima and Merger Sub relating to authority or which are qualified by materiality will be true and correct as of the closing date and all other the representations and warranties of Optima and Merger Sub shall be true and correct in all material respects as of the closing date, in each case as if made as of the closing date (other than such representations and warranties as are made as of another date, which shall be true and correct as of such date);
- Optima and Merger Sub shall have complied in all material respects with the covenants and agreements contained in the Merger Agreement to be complied with at or before the closing;
- receipt of a certificate from Optima signed by an executive officer thereof as to the satisfaction of the conditions described in the preceding two bullets;
- all approvals, consents, authorizations and waivers from third parties (who are not governmental authorities) listed in the disclosure schedules shall have been obtained;

- absence of any law or governmental order prohibiting the Merger;
- any waiting period (and any extension thereof) applicable to the Merger under the antitrust laws of the United States shall have expired or been earlier terminated; and
- Optima and Merger Sub shall have taken all actions reasonably requested by the Union to evidence their agreement to recognize and accept the Collective Bargaining Agreement and the surviving corporation's obligation to recognize and honor the Collective Bargaining Agreement in accordance with the terms thereof.

Conditions to Optima and Merger Sub's Obligations. The obligation of Optima and Merger Sub to effect the Merger is subject to the satisfaction or waiver of the following additional conditions:

- the representations and warranties of KES and ALJ relating to authority and capital structure or which are qualified by materiality must have been true and correct as of the date of the Merger Agreement and shall be true and correct as of the closing date, and all other representations and warranties of KES and ALJ shall be true and correct in all material respects as of the date of the Merger Agreement and shall be true and correct as of the closing date, in each case as if made as of the closing date (other than such representations and warranties as are made as of another date, which shall be true and correct in all material respects as of such date);
- KES and ALJ shall have complied in all material respects with the covenants and agreements contained in the Merger Agreement to be complied with at or before the closing;
- receipt of a certificate from each of KES and ALJ signed by an executive officer thereof as to the satisfaction of the conditions described in the preceding three bullets;
- absence of any law or governmental order prohibiting or restraining the consummation of the Merger, and absence of any action, suit or proceeding that could prevent, make illegal or restrain the consummation of the Merger;
- any waiting period (and any extension thereof) applicable to the Merger under the antitrust laws of the United States shall have expired or been earlier terminated;
- all approvals, consents, authorizations and waivers from third parties (who are not governmental authorities) listed in the disclosure schedules shall have been obtained;
- receipt of a certificate from KES signed by an executive officer thereof detailing the Merger consideration and components necessary to the calculation thereof;
- the Note Offering shall have been consummated (or shall be consummated simultaneously with the closing) and Optima shall have received not less than $50 million in gross proceeds from the Note Offering;
- the Closing Net Working Capital shall be at least $24 million; and
- since September 30, 2012, there shall not have occurred any material adverse effect.

Termination of the Merger Agreement

The Merger Agreement may be terminated and the Merger contemplated therein may be abandoned at any time prior to the effective time of the Merger, notwithstanding the receipt of the requisite stockholder approval, as applicable, under the following circumstances:

- by mutual written consent of Optima, on the one hand, and KES and ALJ, on the other hand;

- by Optima, on the one hand, or ALJ or KES, on the other hand:

  - at any time after February 28, 2013 (the "outside date"), upon notice to the other, if the closing shall not have occurred on or prior to the outside date; provided that the right to terminate the Merger Agreement pursuant to the term described in this bullet point shall not be available to any party whose failure to fulfill any obligation under the Merger Agreement shall have been the cause of, or shall have resulted in, the failure of the closing to occur on or prior to such date;

  - at any time prior to the outside date, upon notice to the other, if the terminating party's conditions to closing cannot be reasonably satisfied by the outside date; provided that (i) Optima may not terminate pursuant to the term described in this bullet point if it or Merger Sub has failed to comply with their respective obligations under the Merger Agreement in any material respect and have not adequately cured any such failure to comply on or before the outside date and (ii) neither ALJ nor KES may terminate pursuant to the term described in this bulletpoint if either ALJ or KES has failed to comply with any of their obligations under the Merger Agreement in any material respect and any such failure to comply has not adequately been cured on or before the outside date;

  - upon notice to the other, if the required stockholder approval has not been obtained at or by the time immediately following the Special Meeting;

  - prior to the closing, upon notice to the other, if the terminating party is not then in material breach or default under the Merger Agreement, of a material breach or default by the other party under the Merger Agreement that if not cured could result in failure of the conditions to closing set forth in the Merger Agreement, which is not cured within 30 days after receipt by the other party of written notice of such breach or default;

- by KES or ALJ, in the event of a Superior Company Proposal, provided that KES or ALJ, as applicable, shall substantially concurrently with such termination enter into an acquisition agreement relating to such Superior Company Proposal; or

- by KES or ALJ, upon written notice to Optima, at any time after the Financing Confirmation Date, but no later than December 31, 2012, if the Note Offering shall not have been consummated for at least $50 million in gross proceeds to Optima on or prior to the Financing Confirmation Date; unless within 48 hours of the Financing Confirmation Date, ALJ notifies Optima that (1) it will agree to receive the Financing Shortfall in notes (at par) in lieu of cash (subject to satisfaction of all other legal requirements reasonably required to receive such notes, including the re-solicitation of our stockholder vote if the amount of notes to be received would form a material part of the Merger consideration) or (2) one or more designees of ALJ notify Optima that they will purchase notes in an amount equal to the Financing Shortfall in the Note Offering.

Expenses and Termination Fees; Liability for Breach

Each party shall pay all fees and expenses incurred by it in connection with the Merger and the other transactions contemplated by the Merger Agreement, whether or not the closing shall have occurred, provided that Optima and KES shall jointly pay for all filing fees relating to antitrust, competition and foreign investment matters.

If the Merger Agreement is validly terminated, the Merger Agreement will become void and have no effect, without liability on the part of any party, except as expressly set forth therein, provided that no such termination shall relieve any party from liability for any willful breach of 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
- the Merger Agreement is terminated as a result of the requisite stockholder approval not being obtained or the transaction failing to close by February 28, 2013, if, in each case, within twelve months of such termination, ALJ or KES either enters into an agreement for or consummates an acquisition with a person with whom ALJ or KES was engaging in discussions prior to such termination.

Under the Merger Agreement, if the Note Offering is not consummated by the Financing Confirmation Date, we may terminate the Merger Agreement on or before December 31, 2012. If we do not terminate the Merger Agreement by December 31, 2012 and the Note Offering is not subsequently consummated by February 28, 2013, we or Optima may terminate the Merger Agreement and 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 reason for the termination is Optima's failure to consummate the Note Offering).

Amendments, Extensions and Waivers

The Merger Agreement may only be amended by an instrument in writing signed by the parties. Any party may (i) extend the time for performance of any of the obligations or other acts of any other party, (ii) waive any inaccuracies in the representations and warranties of another party contained in the Merger Agreement or in any document delivered by another party pursuant to the Merger Agreement or (iii) waive compliance with any of the agreements or conditions of another party contained in the Merger Agreement.

No Third Party Beneficiaries

The Merger Agreement is not intended to confer upon you or any person other than Optima, ALJ, KES and Merger Sub any rights or remedies, except with respect to the rights to indemnification and liability insurance coverage for current and former directors, officers and fiduciaries of KES described in "Indemnification and Insurance" above and with respect to the collective bargaining matters described in "Labor Matters; Employee Benefits Matters" above.

Specific Performance

The parties agreed in the Merger Agreement that irreparable harm and significant damage, the amount of which would be difficult to estimate, would occur in the event that any of the provisions of the Merger Agreement were not performed (or threatened to not be performed) in accordance with their specified terms or were otherwise breached (or threatened to be breached), thus making any remedy at law or in damages inadequate. The parties further agreed that they each shall be entitled to injunctive relief to prevent breaches (and to enforce specifically the terms and provisions) of the Merger Agreement, in addition to any other remedies available to the parties.

Voting Agreements

Pursuant to the Merger Agreement, Optima and Merger Sub agreed to cause all ALJ Common Stock owned by them and their subsidiaries, if any, to be voted in favor of the Merger at the Special Meeting.

If the Merger Agreement is terminated for any other reason, this voting agreement will have no further force or effect following such termination.

On November 18, 2012, each of the members of ALJ's Board of Directors entered into the Stockholder Support Agreement, pursuant to which each director has agreed (solely in his capacity as a stockholder) to, among other things, vote all shares of capital stock of ALJ held by him (i) in favor of the adoption of the Merger Agreement, (ii) in favor of each of the other actions contemplated by the Merger Agreement, (iii) in favor of any action required in furtherance of effecting the Merger and (iv) against any alternative business combination transaction. 14,266,578 shares of ALJ Common Stock (comprising 24.9% of the outstanding ALJ Common Stock) are subject to the Stockholder Support Agreement. Additionally, Mr. Ravich is the holder of an option to acquire 2,000,000 shares of ALJ Common Stock and any such shares of ALJ Common Stock that Mr. Ravich acquires

pursuant to such option are also subject to the Stockholder Support Agreement. The Stockholder Support Agreement terminates upon a termination of the Merger Agreement in accordance with its terms.

Joseph Corso, Jr., our 21.2% (20.4% on a fully diluted basis) stockholder, has entered into the Voting and Tender Agreement, pursuant to which he has agreed with Jess Ravich and ALJ to tender his shares at $0.84 per share in the Tender Offer and to vote in favor of the Merger. Pursuant to the Voting and Tender Agreement, Jess Ravich, our Chairman and a 19.5% (22.1% on a fully diluted basis) stockholder, has also agreed not to tender any of his shares in the Tender Offer. The Voting and Tender Agreement terminates upon, among other things, a change in recommendation of our Board of Directors. Copies of the form of Stockholder Support Agreement and form of Voting and Tender Agreement are available on www.pinksheets.com and www.aljregionalholdings.com as exhibits to the Current Report filed on November 19, 2012.

PROPOSAL NO. 2

ADJOURNMENT OF THE SPECIAL MEETING

If there are insufficient votes at the time of the Special Meeting to approve Proposal No. 1, we may propose to adjourn the Special Meeting, if a quorum is present, for the purpose of soliciting additional proxies to approve Proposal No. 1. We currently do not intend to propose to adjourn the Special Meeting if there are sufficient votes to approve the Merger.

The Board of Directors unanimously recommends a vote "FOR" the adjournment of the Special Meeting, if necessary, to solicit additional proxies.

THE TENDER OFFER

The Tender Offer

We plan to use approximately 50% of the expected cash at ALJ following the closing of the Merger (approximately $25.2 million to $25.8 million) to purchase from our stockholders through a "modified Dutch auction" tender offer shares of ALJ Common Stock. As of the date of this Proxy Statement, the Tender Offer is scheduled to expire on December 24, 2012, subject to our rights to extend the expiration date.

We commenced the Tender Offer on November 19, 2012, and we plan to consummate the Tender Offer as soon as possible after the Merger closing and receipt of the Merger consideration.

The Tender Offer was approved by the Board of Directors after careful consideration and consultation with its advisors of various alternatives for returning a portion of the Merger consideration to the our stockholders, and the Board of Directors believes that the Tender Offer is the best way to accomplish this objective after considering alternatives, including a dividend.

We will purchase shares in the Tender Offer only if the Merger closes. The Tender Offer is being made on the terms and subject to the conditions set forth in a separate Offer to Purchase and related Letter of Transmittal.

Under the Tender Offer, we are offering to purchase up to 30,000,000 shares of ALJ Common Stock at a purchase price not greater than $0.86 nor less than $0.84 per share, net to the seller in cash, less any applicable withholding taxes and without interest. A holder of ALJ Common Stock who wishes to participate must complete a letter of transmittal indicating the price within that range at which they are tendering their shares and the number of shares they are tendering. We will then select the single lowest price (in multiples of $0.01) within that price range that will allow us to purchase 30,000,000 shares at that price (or a lower amount if not enough shares are properly tendered to allow us to purchase 30,000,000 shares). All shares will be acquired at that price, even in the case of shares tendered at a lower price, but we will not purchase any shares tendered at a price above the purchase price.

For example, assume Stockholder A tenders its shares of ALJ Common Stock at $0.86 and Stockholder B tenders its shares of ALJ Common Stock at $0.84 per share. If the single lowest per share price within the price range of $0.84 and $0.86 that would allow us to purchase 30,000,000 shares is $0.85, then we will purchase Stockholder B's shares at $0.85. We will not purchase any of Stockholder A's shares in this scenario.

In addition, if more than 30,000,000 shares are tendered in the Tender Offer at or below the purchase price, we may exercise our right to amend the Tender Offer to purchase up to an additional 2% of our outstanding Shares without extending the expiration date. We may also reduce the number of shares we are purchasing below 30,000,000, if we determine, in our sole and absolute discretion, that it is necessary to do so in order to preserve our ability to use our NOLs to offset federal income taxes in the future.

Only shares properly tendered at prices at or below the purchase price we select, and not properly withdrawn, will be purchased. If, based on the purchase price, shares in excess of 30,000,000 are properly tendered and not properly withdrawn, we will purchase shares on a *pro rata* basis, with appropriate adjustments to avoid purchases of fractional shares, until we have acquired 30,000,000 shares. Therefore, we may not purchase all of the shares tendered at or below the purchase price in the Tender Offer. We may also terminate or amend or modify the Tender Offer under certain circumstances that are described in greater detail in the Offer to Purchase dated November 19, 2012.

The Tender Offer is being made pursuant to the Offer to Purchase. If you wish to tender any of your shares, you must review the Offer to Purchase and follow the instructions in the Offer to Purchase. **Voting to approve the Merger does not constitute a tender of your shares.**

If, at the expiration date, more than 30,000,000 shares (or such greater number of shares as we may elect to purchase, subject to applicable law) are properly tendered at or below the purchase price and not properly withdrawn, we will buy shares:

- first, from all holders of "odd lots" (holders of less than 100 shares) who properly tender all of their shares at or below the purchase price selected by us and do not properly withdraw them before the expiration date;

- second, on a *pro rata* basis from all other stockholders who properly tender shares at or below the purchase price selected by us, other than stockholders who tender conditionally and whose conditions are not satisfied; and

- third, only if necessary to permit us to purchase 30,000,000 shares (or such greater number of shares as we may elect to purchase, subject to applicable law) from holders who have tendered shares at or below the purchase price subject to the condition that a specified minimum number of the holder's shares be purchased if any of the holder's shares are purchased in the Tender Offer (for which the condition was not initially satisfied) by random lot, to the extent feasible. To be eligible for purchase by random lot, stockholders whose shares are conditionally tendered must have tendered all of their shares.

We will return any shares (1) that are tendered at prices in excess of the purchase price we select and (2) that we do not purchase because of proration, in each case, promptly following the expiration date of the Tender Offer.

The purchase price in the Tender Offer will be paid net to the seller in cash, less any applicable withholding taxes and without interest, for all shares purchased. Tendering stockholders who hold shares registered in their own name and who tender their shares directly to the depositary will not be obligated to pay brokerage commissions, solicitation fees or stock transfer taxes on the purchase of shares by us in the Tender Offer. Stockholders holding shares in a brokerage account or otherwise through brokers, dealers, commercial banks, trust companies or other nominees are urged to consult their brokers or such other nominees to determine whether transaction costs may apply if stockholders tender shares through such brokers or other nominees and not directly to the depositary. You should consult your broker, dealer, commercial bank, trust company or other nominee to determine whether any charges will apply. See below regarding U.S. federal income tax consequences of the Tender Offer.

We will pay all fees and expenses incurred in connection with the Tender Offer by American Stock Transfer & Trust Company, LLC, the depositary and information agent for the Tender Offer.

If any of our stockholders who hold shares in their own name as holders of record or who are "registered holders" as participants in DTC's system whose names appear on a security position listing, tender their shares in full and that tender is accepted in full, the number of our record holders would be reduced.

We believe that the Tender Offer represents an efficient mechanism to provide our stockholders with the opportunity to tender all or a portion of their shares and thereby receive a return of some or all of their investment if they so elect. The Tender Offer provides stockholders (particularly those who, because of the size of their shareholdings, might not be able to sell their shares without potential disruption to the trading of ALJ Common Stock) with an opportunity to obtain liquidity with respect to all or a portion of their shares without potential disruption to the share price. If we complete the Tender Offer, stockholders who do not participate in the Tender Offer will automatically increase their relative percentage ownership interest in the Company at no additional cost to them.

In determining to consider the Tender Offer, our management and Board of Directors evaluated the Company's operations, financial condition, capital needs and expectations for the period prior to the anticipated completion of the Merger and believe that the Tender Offer is a prudent use of our financial resources.

Our directors and executive officers are entitled to participate in the Tender Offer on the same basis as all other stockholders.

Potential Benefits of the Tender Offer

We believe the Tender Offer will provide benefits to us and our stockholders, including the following:

- an opportunity to obtain liquidity with respect to all or a portion of their shares, without potential disruption to the share price;

- upon the completion of the Tender Offer, non-tendering stockholders will realize a proportionate increase in their relative ownership interest in the Company;

- an opportunity for non-tendering stockholders to benefit from participating in the continuing operations of the Company; and

- an efficient way for certain stockholders to sell their shares without incurring brokers' fees or commissions. Where shares are tendered by the registered owner of those shares directly to the depositary, the sale of those shares in the Tender Offer will permit the seller to avoid the usual transaction costs associated with open market transactions.

Potential Risks and Disadvantages of the Tender Offer

The Tender Offer also presents some potential risks and disadvantages to us and our continuing stockholders, including the following:

- reducing our "public float" (the number of shares of ALJ Common Stock owned by non-affiliate stockholders and available for trading) will be reduced, which could result in lower stock prices or reduced liquidity in the trading market for our shares following completion of the Tender Offer;

- reducing the remaining cash available to be distributed to the continuing stockholders in the form of a dividend or return of capital after the completion of the Tender Offer; and

- reducing the remaining cash available to fund a potential investment in or acquisition of control of one or more operating businesses.

Certain Effects of the Tender Offer

If the Tender Offer occurs, stockholders who do not tender their shares of ALJ Common Stock 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 or proration will continue to be owners of the Company and will realize a proportionate increase in their relative equity interest in the Company and thus in the Company's future earnings and assets at no additional direct cost to them, and will bear the attendant risks and rewards associated with owning equity securities of the Company.

As of November 28, 2012, the Company had 59,467,498 shares of ALJ Common Stock issued and outstanding on a fully diluted basis, which was the only class of voting securities authorized or outstanding. If the Tender Offer is fully subscribed, we would purchase 30,000,000 shares of ALJ Common Stock if the Tender Offer is fully subscribed, which would represent approximately 50% of our outstanding shares as of November 28, 2012 on a fully diluted basis. If the Tender Offer is fully subscribed, we will have 29,467,498 shares of ALJ Common Stock outstanding on a fully diluted basis following the purchase of shares tendered in the Tender Offer.

Stockholders may be able to sell non-tendered shares 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.

The accounting for our purchase of shares in the Tender Offer will result in a reduction of our stockholders' equity in an amount equal to the aggregate purchase price of the shares we purchase.

Our book value per share is expected to decrease as a result of the Tender Offer.

Shares we acquire pursuant to the Tender Offer will become authorized and unissued shares and will be available for us to issue without further stockholder action (except as required by applicable law) for purposes

including, without limitation, acquisitions, raising additional capital and the satisfaction of obligations under existing or future employee benefit or compensation programs or stock plans or compensation programs for directors.

U.S. Federal Tax Consequences of the Tender Offer

The following is a discussion of certain U.S. federal income tax consequences of participating in the Tender Offer for U.S. Holders and Non-U.S. Holders (each as defined below). This summary is based upon the Internal Revenue Code of 1986, as amended (the "Code"), U.S. Treasury Regulations issued thereunder, IRS rulings and pronouncements, and judicial decisions, all as of the date hereof and all of which are subject to differing interpretations or changes which could affect the tax consequences described herein (possibly on a retroactive basis). No IRS ruling has been or will be sought regarding any matter discussed herein.

This discussion is for general information only and does not address alternative minimum tax consequences or all of the aspects of U.S. federal income taxation that may be relevant to a particular stockholder or to stockholders subject to special rules (including, without limitation, financial institutions, brokers, dealers or traders in securities or commodities, traders who elect to apply a mark-to-market method of accounting, insurance companies, S corporations, partnerships or other pass-through entities or their members or partners, controlled foreign corporations, passive foreign investment companies, U.S. expatriates, tax-exempt organizations, tax-qualified retirement plans, persons who hold shares as a position in a "straddle" or as part of a "hedging," "conversion" or "integrated" transaction or other risk reduction strategy, directors, employees, former employees or other persons who acquired their shares as compensation, including upon the exercise of employee stock options, and persons that have a functional currency other than the U.S. dollar). In particular, this summary does not address any tax consequences arising from the sale of shares acquired pursuant to an employee stock purchase plan or other employee benefit plans. This summary also does not address tax considerations arising under any state, local or foreign laws, or under U.S. federal estate or gift tax laws. This summary assumes that stockholders hold the shares as "capital assets" within the meaning of Section 1221 of the Code (generally, property held for investment).

As used herein, a "U.S. Holder" means a beneficial holder of shares that is for U.S. federal income tax purposes: (i) an individual citizen or resident of the U.S., (ii) a corporation (or any other entity treated as a corporation for U.S. federal income tax purposes) created or organized in or under the laws of the U.S., any state thereof or the District of Columbia, or (iii) an estate or trust the income of which is subject to U.S. federal income taxation regardless of its source.

As used herein, the term "Non-U.S. Holder" means a beneficial owner of shares other than a U.S. Holder.

This summary is for general information only and is not intended to constitute a complete description of all tax consequences relating to the Tender Offer. Each stockholder is urged to consult its tax advisor as to the particular U.S. federal income tax consequences to such stockholder of participating or not participating in the Tender Offer and the applicability and effect of any state, local and foreign tax laws and other tax consequences with respect to the Tender Offer.

Non-Participation in the Tender Offer. Stockholders who do not participate in the Tender Offer will not incur any tax liability as a result of the Tender Offer.

U.S. Holders. An exchange of shares for cash pursuant to the Tender Offer will be a taxable transaction for U.S. federal income tax purposes. A U.S. Holder who participates in the Tender Offer will be treated, depending on such U.S. Holder's particular circumstances, either as recognizing gain or loss from the disposition of the shares or as receiving a dividend distribution from us.

Under Section 302 of the Code, a U.S. Holder will recognize gain or loss on an exchange of shares for cash if the exchange (i) results in a "complete termination" of all such U.S. Holder's equity interest in us, (ii) results in a "substantially disproportionate" redemption with respect to such U.S. Holder, or (iii) is "not essentially equivalent to a dividend" with respect to the U.S. Holder (together, as described below, the "Section 302 Tests"). In applying the Section 302 Tests, a U.S. Holder must take account of stock that such U.S. Holder constructively owns under attribution rules set forth in Section 318 of the Code, pursuant to which the U.S. Holder will be treated as owning our shares owned by certain family members (except that in the case of a "complete termination" a U.S. Holder may

waive, under certain circumstances, attribution from family members) and related entities and our stock that the U.S. Holder has the right to acquire by exercise of an option. An exchange of shares for cash pursuant to the Tender Offer will be a "complete termination" of a U.S. Holder's equity interest in us if the U.S. Holder owns none of our shares either actually or constructively (taking into account any effective waivers of attribution from family members) immediately after the exchange. An exchange of shares for cash will be a substantially disproportionate redemption with respect to a U.S. Holder if (a) the percentage of the then outstanding shares owned by such U.S. Holder in us immediately after the exchange is less than 80% of the percentage of the shares owned by such U.S. Holder in us immediately before the exchange, (b) the percentage of the then outstanding voting stock owned by such U.S. Holder in us immediately after the exchange is less than 80% of the percentage of the voting stock owned by such U.S. Holder in us immediately before the exchange, and (c) the U.S. Holder owns less than 50% of the outstanding voting stock immediately after the exchange. If an exchange of shares for cash fails to satisfy either the "complete termination" or "substantially disproportionate" test, the U.S. Holder nonetheless may satisfy the "not essentially equivalent to a dividend" test. An exchange of shares for cash will satisfy the "not essentially equivalent to a dividend" test if it results in a "meaningful reduction" of the U.S. Holder's equity interest in us. An exchange of shares for cash that results in a reduction of the proportionate equity interest in us of a U.S. Holder whose relative equity interest in us is minimal and who does not exercise any control over or participate in the management of our corporate affairs should be treated as "not essentially equivalent to a dividend." U.S. Holders should consult their tax advisors regarding the application of the rules of Section 302 in their particular circumstances.

If a U.S. Holder is treated as recognizing gain or loss from the disposition of the shares for cash, such gain or loss will be equal to the difference between the amount of cash received and such U.S. Holder's adjusted basis in the shares exchanged therefor. Any such gain or loss will be capital gain or loss and will be long-term capital gain or loss if the holding period of the shares exceeds one year as of the date of the exchange. The maximum U.S. federal income tax rate applicable to long-term capital gains is currently 15%. Statutory limitations apply to the ability of a U.S. Holder to make use of capital losses.

There can be no assurance that U.S. Holders who are cash-basis taxpayers and who actually receive payment for their shares after December 31, 2012 will be treated as having constructively received payment in 2012 for U.S. federal income tax purposes. U.S. Holders should consult their own tax advisors as to which tax rates apply to their payments. In the case of individuals and trusts, for taxable years beginning after December 31, 2012, the maximum federal income tax rate on long term capital gains is scheduled to increase from 15% to 20% and the maximum rate on ordinary income is scheduled to increase to 39.6% from 35%, unless other legislation is enacted which could provide for different tax rates. The current maximum corporate income tax rate is 35% which is not scheduled to change. However, no assurance can be given as to what rates will apply to any taxpayers for taxable years beginning after December 31, 2012.

If a U.S. Holder is not treated under the Section 302 Tests as recognizing gain or loss on an exchange of shares for cash, the entire amount of cash received by such U.S. Holder pursuant to the exchange will be treated as a dividend to the extent of the portion of our current and accumulated earnings and profits allocable to such shares. Provided certain holding period requirements are satisfied, non-corporate holders generally will be subject to U.S. federal income tax at a maximum rate of 15% on amounts treated as dividends, i.e., the entire amount of cash received without reduction for the tax basis of the shares exchanged. To the extent that cash received in exchange for shares is treated as a dividend to a corporate U.S. Holder, (i) it will be eligible for a dividends-received deduction (subject to applicable limitations), and (ii) it will be subject to the "extraordinary dividend" provisions of the Code. U.S. Holders should consult their tax advisors concerning the rules discussed in this paragraph in light of their particular circumstances.

To the extent that amounts received pursuant to the Tender Offer exceed a U.S. Holder's allocable share of our current and accumulated earnings and profits, the distribution will first be treated as a non-taxable return of capital, causing a reduction in the adjusted basis of such U.S. Holder's shares, and any amounts in excess of the U.S. Holder's adjusted basis will constitute capital gain. Any remaining adjusted basis in the shares tendered will be transferred to any remaining shares held by such U.S. Holder.

We cannot predict whether or the extent to which the Tender Offer will be oversubscribed. If the Tender Offer is oversubscribed, proration of tenders pursuant to the Tender Offer will cause us to accept fewer shares than are tendered. Therefore, a U.S. Holder can be given no assurance that a sufficient number of such U.S. Holder's

shares will be purchased pursuant to the Tender Offer to ensure that such purchase will be treated as a sale or exchange, rather than as a dividend, for U.S. federal income tax purposes pursuant to the rules discussed above.

Non-U.S. Holders. The depositary will withhold U.S. federal income taxes equal to 30% of the gross payments payable to a Non-U.S. Holder or his or her agent unless the Depositary determines that a reduced rate of withholding is available pursuant to a tax treaty or that an exemption from withholding is applicable because such gross proceeds are effectively connected with the conduct of a trade or business within the U.S. In order to obtain an exemption from withholding on the grounds that the gross proceeds paid pursuant to the Tender Offer are effectively connected with the conduct of a trade or business within the U.S., a Non-U.S. Holder must deliver to the depositary a properly completed and executed IRS Form W-8ECI. The depositary will determine a holder's status as a Non-U.S. Holder and eligibility for a reduced rate of, or exemption from, withholding by reference to any outstanding certificates or statements concerning eligibility for a reduced rate of, or exemption from, withholding (e.g., IRS Forms W-8BEN or W-8ECI) unless facts and circumstances indicate that such reliance is not warranted. A Non-U.S. Holder may be eligible to obtain a refund of all or a portion of any tax withheld if such Non-U.S. Holder meets one of the Section 302 Tests described above or is otherwise able to establish that no tax or a reduced amount of tax is due. Backup withholding generally will not apply to amounts subject to the 30% or a treaty-reduced rate of withholding. Non-U.S. Holders are urged to consult their own tax advisors regarding the application of U.S. federal income tax withholding, including eligibility for a withholding tax reduction or exemption, and the refund procedure.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth, as of November 28, 2012, the beneficial ownership of ALJ Common Stock with respect to (i) each person who was known by us to own beneficially more than 5% of the outstanding shares of ALJ Common Stock (each such person, a "significant stockholder"), (ii) each director, (iii) our executive officers, and (iv) all directors and executive officers as a group. As of November 28, 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 Tinton Falls, NJ 07701	1,185,099 (2)	2.07 %
Hal G. Byer, Director c/o Houlihan Lokey 10250 Constellation Blvd., 5th Floor Los Angeles, CA 90067	516,028	* %
Jess M. Ravich, Chairman of the Board 149 S. Barrington Ave., #828 Los Angeles, CA 90049	13,154,569 (3)	22.20 %
John Scheel, Chief Executive Officer, President and Director c/o KES P.O. Box 2119 Ashland, KY 41105	738,460	1.29 %
Olimpio Lee Squitieri, Director c/o Squitieri & Fearon, LLP 32 East 57th Street, 12th Floor New York, NY 10022	1,305,510 (4)	2.28 %
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 %

* Less than 1%

(1) Consistent with the regulations of the U.S. Securities and Exchange Commission, shares of ALJ Common Stock issuable upon exercise of derivative securities by their terms exercisable within 60 days of November 28, 2012 are deemed outstanding for the purpose of computing the percentage ownership of the person holding such derivative 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 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.
(4) 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.
(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 by Mr. Corso.

TRANSACTIONS WITH RELATED PERSONS

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 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.

In considering the recommendation of our Board of Directors to vote for the proposal to approve the Merger, you should be aware that some of our directors and executive officers may have personal interests in the Merger that are, or may be, different from, or in addition to, your interests. For a discussion of such interests of our directors and executive officers in the Merger, please see "Proposal No. 1—The Merger and the Merger Agreement—Interests of Our Directors and Executive Officers in the Merger" beginning on page 55.

STOCKHOLDER PROPOSALS

Under the Company's Bylaws, a stockholder who wishes to make a proposal at the 2013 annual meeting of stockholders must deliver notice to the Company by a nationally recognized courier service or first class United States mail, postage or delivery charges prepaid, and such notice must be received at the principal executive offices of the Company addressed to the attention of the Secretary of the Company not earlier than ninety (90) days nor more than one hundred twenty (120) days in advance of the date that the proxy statement was released to the stockholders of the Company in connection with the 2012 annual meeting of stockholders; provided, however, that in the event that no annual meeting is held this year or the date of the 2013 annual meeting has been changed by more than thirty (30) days from the date of this year's annual meeting as contemplated at the time of the 2012 annual

meeting proxy statement, notice by the stockholder must be received by the Secretary of the Company not later than the close of business on the later of (a) the ninetieth (90th) day prior to such annual meeting and (b) the seventh (7th) day following the day on which public announcement of the date of such meeting is first made. A stockholder's notice to the Secretary shall set forth as to each matter the stockholder proposes to bring before the annual meeting (i) a brief description of the business desired to be brought before the annual meeting, the text of the proposal or business (including the text of any resolutions proposed for consideration and in the event that such business includes a proposal to amend the bylaws of the Company, the language of the proposed amendment), and the reasons for conducting such business at the annual meeting, (ii) the name and record address of the stockholder proposing such business and the beneficial owner, if any, on whose behalf the proposal is made, (iii) the class, series and number of shares of the Company that are owned beneficially and of record by the stockholder and such beneficial owner, (iv) any material interest of the stockholder in such business, and (v) any other information that is required to be provided by the stockholder pursuant to Section 14 of the Securities Exchange Act of 1934 and the rules and regulations promulgated thereunder in such stockholder's capacity as a proponent of a stockholder proposal.

Whether or not you plan to attend the Special Meeting of Stockholders, please complete, date, sign and promptly return the accompanying proxy card in the enclosed postage-paid envelope so that your shares will be represented at the Special Meeting of Stockholders.

WHERE YOU CAN FIND MORE INFORMATION

The Company's Annual Report for the year ended September 30, 2011; Quarterly Reports for the quarters ended June 30, 2012, March 31, 2012 and December 31, 2011; and the Proxy Statement for the 2012 Annual Meeting have been included with the proxy materials, are incorporated by reference in this Proxy Statement, and are also available at www.pinksheets.com and www.aljregionalholdings.com.

Annex A
Merger Agreement

Execution Version

AGREEMENT AND PLAN OF MERGER

BY AND AMONG

OPTIMA SPECIALTY STEEL, INC.

KES OPTIMA ACQUISITION INC.

ALJ REGIONAL HOLDINGS, INC.

AND

KES ACQUISITION COMPANY

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AGREEMENT AND PLAN OF MERGER

AGREEMENT AND PLAN OF MERGER (this "Agreement"), dated as of November 18, 2012, by and among Optima Specialty Steel, Inc., a Delaware corporation ("Parent"), KES Optima Acquisition Inc., a Delaware corporation and a wholly owned subsidiary of Parent (the "Merger Sub"), ALJ Regional Holdings, Inc., a Delaware corporation and the Company's majority stockholder ("ALJ"), and KES Acquisition Company, a Delaware corporation (the "Company"). Each of the Company, ALJ, Parent and Merger Sub is a "Party" and together, the "Parties."

W I T N E S S E T H:

WHEREAS, each of the respective Boards of Directors of Parent, Merger Sub, ALJ and the Company have approved this Agreement and the merger, pursuant to this Agreement, of the Merger Sub with and into the Company (the "Merger") on the terms and conditions contained herein and in accordance with the Delaware General Corporation Law (the "DGCL").

NOW, THEREFOR, in consideration of the foregoing and the respective representations, warranties, covenants and agreements set forth herein, the Parties agree as follows:

ARTICLE 1. DEFINITIONS

Section 1.1 Certain Defined Terms. Capitalized terms used but not otherwise defined herein shall have the meanings ascribed to them in this Article 1.

"Action" shall mean any claim, action, suit, arbitration, inquiry, proceeding or investigation by or before any Governmental Authority or any arbitrator.

"Affiliate" shall mean, with respect to any specified Person, any other Person that directly, or indirectly through one or more intermediaries, controls, is controlled by, or is under common control with, such specified Person.

"Agreement" has the meaning ascribed to such term in the first paragraph hereof.

"ALJ" shall mean ALJ Regional Holdings, Inc., a Delaware corporation.

"ALJ Board" shall mean ALJ's Board of Directors.

"ALJ's Periodic Reports" shall have the meaning ascribed to such term in Section 5.7.

"Business Day" shall mean any day that is not a Saturday, a Sunday or other day on which banks are required or authorized by Law to be closed in The City of New York.

"Closing Date Disbursements" shall mean the sum of (a) the Company Debt Payoff Amount and (b) the Company Transaction Expenses.

"Closing Net Working Capital" shall mean the Net Working Capital as of the Closing.

"Collective Bargaining Agreement" shall mean that certain 2008 Agreement, dated as of May 4, 2008, by and between the Company and United Steel, Paper and Forestry, Rubber, Manufacturing, Energy, Allied Industrial and Service Workers International Union.

"Company Board" shall mean the Company's Board of Directors.

"Company Capital Stock" shall mean the Company Common Stock and the Company Preferred Stock.

"Company Common Stock" shall mean both the Series A Common Stock and the Series B Common Stock.

"Company Common Stock Merger Consideration" shall mean an aggregate amount of cash equal to the difference obtained by subtracting from the Total Purchase Price the sum of (a) the Closing Date Disbursements and (b) the Preferred Stock Purchase Consideration, as set forth in the certificate contemplated by Section 8.3(d).

"Company Debt" shall mean, without duplication, all (a) obligations of the Company for borrowed money whether evidenced by notes, bonds or similar instruments (including all unpaid principal and accrued and unpaid interest owed by the Company under the Credit Agreement and under the Subordinated Loans), (b) any interest on and any premiums, prepayment or termination fees, or other fees, costs or expenses (including breakage costs) due upon prepayment of or in connection with, in each case, any of the foregoing, (c) any payment obligations for bonuses or other compensation to the Company's employees that are triggered as a result of the execution of this Agreement or the consummation of the Merger, (d) any amounts payable by the Company upon termination of the Management Agreement and (e) any amounts payable by the Company to ALJ pursuant to the Tax Sharing Agreement.

"Company Debt Payoff Amount" shall mean an amount of cash equal to the aggregate amount of Company Debt as of the Closing Date.

"Company's Fourth Restated Certificate of Incorporation" means the Company's Fourth Restated Certificate of Incorporation filed with the Secretary of State of the State of Delaware on May 26, 2010.

"Company Group" shall mean the group of corporations, of which the Company is a member and ALJ is the parent, that files a consolidated U.S. federal income Tax Return.

"Company Preferred Stock" shall mean the Company's Series A Preferred Stock, par value $0.0001 per share, designated as "Preferred Stock" and containing the rights, privileges and preferences set forth in the Company's Fourth Restated Certificate of Incorporation.

"Company Stockholders" shall mean the holders of Company Capital Stock as of immediately prior to the Effective Time.

"Company Takeover Proposal" means any proposal or offer from any Person or group of Persons relating to: (i) a merger, consolidation, tender offer, exchange offer, binding share exchange, joint venture, dissolution, recapitalization, liquidation, business combination or other

similar transaction involving the Company or ALJ; (ii) the acquisition after the date hereof by any Person in any manner of a number of shares of any class of equity securities of the Company or ALJ equal to or greater than fifteen percent (15%) of the voting securities of the Company or ALJ, as applicable, outstanding before such acquisition; or (iii) the acquisition by any Person in any manner, directly or indirectly, of assets that constitute fifteen percent (15%) or more of the net revenues, net income or assets of the Company or ALJ, in each case other than the Merger.

"Company Transaction Expenses" shall mean all fees and expenses of all third parties providing the Company with services (including legal, accounting and tax services) in connection with the Merger and the other transactions contemplated by this Agreement, including the negotiation, preparation and drafting of this Agreement, including the fees of Houlihan Lokey Capital, Inc., Roth Capital Partners, LLC, Morrison & Foerster LLP, Mountjoy Chilton Medley LLP and fees related to proxy solicitation, if any.

"Confidentiality Agreement" shall mean that certain Non-Disclosure Agreement, dated as of March 8, 2012, by and among the Company and Parent.

"Control" (including the terms "controlled by" and "under common control with"), with respect to the relationship between or among two or more Persons, shall mean the possession, directly or indirectly, of the power to direct or cause the direction of the affairs or management of a Person, whether through the ownership of voting securities, by contract or otherwise, including, without limitation, the ownership, directly or indirectly, of securities having the power to elect a majority of the board of directors or similar body governing the affairs of such Person.

"Credit Agreement" shall mean that certain Amended and Restated Revolving Credit, Term Loan and Security Agreement, dated as of September 30, 2011, by and among the Company, the lenders from time to time a party thereto and PNC Bank, National Association, as agent for the lenders.

"Disclosure Schedules" mean the schedules that are attached to this Agreement and qualify the representations and warranties contained herein.

"Employee" shall mean any employee of the Company.

"Employment Contract" shall mean any written employment agreement between the Company, on the one hand, and an employee, on the other hand, which is not terminable by the employer on ninety (90) days' notice or less without material cost or penalty.

"Environmental Laws" shall mean any Law currently in effect addressing, relating to or otherwise governing the protection of the environment, or worker health and safety as related to exposures to Hazardous Materials, or the treatment, storage, handling, transport, disposal or management of Hazardous Materials, including the implementation of response actions to remedy spills, releases or discharges of Hazardous Materials.

"ERISA" shall mean the Employee Retirement Income Security Act of 1974, as amended.

"ERISA Affiliate" means any Person that, together with the Person specified, would be treated as a single employer under Section 414 of the Code.

"Fee and Reimbursement Agreement" shall mean that certain Fee and Reimbursement Agreement, dated as of September 30, 2011, by and between the Company, on the one hand, and Jess Ravich, the Ravich Revocable Trust of 1989 and the Ravich Children Permanent Trust on the other hand.

"Financing Confirmation Date" shall mean the date that is fourteen (14) Business Days after the date that the Company delivers its audited balance sheet as of September 30, 2012 and the related audited statements of operations, common stockholders' equity and cash flows for the fiscal year then ended, including the notes thereto, together with (i) the report thereon of Mountjoy Chilton Medley LLP to Parent and (ii) confirmation from Mountjoy Chilton Medley LLP to Parent as to the agreed form of customary letters of comfort and consent from Mountjoy Chilton Medley LLP to be included in the offering memorandum in connection with the Note Offering.

"Financing Minimum Threshold" shall mean gross proceeds to Parent from the Note Offering, in immediately available funds, of not less than Fifty Million Dollars ($50,000,000).

"Financing Shortfall" shall mean an amount equal to the difference between (i) the aggregate gross proceeds that Parent has received in the Note Offering and (ii) the Financing Minimum Threshold.

"GAAP" shall mean United States generally accepted accounting principles in effect as of the date of this Agreement or, in the case of the Financial Statements, in effect as of the date thereof or during the periods covered thereby.

"Governmental Authority" shall mean any United States or foreign, federal, state, provincial, territorial or local or any foreign government, governmental, executive branch, regulatory or administrative authority, agency or commission or any court, tribunal or judicial body, including state attorneys general.

"Governmental Order" shall mean any order, writ, injunction, decree, stipulation, determination or award entered by or with any Governmental Authority.

"Hazardous Materials" shall mean any substance, material or waste listed or classified as "hazardous", "toxic", "carcinogenic", "mutagenic", or "radioactive", or otherwise designated as a pollutant or contaminant under any applicable Environmental Law, including petroleum, asbestos or polychlorinated biphenyls.

"HSR Act" shall mean the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, and the rules and regulations promulgated thereunder.

"Independent Contractor Contract" shall mean any written consulting agreement between the Company, on the one hand, and a consultant, on the other hand, which is not terminable by the Company on ninety (90) days' notice or less without material cost or penalty.

"IRS" shall mean the U.S. Internal Revenue Service.

"Knowledge" shall mean (a) with respect to Parent or Merger Sub, the actual knowledge (after reasonable inquiry) of the executive officers of Parent; (b) with respect to the Company, the actual knowledge (after reasonable inquiry) of the executive officers of the Company and of the executive officers of ALJ and (c) with respect to ALJ, the actual knowledge (after reasonable inquiry) of the executive officers of ALJ.

"Law" shall mean any statute, law, ordinance, regulation or rule of any Governmental Authority, in each case, solely to the extent that such statute, law, ordinance, regulation and rule is applicable.

"Liabilities" shall mean any and all liabilities and obligations, whether accrued or fixed, absolute or contingent, matured or unmatured.

"Lien" shall mean any security interest, pledge, mortgage, lease, lien (statutory of otherwise), charge or other encumbrance of any kind.

"Management Agreement" shall mean that certain Amended and Restated Management Services Agreement, dated February 28, 2005, by and between KES Acquisition Company, LLC and Pinnacle Steel, LLC, as amended.

"Material Adverse Effect" shall mean any change, development, event or occurrence (each an "Event") that has, either individually or in the aggregate with other changes, developments, events or occurrences, a material adverse effect on (a) the business, results of operations or condition (financial or otherwise), or results of operations of the Company, taken as a whole, or (b) the ability of the Company to consummate the transactions contemplated by this Agreement, other than any Event (i) affecting companies in the ferrous metals or steelmaking businesses generally, (ii) resulting from general economic, business, social, political or regulatory conditions, (iii) resulting from the announcement of this Agreement (including any impact of the announcement on employees or contract counterparties), (iv) resulting from any actions required under this Agreement to obtain any approval, waiver or consent from any Person or Governmental Authority, (v) resulting from changes in Laws, rules or regulations of general applicability or of applicability generally within the industry or geographic area in which the Company is located or interpretations thereof by Governmental Authority, (vi) resulting from changes in GAAP, (vii) due to the Company's failure to meet internal projections or forecasts (it being understood that the facts and circumstances underlying any such failure that are not otherwise excluded from the definition of a "Material Adverse Effect" may be considered in determining whether there has been a Material Adverse Effect), (viii) resulting from any Actions made or brought by any of the current or former stockholders of ALJ (on their own behalf or on behalf of ALJ) resulting from, relating to or arising out of this Agreement or any of the transactions contemplated hereby, (ix) resulting from the failure of the Company to obtain the prior written consent of the counterparty under that certain Equipment Lease (as defined in Schedule 4.3) for the transactions contemplated hereby, or (x) resulting from any action or omission taken with the prior written consent of Merger Sub or Parent, or as otherwise expressly permitted or required by this Agreement, or any action otherwise taken by Merger Sub, Parent or any of their respective Affiliates, except, with respect to clauses (i), (ii) and (v), to the extent that

any such Event, alone or in combination, disproportionately has a greater adverse impact on the Company, taken as a whole, as compared to other companies in the ferrous metals or steelmaking businesses in the United States (and then only to such greater extent).

"Net Working Capital" shall mean the positive or negative amount of the current assets minus the current liabilities of the Company in accordance with GAAP, but including for these purposes only those current asset and current liability line item accounts of the Company set forth on the pro forma net working capital statement of the Company attached hereto as **Exhibit A**.

"Organizational Documents" mean any of the following, as applicable: (a) the articles or certificate of incorporation and the bylaws of a corporation; (b) the limited liability company or operating agreement and the certificate of formation of a limited liability company; (c) the partnership agreement and any statement of partnership of a general partnership; (d) the limited partnership agreement and the certificate of limited partnership of a limited partnership; (e) any charter or similar document adopted or filed in connection with the creation, formation or organization of a Person; and (f) any amendment to any of the foregoing.

"Permitted Liens" shall mean (a) liens for Taxes, assessments and governmental charges or levies not yet due and payable or, if due are not subject to penalties for delinquent payment or which are actively being contested and for which adequate reserves have been recorded in line items in the Financial Statements, (b) Liens in respect of property or assets imposed by Law which were incurred in the ordinary course of business, such as carriers', warehousemen's, materialmen's and mechanics' liens and other similar liens, (c) pledges or deposits to secure obligations under workers' compensation laws or similar legislation or to secure public or statutory obligations, (d) present or future land use planning/zoning, building codes, entitlement and other land use and environmental regulations imposed by any Governmental Authority, (e) Liens that will be discharged or released prior to the Closing, (f) as to any Leased Property, any Lien affecting the interest of the lessor thereof, (g) Liens set forth on Section 1.1 of the Company Disclosure Schedule, (h) deposits to secure the performance of bids, trade contracts, leases, statutory obligations, surety and appeal bonds, performance bonds and other similar obligations, and (i) easements, rights of way, covenants, conditions, restrictions and other similar matters and other non-monetary title defects and Liens that do not substantially or materially detract from or interfere with the present or intended use of the Owned Real Property, the Leased Real Properties, or the operation of the business of the Company or the value of the property encumbered thereby.

"Person" shall mean any individual, partnership, firm, corporation, association, trust, unincorporated organization, joint venture, limited liability company or other entity.

"Preferred Stock Purchase Consideration" shall mean an aggregate amount of cash equal to the product obtained by multiplying (a) the total number of shares of Company Preferred Stock issued and outstanding as of immediately prior to the Effective Time by (b) the Preferred Stock Per Share Amount.

"Preferred Stock Per Share Amount" shall mean the sum of (a) One Thousand Dollars ($1,000) (*i.e.*, the Original Series A Issue Price (as defined in the Company's Fourth Restated

Certificate of Incorporation)) and (b) the aggregate amount of accrued dividends on each share of such Company Preferred Stock outstanding and unpaid as of the Closing Date as set forth in the certificate contemplated by Section 8.3(d).

"Proprietary Right" shall mean any patent, copyright, trademark, service mark, trade name, brand name, logo or custom software application, and any application to register any of the foregoing.

"Regulations" shall mean the Treasury Regulations (including temporary regulations) promulgated by the United States Department of Treasury with respect to the Code or other federal Tax statutes.

"Required Votes" shall mean the affirmative vote of the holders of a majority of: (a) the outstanding shares of Series A Common Stock in favor of the adoption of this Agreement and approval of the Merger and (b) the outstanding shares of ALJ Common Stock in favor of the Merger.

"Return or Returns" shall mean all returns, declarations, reports, claims for refund or information returns or statements relating to Taxes, including any schedule or attachment thereto, and including any amendment thereof filed or to be filed with any Governmental Authority.

"Section 338(h)(10) Election" shall mean an election to have the provisions of Section 338(h)(10) of the Code and corresponding or similar provisions of state and local law apply to the Merger.

"Separate Return or Return(s)" shall mean any Return that is not a consolidated, combined or unitary Return.

"Series A Common Stock" means the Company's Series A Common Stock par value $0.0001 per share, designated as "Series A Common Stock" with the rights and privileges set forth in the Company's Fourth Restated Certificate of Incorporation.

"Series A Common Stock Merger Consideration" shall mean an amount in cash equal to the product obtained by multiplying (a) the Company Common Stock Consideration by (b) a fraction the numerator of which shall be the aggregate number of shares of Series A Common Stock issued and outstanding as of immediately prior to the Effective Time, as set forth in the certificate contemplated by Section 8.3(d) and the denominator of which shall be the aggregate number of shares of Company Common Stock issued and outstanding as of immediately prior to the Effective Time, as set forth in the certificate contemplated by Section 8.3(d).

"Series A Common Stock Per Share Amount" shall mean an amount in cash equal to the quotient obtained by dividing (a) the Series A Common Stock Merger Consideration by (b) by the aggregate number of shares of Series A Common Stock issued and outstanding as of immediately prior to the Effective Time, as set forth in the certificate contemplated by Section 8.3(d).

"Series B Common Stock" means the Company's Series B Common Stock par value $0.0001 per share, designated as "Series B Common Stock" with the rights and privileges set forth in the Company's Fourth Restated Certificate of Incorporation.

"Series B Common Stock Per Share Amount" shall mean an amount in cash equal to the Series A Common Stock Per Share Amount.

"Series B Common Stock Purchase Consideration" shall mean an aggregate amount of cash equal to the product obtained by multiplying (a) the total number of shares of Series B Common Stock issued and outstanding as of immediately prior to the Effective Time by (b) the Series B Common Stock Per Share Amount.

"Subordinated Loans" means those certain loans issued by the Company pursuant to the Subordinated Financing Agreement dated as of July 20, 2009, by and among the Company, the lenders from time to time a party thereto and Ableco, L.L.C., as collateral agent and administrative agent, as amended.

"Subsidiaries" shall mean any and all corporations, partnerships, limited liability companies and other entities with respect to which the Company, directly or indirectly, owns 50% or more of the securities having the power to elect members of the board of directors or similar body governing the affairs of such entity.

"Superior Company Proposal" means any written offer made by a third party that (a) if consummated would result in such third party acquiring, directly or indirectly, at least a majority of the voting power of the Company Common Stock or all or substantially all the assets of the Company, including through an acquisition of a majority of the voting power of the capital stock of ALJ and (b) that the Company Board or ALJ Board has determined in good faith, after consultation with its outside counsel and financial advisers, to be (i) superior from a financial point of view to the holders of Company Capital Stock or ALJ Capital Stock, as applicable, to the Merger (after consulting with an independent financial advisor of nationally recognized reputation), taking into account all the terms and conditions of such proposal and this Agreement and (ii) reasonably capable of being consummated by such third party.

"Tax" or "Taxes" shall mean any federal, state, local, or foreign income, gross receipts, license, payroll, employment, excise, severance, stamp, occupation, premium, windfall profits, environmental, customs duties, capital stock, franchise, profits, withholding, social security, unemployment, disability, real property, personal property, sales, use, transfer, registration, value added, alternative or add-on minimum, estimated, or other tax of any kind whatsoever, including any interest, penalty, or addition thereto, whether disputed or not.

"Tax Return" shall mean any return, declaration, report, claim for refund, or information return or statement relating to Taxes, including any schedule or attachment thereto, and including any amendment thereof.

"Tax Sharing Agreement" shall mean that certain Amended and Restated Tax Sharing Agreement, dated as of February 23, 2007, by and between the Company and ALJ.

"Total Purchase Price" shall mean an amount equal to One Hundred Twelve Million Five Hundred Thousand Dollars ($112,500,000).

Section 1.2 Other Defined Terms. The following terms shall have the meanings defined for such terms in the Sections set forth below:

Term	Section
Acquisition Agreement	Section 7.2(b)
Agreement	Preamble
ALJ Common Stock	Section 7.14
ALJ's Periodic Reports	Section 5.7(a)
ALJ Stockholders' Meeting	Section 5.8
Audited Financial Statements	Section 4.7(a)
Balance Sheet Date	Section 4.7(a)
Certificate of Merger	Section 2.1(f)
Change in Recommendation	Section 7.2(b)
Change in Recommendation Notice	Section 7.2(b)
Closing	Section 2.2
Closing Balance Sheet	Section 2.5(c)
Closing Date	Section 2.2
Company	Preamble
D&O Insurance	Section 7.10(b)
DGCL	Recitals
Effective Time	Section 2.1(f)
Employee Benefit Plans	Section 4.16(a)
ERISA Plans	Section 4.16(a)
Event	Section 1.1 (Material Adverse Effect definition)
Financial Statements	Section 4.7(a)
"hereof," "herein" and "hereunder"	Section 1.3
"include," "includes" and "including"	Section 1.3
Indemnified D&O Liability	Section 7.10
Indemnified D&O Party/Parties	Section 7.10
Interim Financial Statements	Section 4.7.(a)
Inventory Certificate	Section 2.5(b)
Inventory Test Date	Section 2.5(a)
Lease	Section 4.17(a)
Leased Property/ Leased Properties	Section 4.17(a)
Material Contracts	Section 4.13(a)
Merger	Recitals
Merger Sub	Preamble
Notes	Section 7.23
Note Offering	Section 7.23
Outside Date	Section 9.1(b)
Owned Improvements	Section 4.17(a)

Owned Real Property	Section 4.18(a)
Parent	Preamble
Party/Parties	Preamble
Permits	Section 4.14
Proxy Statement	Section 5.8
Release	Section 2.3(a)
Reverse Termination Fee	Section 9.3
Roth	Section 5.9
Stock Purchase Agreement	Section 2.3(a)
Surviving Corporation	Section 2.1(a)
Termination Fee	Section 9.2(b)
Union	Section 7.18
"without limitation"	Section 1.3

Section 1.3 Other Interpretive Provisions. The words "hereof," "herein" and "hereunder" and words of similar import when used in this Agreement shall refer to this Agreement as a whole and not to any particular provision of this Agreement, and Section, Schedule and Exhibit references are to this Agreement, in each case, unless otherwise specified. The words "include," "includes" and "including" shall be deemed to be followed by the phrase "without limitation." The meanings given to terms defined herein shall be equally applicable to both the singular and plural forms of such terms.

ARTICLE 2. THE MERGER AND THE CLOSING

Section 2.1 The Merger.

(a) Surviving Corporation. Subject to the provisions of this Agreement and the DGCL, at the Effective Time, the Merger Sub shall be merged with and into the Company, and the separate corporate existence of the Merger Sub shall cease. The Company shall be the surviving corporation in the Merger (hereinafter sometimes called the "Surviving Corporation") and shall continue its corporate existence under the laws of the State of Delaware under the name "KES Acquisition Company" until thereafter duly changed and shall be a wholly owned subsidiary of Parent after the Merger. The Merger shall have the effects set forth in the DGCL. Without limiting the generality of the foregoing and subject thereto, as of the Effective Time, all the property, rights, privileges, powers and franchises of the Company and Merger Sub shall be vested in the Surviving Corporation, and all Liabilities and duties of the Company and Merger Sub shall be the Liabilities and duties of the Surviving Corporation.

(b) Certificate of Incorporation. At and after the Effective Time, the Certificate of Incorporation of the Company attached to the Certificate of Merger filed in the State of Delaware, shall be the Certificate of Incorporation of the Surviving Corporation until thereafter duly amended.

(c) Bylaws. At and after the Effective Time, the bylaws of the Company will be amended to read as set forth on **Exhibit B** and, as so amended, such bylaws shall be the bylaws of the Surviving Corporation until thereafter duly amended.

(d) Directors. At and after the Effective Time, the directors of the Merger Sub immediately prior to the Effective Time shall be the directors of the Surviving Corporation and will hold office from the Effective Time until their respective successors are duly elected and qualified.

(e) Officers. At and after the Effective Time, the officers of the Merger Sub immediately prior to the Effective Time shall be the officers of the Surviving Corporation and will hold office from the Effective Time until their respective successors are duly elected and qualified.

(f) Effective Time. On the Closing Date and subject to the terms and conditions hereof, the Parties shall cause the Merger to be consummated by the filing of a certificate of merger meeting the requirements of the DGCL (the "Certificate of Merger") with the Secretary of State of the State of Delaware.

The date and time at which the Merger shall become effective shall be the date and time specified in the Certificate of Merger filed with the Secretary of the State of the State of Delaware (or at such subsequent time as Parent and the Company shall agree), such time being herein referred to as the "Effective Time."

Section 2.2 Closing. The closing of the Merger (the "Closing") shall take place at 10:00 a.m. (Pacific Time), on a date to be specified by the Parties, which shall be as soon as practicable, but in no event later than the second Business Day after satisfaction or waiver of all of the conditions (other than conditions that by their nature are to be satisfied at the Closing and are expected to be satisfied at the Closing) set forth in Article 8 hereof (the "Closing Date"), at or directed from the offices of Morrison & Foerster LLP, 755 Page Mill Road, Palo Alto, California 94304, unless another date or place is agreed to in writing by the Parties.

Section 2.3 Closing Deliveries.

(a) At the Closing, the Company will deliver or cause to be delivered to the Parent:

(i) a certificate of merger, signed on behalf of the Company, in accordance with the DGCL and in form reasonably satisfactory to the Parent;

(ii) a release in the form of **Exhibit C** duly executed by ALJ (the "Release");

(iii) the stock purchase agreement in substantially the form of **Exhibit D** (the "Stock Purchase Agreement") duly executed by each of the holders of the Company Preferred Stock and the Series B Common Stock;

(iv) a certificate in the form of **Exhibit E** of the secretary or assistant secretary of the Company dated as of the Closing Date and attaching with respect to the Company (A) a certificate of good standing of the Company certified by the Secretary of State of the State of Delaware and each other jurisdiction where the Company is authorized to do business, each issued not more than five Business Days prior to the Closing Date; (B) all

resolutions of the board of directors of the Company relating to this Agreement and the transactions contemplated by this Agreement; and (C) incumbency and signatures of the officers of the Company executing this Agreement or any other agreement contemplated by this Agreement;

(v) certificates representing all outstanding shares of the Company Preferred Stock, the Series A Common Stock and the Series B Common Stock not already held by Parent or Merger Sub;

(vi) a funds flow letter in substantially the form of **Exhibit F** duly executed by the Company (the "Funds Flow Letter");

(vii) all appropriate payoff and release letters, in form and substance reasonably satisfactory to the Parent, evidencing the repayment in full of all Company Debt and the corresponding release (or written commitment to release promptly) of any Lien that each holder of Company Debt may have with respect to the Company or any of its assets; and

(viii) such other documents, instruments and agreements as the Parent reasonably requests for the purpose of consummating the transactions contemplated by this Agreement.

(b) At the Closing, Parent will deliver or cause to be delivered to the Company or such other parties designated by the Company:

(i) a certificate of merger, signed on behalf of the Merger Sub, in accordance with the DGCL and in form reasonably satisfactory to the Company;

(ii) certificates in the form of **Exhibit E** of the secretary or assistant secretary of each of Parent and Merger Sub dated as of the Closing Date and attaching with respect to each (A) a certificate of good standing certified by the Secretary of State of the State of Delaware and each other jurisdiction where such Party is authorized to do business, each issued not more than five Business Days prior to the Closing Date; (B) all resolutions of the board of directors of Parent and Merger Sub relating to this Agreement and the transactions contemplated by this Agreement; and (C) incumbency and signatures of the officers of Parent and Merger Sub executing this Agreement or any other agreement contemplated by this Agreement;

(iii) the Total Purchase Price by wire transfer in immediately available funds to the applicable payees and in accordance with the instructions set forth in the Funds Flow Letter;

(iv) such other documents, instruments and agreements as the Company reasonably requests for the purpose of consummating the transactions contemplated by this Agreement.

Section 2.4 Tax Withholding. Payments under this Agreement shall be made free and clear of, and without deduction for, any Taxes; provided that, prior to Closing, Parent shall have received from ALJ a properly completed and executed IRS Form W-9 (or other evidence

satisfactory to Parent) indicating that no "back-up" withholding is required pursuant to Section 3406 of the Code in connection with the payment of the Total Purchase Price.

Section 2.5 Closing Net Working Capital.

(a) Inventory Testing. The Company shall conduct an inventory count at the Company's facilities in order to determine the Inventory as of 7:00 a.m. on December 2, 2012 (the "Inventory Test Date") (it being understood that the Company measures its days on a 24-hour basis beginning at 7:00 a.m. each morning). Such inventory count shall begin at approximately 8:00 p.m. on Friday, November 30, 2012 and shall continue through the following day as necessary to complete the inventory count. Each of the Parent and Merger Sub and their respective representatives shall have the right to attend and participate in such inventory count.

(b) Inventory Certificate. At the conclusion of the inventory count, the Company shall produce and provide to Parent and Merger Sub a certificate setting forth a statement of the Inventory (the "Inventory Certificate"). Immediately prior to Closing, the Company shall deliver an update to the Inventory Certification containing reasonable adjustments to Inventory as it believes are necessary in order to reflect any operations that occur after 7:00 a.m. on the Inventory Test Date. Such Inventory Certificate and the update thereto shall be signed by an authorized representative of the Company and shall contain supporting documentation and calculations. Parent and Merger Sub shall have the right to review the Inventory Certificate, the update thereto and supporting materials and to inspect the Company's facilities in order to determine whether Parent and Merger Sub concur with the information set forth in the Inventory Certificate and update thereto.

(c) Closing Balance Sheet. No later than two Business Days prior to the Closing Date, the Company will prepare and deliver to Parent an unaudited balance sheet of the Company as of the close of business on the Closing Date (the "Closing Balance Sheet"). The Closing Balance Sheet will be prepared in accordance with GAAP in a manner consistent with the methods and practices used to prepare the Interim Financial Statements. The Company will deliver with the Closing Balance Sheet (i) a statement setting forth the Company's calculation of the Closing Net Working Capital based on the Closing Balance Sheet and (ii) a certification of each of the Company's chief executive officer and chief financial officer that the Closing Balance Sheet fairly presents the financial condition and results of operations of the Company as of the Closing Date.

(d) Procedure if Parties Concur with Closing Balance Sheet. Assuming the parties agree on the information set forth in the Closing Balance Sheet, the Parties shall use the Closing Net Working Capital as stated therein for purposes of determining whether the condition set forth in Section 8.3(e) has been fulfilled.

(e) Procedure if Parties Do Not Concur with Closing Balance Sheet. If the Parties do not agree on the information set forth in the Closing Balance Sheet, the Parties shall use their reasonable best efforts to meet and reach an agreement thereon. If such agreement has not been reached by the expected Closing, the parties shall, subject to the Parties' rights of termination pursuant to Article 9, delay the Closing of the Merger until such time as the parties agree on the Closing Balance Sheet and the Closing Net Working Capital; provided, however,

that in the event of such delay, in determining the appropriate Closing Balance Sheet and Closing Net Working Capital, the Parties shall take into account changes in Net Working Capital that occur through the actual Closing Date and shall adjust the Closing Balance Sheet accordingly.

(f) Provision of Information. For purposes of complying with this Section 2.5, the Company will furnish to Parent such work papers and other documents and information relating to the Net Working Capital items as Parent may request and are available to the Company (or its independent public accountants).

ARTICLE 3. CONVERSION OF COMPANY CAPITAL STOCK

Section 3.1 Manner and Basis of Converting Company Capital Stock.

(a) Merger Sub Common Stock. Each share of common stock of the Merger Sub that is issued and outstanding as of immediately prior to the Effective Time shall, by operation of law and by virtue of the Merger and without any action on the part of the holders of the Company Capital Stock or the Merger Sub, be converted into a validly issued, fully paid and non-assessable share of common stock, $0.0001 par value, of the Surviving Corporation.

(b) Company Capital Stock Owned By Merger Sub. All Company Capital Stock owned by Merger Sub, Parent or any direct or indirect wholly owned subsidiary of Parent or Merger Sub immediately prior to the Effective Time, including without limitation the Company Preferred Stock and the Series B Common Stock being acquired by Merger Sub pursant to the Stock Purchase Agreement, will be canceled and retired without any conversion thereof, and no payment or distribution will be made and no consideration of any kind will be delivered with respect thereto.

(c) Conversion of Company Preferred Stock. As of the Effective Time, by operation of law and by virtue of the Merger and without any action on the part of any holder of any shares of Company Preferred Stock, each share of Company Preferred Stock that is issued and outstanding (other than shares of Company Preferred Stock to be cancelled in accordance with subsections (b) or (e) hereof) as of immediately prior to the Effective Time shall be converted into the right to receive cash, without interest, in an amount equal to the Preferred Stock Per Share Amount.

(d) Conversion of Company Common Stock. As of the Effective Time, by operation of law and by virtue of the Merger and without any action on the part of any holder of any shares of Company Common Stock, each share of Company Common Stock that is issued and outstanding (other than shares of Company Common Stock to be cancelled in accordance with subsections (b) or (e) hereof) as of immediately prior to the Effective Time shall be converted into the right to receive cash, without interest, in an amount equal to the Series A Common Stock Per Share Amount or Series B Common Stock Per Share Amount, as the case may be.

(e) Treasury Stock. Each share of Company Capital Stock that is owned by the Company immediately prior to the Effective Time will automatically be cancelled and retired and will cease to exist, and no consideration will be delivered in exchange therefor.

(f) Cancellation and Retirement of Company Preferred Stock and Company Common Stock. At the Effective Time, all shares of Company Preferred Stock and Company Common Stock issued and outstanding immediately prior to the Effective Time shall no longer be outstanding and shall automatically be canceled and retired and shall cease to exist, and each holder of a certificate representing any such shares of Company Preferred Stock and Company Common Stock shall, to the extent such certificate represents such shares, cease to have any rights with respect thereto, except the right to receive the Preferred Stock Per Share Amount, the Series A Common Stock Per Share Amount or Series B Common Stock Per Share Amount, as the case may be.

ARTICLE 4. REPRESENTATIONS AND WARRANTIES OF THE COMPANY

Each representation and warranty contained in any section of this ARTICLE 4 is qualified by all disclosures made in the Disclosure Schedules of the Company that correspond or are reasonably related to such section in this Agreement. Except as set forth in the Disclosure Schedules, the Company hereby represents and warrants as of the date hereof (except to the extent that the representation or warranty states that it is accurate only as of an earlier date) to the Parent and Merger Sub that the statements set forth in this Article 4 are true and correct:

Section 4.1 Organization. The Company is a corporation duly organized, validly existing and in good standing under the laws of the State of Delaware. The Company has all requisite corporate power to own, lease or operate its properties and assets and to carry on its business as it is now being conducted. The Company is duly licensed or qualified to do business in each jurisdiction in which the nature of its business or the ownership, leasing or operating of its properties makes such license or qualification necessary except where the failure to be so licensed or qualified would not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect. True, complete and correct copies of the Organizational Documents of the Company have been made available by the Company to Parent.

Section 4.2 Authority; Enforceability. The Company has all requisite corporate power and authority to execute and deliver this Agreement and, subject to obtaining the Required Votes, to perform its obligations hereunder. The execution and delivery by the Company of this Agreement and the performance by the Company of its obligations hereunder have been duly authorized by all necessary corporate action on the part of the Company (subject to obtaining the Required Votes). This Agreement has been duly executed and delivered by the Company and, assuming due authorization, execution and delivery by Parent and Merger Sub, constitutes a legal, valid and binding agreement of the Company, enforceable against the Company in accordance with its respective terms, subject to the effects of bankruptcy, insolvency, fraudulent conveyance, reorganization, moratorium and other similar Laws relating to or affecting creditors' rights generally and general equitable principles (whether considered in a proceeding in equity or at law) and the discretion of courts in granting equitable remedies.

Section 4.3 Non-Contravention. Except as set forth on Schedule 4.3, the execution, delivery and performance by the Company of this Agreement does not (a) violate or result in the breach of any provision of the Organizational Documents of the Company, (b) subject to obtaining the Required Votes and the consents referred to in Section 4.4 below, violate, in any

material respect, any Law or Governmental Order applicable to the Company or any of its respective assets or properties, or (c) subject to obtaining the authorizations, consents and approvals referred to in Section 4.4 below, result in any breach of, constitute a default (or event which with the giving of notice or lapse of time, or both, would become a default) under, require any consent under, or give to others any rights of termination, amendment or acceleration of, or result in the creation of any Lien (other than Permitted Liens) on any of the assets or properties of the Company pursuant to any note, bond, mortgage or indenture, agreement, lease, license, permit or franchise to which the Company is a party or by which any of such assets or properties is bound, except for such breaches, defaults, consents, rights and Liens as would not, individually or in the aggregate, reasonably be expected to have a value of $100,000 or more.

Section 4.4 Governmental Consents. The execution, delivery and performance by the Company of this Agreement does not require any consent, approval, authorization or other order of, action by, filing with or notification to any Governmental Authority as a condition to the consummation of the transactions contemplated herein or therein, except for (a) the Certificate of Merger, as provided in Section 2.1, (b) filings under the HSR Act, (c) those that may be required by the nature of the business or ownership of Parent or its Affiliates (other than the Company upon the Closing), and (d) those set forth on Schedule 4.4.

Section 4.5 Capital Structure of the Company.

(a) Capital Stock. Set forth on Schedule 4.5(a) is the number of authorized, issued and outstanding shares of Company Capital Stock and the record owners thereof as of the date hereof. All of such issued and outstanding shares of Company Capital Stock have been duly authorized, validly issued and are fully paid and nonassessable and issued free of any preemptive rights. No shares of Company Capital Stock are held in treasury or are authorized or reserved for issuance. Except as set forth on Schedule 4.5(a), there are no equity securities of any class of the Company, or any security exchangeable into or exercisable for such equity securities, authorized, issued, reserved for issuance or outstanding.

(b) Options, Warrants and Other Securities. Except as set forth on Schedule 4.5(b), there are no outstanding securities, options, warrants, calls, rights, contracts or any other agreements between or among the Company, on one hand, and any of the Company Stockholders or any third party, on the other hand, requiring the sale, purchase, redemption or issuance by the Company of any shares of Company Capital Stock or any securities or other instruments convertible into, exchangeable for or evidencing the right to purchase any shares of Company Capital Stock. The Company is not a party to any governance agreements, stockholders' rights agreements, voting trusts, or other agreements with respect to the voting interests of the Company. There are no outstanding or authorized stock appreciation, phantom stock, profit participation or similar rights with respect to the Company. No holder of Company Debt has any right to convert or exchange such Company Debt for any equity securities or other securities of the Company. No holder of Company Debt has any rights to vote for the election of directors of the Company.

Section 4.6 Subsidiaries. The Company has no Subsidiaries and the Company does not own, control or have any rights to acquire, directly or indirectly, any capital stock or other equity interests or debt instruments of any Person.

Section 4.7 Financial Information.

(a) Schedule 4.7 contains true and correct copies of (i) the audited balance sheet of the Company as of September 30, 2011 and the related audited statements of operations, common stockholders' equity and cash flows for the fiscal year then ended, including the notes thereto, together with the report thereon of Mountjoy Chilton Medley LLP (the "Audited Financial Statements") and (ii) the unaudited balance sheet of the Company as of September 30, 2012 (the "Balance Sheet Date") and the related unaudited statements of operations, common stockholders' equity and cash flows for the twelve months then ended, including the notes thereto (the "Interim Financial Statements," and together with the Audited Financial Statements, the "Financial Statements"). The Financial Statements (A) present fairly in all material respects the consolidated financial condition, operations and cash flow (and changes in financial position, if any) of the Company as of the dates thereof or for the periods covered thereby (subject, in the case of unaudited interim statements, to normal and recurring year-end adjustments, which may include an adjustment to the carrying value of inventory on a lower of cost or market basis) and (B) have been prepared in accordance with GAAP applied on a consistent basis during the periods involved (provided that the Interim Financial Statements do not contain notes or other presentation items that may be required by GAAP).

(b) Since September 30, 2009 no representative of the Company or ALJ has received any written complaint, allegation or claim alleging that the Company has engaged in questionable accounting or auditing practices that has not been resolved.

Section 4.8 Accounts Receivable; Bank Accounts.

(a) All notes and accounts receivable of the Company represent or will represent valid obligations arising from sales actually made or services actually performed in the ordinary course of business. Such notes and accounts receivable are as of the date hereof current and collectible, net of the respective reserve set forth in the corresponding line items in the Interim Financial Statements or on the accounting records of the Company as of the Closing Date, as the case may be (which reserves have been calculated consistent with the past custom and practice of the Company). As of the date hereof, there is no contest, claim, defense or right of setoff, other than returns in the ordinary course of business, relating to the amount or validity of such note or account receivable. Schedule 4.8(a) sets forth an accurate and complete list and the aging of all notes and accounts receivable as of the Balance Sheet Date.

(b) Schedule 4.8(b) sets forth an accurate and complete list of the names and addresses of all banks and financial institutions in which the Company has an account, deposit, safe-deposit box, line of credit or other loan facility or relationship, or lock box or other arrangement for the collection of accounts receivable, with the names of all Persons authorized to draw or borrow thereon or to obtain access thereto.

Section 4.9 Inventories. All inventories of the Company are of a quality and quantity usable and, with respect to finished goods, salable in the ordinary course of business. None of such inventory is slow-moving, obsolete, damaged, defective or of below-standard quality, and all of which has been or will be written off or written down to net realizable value in the Audited Financial Statements, the Interim Financial Statements or the accounting records of the Company

as of the Closing Date in accordance with the past custom and practice of the Company. The values at which such inventories are carried reflect the inventory valuation policy of the Company, which is in accordance with GAAP. The quantities of each item of inventory are not excessive, but are reasonable in the present circumstances of the Company's businesses. Since the date of the Financial Statements, the Company has continued to replenish inventories in the ordinary course of business and at a cost not exceeding market prices prevailing at the time of purchase. All inventories are maintained at the facilities of the Company and no inventory is held on a consignment basis. The Company does not have any commitments to purchase inventory other than in the ordinary course of business.

Section 4.10 No Undisclosed Liabilities; Company Debt. There are no material Liabilities of the Company required by GAAP to be set forth or reserved for on the Financial Statements or the notes thereto other than Liabilities (a) set forth or reserved against on the Financial Statements, (b) incurred since the Balance Sheet Date in the ordinary course of business or (c) Liabilities expressly contemplated or permitted by this Agreement. Except as set forth on Schedule 4.10, the Company does not have any Company Debt as of the date hereof.

Section 4.11 Absence of Certain Changes or Events. Except as expressly contemplated by this Agreement, from the Balance Sheet Date through the date hereof, (a) the Company has conducted its business in all material respects only in the ordinary course and consistent with past practice, and (b) there has not been any Event that has had or could reasonably be expected to have a Material Adverse Effect.

Section 4.12 Assets. The Company has good and marketable title to, or in the case of leased properties and assets, valid leasehold interests in, all of its properties and assets, tangible or intangible, free and clear of any Liens other than Permitted Liens. The Company owns or leases all tangible assets used in or necessary to conduct its business as currently conducted. Each such tangible asset is in all material respects in good operating condition and repair, ordinary wear and tear excepted, is free from latent and patent defects, is suitable for the purposes for which it is being used by the Company and has been maintained in accordance with normal industry practice.

Section 4.13 Contracts.

(a) Schedule 4.13 sets forth a true and complete list as of the date hereof of each contract to which the Company is a party or by which it is bound of the following types (collectively, the "Material Contracts"):

(i) contracts containing covenants limiting the freedom of the Company after the date hereof to (A) engage in any line of business in any geographic area or (B) sell any steel or steel products;

(ii) partnership, limited liability company or joint venture agreements;

(iii) contracts which require payments by the Company after the date hereof in excess of Two Hundred Fifty Thousand Dollars ($250,000) and which are not terminable on notice of thirty (30) days or less without penalty;

(iv) mortgages, pledges, security agreements, deeds of trust or other similar instruments creating or purporting to create a Lien materially affecting any material Leased Property, Owned Improvements or Owned Real Property;

(v) contracts (other than this Agreement) for the sale of any material assets of the Company after the date hereof, other than contracts made in the ordinary course of business;

(vi) contracts requiring the Company to provide to any Person services having a value in excess of Two Hundred Fifty Thousand Dollars ($250,000) during any one-year period where such services have not yet been performed, or the Company to receive services from any Person having a value in excess of Two Hundred Fifty Thousand Dollars ($250,000) during any one (1) year period where such services have not yet been paid for;

(vii) leases or contracts involving the lease of personal property used in the business of the Company and involving rental payments therefor in excess of One Hundred Thousand Dollars ($100,000) per year;

(viii) contracts providing for the guarantee of indebtedness of any other Person;

(ix) collective bargaining agreement or similar contracts with any labor union or other employee organization;

(x) Employment Contracts;

(xi) Independent Contractor Contracts;

(xii) contracts pursuant to which (A) the Company has acquired any right, title or interest in, under or to any Proprietary Right owned by any third party that are material to the conduct of the Company's business, other than off the shelf licenses and other generally available Proprietary Rights, including with respect to software, or (B) the Company has licensed or otherwise granted rights in any Proprietary Rights to any Person;

(xiii) any mortgage, indenture, guarantee, loan or credit agreement, security agreement or other material Contract relating to items identified in subclause (a) of the definition of Company Debt, other than accounts receivables and payables in the ordinary course of business;

(xiv) any contract which provides for severance, termination or similar termination-related pay to any current or former directors, officers, employees or consultants or other independent contractors of the Company; or

(xv) any settlement agreement with respect to any pending or threatened Action entered into within three years prior to the date of this Agreement.

(b) Each of the Material Contracts is as of the date hereof in full force and effect, and is a legal, valid and binding obligation of the Company and, to the Knowledge of the Company, of each other party thereto, enforceable against each such party in accordance with its terms, in each case in all material respects. Neither the Company nor, to the Company's Knowledge, any other party to any such Material Contract is in breach or default under any such Material Contract and no event has occurred or circumstance exists that (with or without notice, lapse of time or both) would constitute a breach or default by the Company or, to the Company's Knowledge, by any such other party, or give rise to any right of revocation, withdrawal, suspension, acceleration, cancellation, termination, modification, imposition of additional obligations or loss of rights under, result in any payment becoming due under, result in the imposition of any Liens on any of the Company Capital Stock or any of the properties or assets of the Company under, or otherwise give rise to any right on the part of any Person to exercise any remedy or obtain any relief under, the Material Contract, nor has the Company as of the date hereof received any written notice alleging the same. Except as set forth on Schedule 4.13, the execution and performance of this Agreement and the consummation of the transactions contemplated hereby will not require the consent of any third party or result in any change, payment or loss of material rights under any Material Contract. True and correct copies of all Material Contracts have been made available to Parent.

Section 4.14 Compliance with Law. The Company has been since September 30, 2009 (giving effect to any remedial efforts by the Company), and as of the date hereof is, in material compliance with all Laws applicable to it. The Company has not received at any time since September 30, 2009 any notice or other communication from any Governmental Authority or any other Person regarding any actual, alleged or potential violation of, or failure to comply with, any applicable Law or Governmental Order that has not been resolved in all material respects. The Company has all governmental permits, licenses, approvals and authorizations necessary for the conduct of its business as presently conducted (the "Permits") and is in material compliance with the terms of the Permits. Schedule 4.14 sets forth an accurate and complete list of the Permits, all of which are valid and in full force and effect. Since September 30, 2009, the Company has not made any sales or consummated any other transactions outside the United States.

Section 4.15 Litigation. Except for (a) non-material claims incidental to the business of the Company (including non-material Actions for negligence, workers' compensation claims, so-called "slip and fall" claims and the like) and (b) inspections and reviews customarily made by any Governmental Authority, Schedule 4.15 sets forth a complete list as of the date hereof of all Actions pending or threatened by the Company and all Actions pending or, to the Knowledge of the Company, threatened against the Company, including the name of the claimant and the status of such Action. The Company is not a party to any Governmental Order other than those generally applicable to participants in the Company's industry. The Company is not in default under any Governmental Order. As of the date hereof, there are no Actions pending or, to the Company's Knowledge, threatened against the Company which would prevent, enjoin or materially delay the Merger.

Section 4.16 Employee Benefits.

(a) Schedule 4.16(a) identifies each "employee benefit plan," as defined in Section 3(3) of ERISA (such plans being hereinafter referred to collectively as the "ERISA Plans"), each material employment, consulting, severance or other similar contract, arrangement or policy and each stock option, stock purchase, stock appreciation right or other stock-based incentive, deferred compensation plan or arrangement, incentive compensation, bonus, severance, change-in-control, or termination pay, hospitalization or other medical, disability, life or other insurance, supplemental unemployment benefits, profit-sharing, pension, or retirement plan, program, agreement or arrangement and each other employee benefit plan, program, agreement or arrangement, that is currently maintained by, contributed to or required to be contributed to by the Company or an ERISA Affiliate of the Company for the benefit of any current or former director, employee or consultant of the Company (each an "Employee Benefit Plan" and collectively, the "Employee Benefit Plans"). The Company has no formal plan or commitment, whether legally binding or not, to create any additional Employee Benefit Plan or modify or change any existing Employee Benefit Plan that would affect any current or former employee or director of the Company. No ERISA Plan provides benefits to any person who is not an Employee, former Employee or a dependant of an Employee or former Employee.

(b) With respect to each of the Employee Benefit Plans, the Company has heretofore delivered or made available to Parent true and complete copies of each of the following documents, as applicable:

(i) a copy of the Employee Benefit Plan documents (including all amendments thereto) for each written Employee Benefit Plan or a written description of any Employee Benefit Plan that is not otherwise in writing;

(ii) a copy of the annual report or IRS Form 5500 Series, if required under ERISA, with respect to each ERISA Plan for the last three (3) Plan years ending prior to the date of this Agreement for which such a report was filed;

(iii) a copy of the actuarial report, if required under ERISA, for the most recent Plan year available ending prior to the date of this Agreement;

(iv) a copy of the most recent Summary Plan Description, if required under ERISA, with respect to each ERISA Plan;

(v) if the Employee Benefit Plan is funded through a trust or any other funding vehicle, a copy of the trust or other funding agreement (including all amendments thereto) and the latest financial statements thereof, if any; and

(vi) the most recent determination letter received from the IRS with respect to each Employee Benefit Plan that is intended to be qualified under Section 401(a) of the Code.

(c) Neither the Company nor any ERISA Affiliate of the Company has during the last six (6) years established, maintained or contributed to, or had an obligation to maintain or contribute to, any (i) "multiemployer plan" as defined in sections 4001(a)(3) and 3(37) of ERISA; (ii) pension plan subject to Title IV of ERISA; (iii) voluntary employees' beneficiary association under Section 501(c)(9) of the Code, (iv) organization or trust described in Section

501(c)(17) or 501(c)(20) of the Code, (v) a "multiple employer plan" within the meaning of Section 4063 or 4064 of ERISA; or (vi) a welfare benefit fund as defined in Section 419(e) of the Code.

(d) Each of the Employee Benefit Plans has been operated and administered in all material respects in accordance with its terms and applicable Laws (including ERISA, the Code, the Patient Protection and Affordable Care Act of 2010 as amended and any and all applicable state insurance laws that may apply). No transaction prohibited by Section 406 of ERISA and no "prohibited transaction" under Section 4975(c) of the Code that could result in a liability for the Company has occurred with respect to any Employee Benefit Plan.

(e) Each ERISA Affiliate of the Company has complied in all material respects with the provisions of ERISA Part 6 of Subtitle B of Title I of ERISA and Section 4980B of the Code and the provisions of the Health Insurance Portability and Accountability Act of 1996, as amended.

(f) No Employee Benefit Plan or collective bargaining agreement provides health benefits (whether or not insured) with respect to employees or former employees (or any of their beneficiaries) of the Company or any of its Subsidiaries after retirement or other termination of service (other than coverage or benefits required to be provided under Part 6 of Title I of ERISA or any other similar applicable Law).

(g) There are no pending or, to the Company's knowledge, threatened or anticipated claims by or on behalf of any Employee Benefit Plan, by any Employee or beneficiary under any such Employee Benefit Plan or otherwise involving any such Employee Benefit Plan (other than routine claims for benefits).

(h) Neither the execution and delivery of this Agreement nor the consummation of each of the transactions contemplated hereby will (either alone or in combination with another event): (i) result in any payment becoming due, or increase the amount of any compensation due, to any employee or former employee of the Company; (ii) increase any benefits otherwise payable under any Employee Benefit Plan; (iii) result in the acceleration of the time of payment or vesting of any such compensation or benefits; (iv) result in the triggering or imposition of any restrictions or limitations on the rights of the Company to amend or terminate any Employee Benefit Plan; or (v) entitle the recipient of any payment or benefit to receive a "gross up" payment or indemnification payment for any income or other taxes that might be owed with respect to such payment or benefit.

(i) Each ERISA Plan subject to Section 401(a) of the Code has received a favorable determination letter on which it can currently rely or opinion letter from the U.S. IRS that it is qualified under Section 401(a) of the Code and that its related trust is exempt from federal income tax under Section 501(a) of the Code and each such ERISA Plan complies in form and in operation with the requirements of the Code and meets the requirements of Section 401(a) of the Code. No event has occurred or circumstance exists that could give rise to disqualification or loss of tax-exempt status of any such ERISA Plan or trust.

(j) Each Employee Benefit Plan that provides deferred compensation subject to Section 409A of the Code is in compliance in all material respects with applicable guidance under Section 409A of the Code in form and operation.

(k) The Company does not own or have any obligation under any "key man" or other life insurance policy that is not immediately terminable by the Company without penalty or additional cost and there is no obligation of the Company, contractual or otherwise, to continue any such life insurance policy.

Section 4.17 Properties.

(a) Leased Real Property.

(i) Schedule 4.17(a) contains an accurate and complete description (by street address of the subject leased real property, the date and term of the lease, sublease or other occupancy right, the name of the parties thereto, each amendment thereto and the aggregate annual rent payable thereunder) of all land, buildings, structures, fixtures, improvements and other interests in real property which is subject to a real property lease (each, a "Lease") to which the Company is a party (each such property a "Leased Property" and collectively, the "Leased Properties") as of the date of this Agreement. Schedule 4.17(a) also contains a list as of the date hereof of all material leasehold improvements that are owned by the Company and that are located at any Leased Property (the "Owned Improvements"). The Owned Improvements are structurally sound and are in all material respects in good operating condition and repair, ordinary wear and tear excepted.

(ii) (A) each Lease is a valid and subsisting agreement and is in full force and effect in accordance with the terms thereof and (B) the Company has a valid leasehold interest in and to the Leased Properties, free and clear of Liens other than Permitted Liens.

(iii) True and correct copies of the Leases have been made available to Parent prior to the date hereof, together with amendments thereto.

(iv) The Company has not received written notice from any Governmental Authority asserting a material violation of applicable Laws with respect to any Leased Property that remains uncured as of the date hereof.

(v) Except as set forth on Schedule 4.17(a), the Company has not received written notice of any material default by it with respect to any Lease, which remains uncured beyond any applicable notice and cure period.

(vi) With respect to each Lease, the Company has not exercised or given any notice of exercise of, nor has any lessor or landlord exercised or given any notice of exercise by such party of, any option, right of first offer or right of first refusal contained in any such Lease. The rental set forth in each Lease is the actual rental being paid, and there are no separate agreements or understandings with respect to the same. Each Lease grants the tenant under the lease the exclusive right to use and occupy the demised premises thereunder.

(vii) The Company is in peaceful and undisturbed possession of the Leased Properties, and there are no contractual or legal restrictions that preclude or restrict the ability of the Company to use such Leased Properties for the purposes for which they are currently being used. The Company has not subleased, licensed or otherwise granted to any Person the right to use or occupy any portion of the Leased Properties, and the Company has not received notice of any claim of any Person to the contrary.

(viii) To the Company's Knowledge, the current use and operation of the Leased Properties complies in all material respects with applicable zoning and other land use Laws in effect as of the date hereof regulating the use or occupancy of the Leased Properties or the activities conducted thereon.

Section 4.18 Owned Real Property.

(a) Schedule 4.18(a) sets forth a true, correct and complete list of the addresses and locations of all real property owned by the Company (the "Owned Real Property"). The Company has delivered to Parent accurate and complete copies of (i) all deeds and other instruments (as recorded) by which the Company acquired its interests in the Owned Real Property and (ii) all title reports, surveys, title policies and appraisals available to the Company with respect to the Owned Real Property. There are no outstanding options, rights of first offer or rights of first refusal to purchase any Owned Real Property or any portion thereof or interest therein.

(b) The Company has good and marketable fee simple title to the Owned Real Property, free and clear of any Liens other than Permitted Liens. The Company is in peaceful and undisturbed possession of the Owned Real Property, and there are no contractual or legal restrictions that preclude or restrict the ability of the Company to use such Owned Real Property for the purposes for which it is currently being used.

(c) To the Company's Knowledge, the current use and operation of the Owned Real Property complies in all material respects with applicable zoning and other land use Laws in effect as of the date hereof regulating the use or occupancy of the Owned Real Property or the activities conducted thereon.

(d) Since September 30, 2009, the Company has not received any written claim or right of adverse possession by any Person with respect to the Owned Real Property that has not been resolved.

(e) Since September 30, 2009, the Company has not received a written notice from any Governmental Authority asserting a material violation of applicable Laws with respect to the Owned Real Property that remains uncured as of the date hereof. Since September 30, 2009, the Company has not received written notice that any portion of the Owned Real Property is subject to a Governmental Order for sale, condemnation, expropriation or taking (by eminent domain or otherwise) by any Governmental Authority, the result of which could reasonably be expected to have a Material Adverse Effect.

(f) The Company has not leased, licensed or otherwise granted to any Person the right to use or occupy any portion of the Owned Real Property, and the Company has not received notice of any claim of any Person to the contrary.

(g) All buildings, structures, fixtures and other improvements included in the Owned Real Property are structurally sound and are in all material respects in good operating condition and repair, ordinary wear and tear excepted.

Section 4.19 Proprietary Rights. Schedule 4.19 contains an accurate and complete list of all registrations or applications for registration for Proprietary Rights owned by the Company or material Proprietary Rights licensed by the Company, in each case including the registration or application number, the jurisdiction and the owner thereof. All such registrations or applications have been duly filed or registered (as applicable) with the applicable Governmental Authorities, and maintained, including the submission of all necessary filings and fees in accordance with the legal and administrative requirements of the appropriate jurisdictions. Except as set forth in Schedule 4.19, the Company has not granted to any Person any material right, license, covenant not to sue or other immunity with respect to the Company's Proprietary Rights. No material claims have been asserted or, to the Company's Knowledge have been threatened, by any third party based on the use by, or challenging the ownership of the Company, of any Proprietary Right that the Company owns, licenses or uses. To the Company's Knowledge, the business of the Company as currently conducted does not violate the Proprietary Rights of any third parties. To the Company's Knowledge, there are no material infringing uses of the Company's Proprietary Rights by third parties. Notwithstanding the generality of any other representations and warranties in this Agreement, this Section 4.19 shall be deemed to contain the only representations and warranties in this Agreement with respect to Proprietary Rights.

Section 4.20 Environmental Laws. Except as set forth on Schedule 4.20, the Company: (a) is and for the past three (3) years has been in compliance in all material respects with all applicable Environmental Laws; (b) possesses and is in compliance with all material permits, approvals and authorizations required under applicable Environmental Laws in order to operate all aspects of the business of the Company, any Leased Property, or any Owned Real Property; and (c) is not a party to any judicial, administrative, or arbitral proceeding or to any Governmental Order which proceeding or Governmental Order relates to compliance with any Environmental Law or to responsibility for investigation, cleanup, exposure to, or release of any Hazardous Materials in connection with the business of the Company or at any Leased Property or Owned Real Property, and, to the Company's Knowledge, no such proceeding or Governmental Order is threatened. Except as set forth on Schedule 4.20, to the Company's Knowledge, there has been no unauthorized or unlawful spill, release or disposal of any Hazardous Materials in connection with the operation of the business of the Company, or, to the Company's Knowledge, by any third party, at the Leased Property or Owned Real Property that has not been remediated to the satisfaction of the relevant Governmental Authority. To the Company's Knowledge, no Hazardous Materials from the Company's operations have been disposed of at any third party site or location that has been listed on the federal Comprehensive Environmental Response, Compensation and Liability Act's National Priority List or any similar lists of contaminated sites maintained by any state environmental agencies or Governmental Authorities. Except as set forth on Schedule 4.20, the Leased Property and Owned Real

Property do not contain any (v) landfills or surface impoundments; (w) underground storage tanks; (x) asbestos-containing materials; (y) equipment using PCBs; or (z) underground injection wells. Copies of all material reports, audits, assessments, studies, tests, evaluations and reviews and all material correspondence with any Governmental Authorities in the Company's or its environmental consultant's possession relating to compliance with or liability under Environmental Laws or the investigation, clean up, release, or disposal of, or exposure to, Hazardous Materials have been made available to Parent. Notwithstanding the generality of any other representations and warranties in this Agreement, this Section 4.20 shall be deemed to contain the only representations and warranties in this Agreement with respect to Environmental Laws, Hazardous Materials and the environment.

Section 4.21 Contracts with Certain Persons. Schedule 4.21 sets forth each contract in effect as of the date hereof between the Company, on the one hand, and an Affiliate thereof, on the other hand.

Section 4.22 Taxes.

(a) All material Tax Returns required to be filed by, or with respect to, the Company or the Company Group have been timely filed (except those under valid extension, as set forth on Schedule 4.22) with the proper Governmental Authority, and all such Tax Returns are materially correct and complete. All Taxes shown as due on such Tax Returns have been paid to the appropriate Governmental Authority.

(b) Except as set forth on Schedule 4.22, (i) no deficiencies for Taxes of the Company or the Company Group have been claimed, proposed, assessed, or threatened in writing by any Governmental Authority; and (ii) there are no pending investigations or claims for or relating to any Tax liability of the Company or the Company Group.

(c) Except as set forth on Schedule 4.22, there are no outstanding agreements or waivers extending the statutory period of limitations applicable to any Tax Returns required to be filed by or with respect to the Company or the Company Group, nor is any request for any such agreement or waiver pending.

(d) There are no Liens for Taxes (other than Permitted Liens) on any assets or properties of the Company or the Company Group.

(e) The Company is not a party to or bound by any Tax allocation, indemnification or sharing agreement other than the Tax Sharing Agreement and any indemnification agreements or similar arrangements with directors and executive officers.

(f) Neither the Company nor the Company Group has engaged in any "listed transaction" or any other "reportable transaction" for purposes of Regulations Sections 1.6011-4(b) or Section 6111 of the Code or any analogous provision of state or local law for which reporting to the IRS or other tax authority is required (taking into account published guidance thereunder).

(g) No member of the Company Group is or has ever been a member of an affiliated group within the meaning of Section 1504(a) of the Code or any similar group defined

under a similar provision of foreign, state or local law (other than a group the common parent of which is ALJ) filing a consolidated return for U.S. federal or state income Tax purposes.

(h) Except as set forth on Schedule 4.22, (i) no audit or other proceeding with respect to any material amount of Taxes due from the Company or the Company Group, or any Tax Return of the Company or the Company Group, is pending, being conducted or threatened by any Governmental Authority; and (ii) neither the Company nor the Company Group has received written notice of any claim by any authority in a jurisdiction where neither the Company nor the Company Group files any Tax Returns that either is or may be subject to the imposition of any Tax by that jurisdiction. Each assessed deficiency resulting from any audit or other proceeding with respect to Taxes by any Governmental Authority has been timely paid and fully satisfied.

(i) Neither the Company nor any member of the Company Group has been a "controlled corporation" or a "distributing corporation" in any distribution occurring during a three-year period ending on the date hereof that was purported or intended to qualify for tax-free treatment pursuant to Section 355(a) of the Code.

(j) Neither the Company nor any member of the Company Group is a party to any joint venture, partnership or other arrangement that is treated as a partnership for federal income Tax purposes.

(k) All material Taxes required to be withheld or collected by the Company and the Company Group have been withheld and collected and, to the extent required by law, timely paid to the appropriate Governmental Authority.

(l) The Company has not made any payments, is not obligated to make any payment, and is not a party to any agreement, contract, arrangement or plan that under any circumstances could obligate it to make any payment that will not be deductible under Section 280G of the Code, or that would be subject to an excise Tax under Section 4999 of the Code.

Section 4.23 Brokers. Except for Houlihan Lokey Capital, Inc. and Roth Capital Partners, LLC, no broker, finder or investment banker is entitled to any brokerage, finder's or other fee or commission in connection with the transactions contemplated by this Agreement based upon arrangements made by or on behalf of the Company.

Section 4.24 Employee and Labor Matters. The Company is in material compliance with all applicable Laws respecting employment. Except as set forth on Schedule 4.24, as of the date hereof there are no material pending claims against the Company under any workers compensation plan or policy or for long-term disability. Except as set forth on Schedule 4.24, there are no material Actions, administrative charges, grievances, labor disputes, unfair labor practice charges or grievances pending or, to the Knowledge of the Company, threatened in writing, between the Company and any of its Employees, contractors or consultants. To the Knowledge of the Company, there is no material labor strike, slowdown, work stoppage, or lockout actually pending or threatened against the Company. Except as set forth on Schedule 4.24, the Company is not presently a party to or bound by, any collective bargaining agreement

or union contract with respect to any Employee and as of the date hereof no collective bargaining agreement is being currently negotiated with respect to any Employee.

Section 4.25 Insurance. Schedule 4.25 sets forth a list as of the date hereof of all material insurance policies and bonds relating to the assets, properties, business, operations, Employees, officers or directors of the Company. The business operations and all insurable assets and properties of the Company are insured for its benefit under insurance policies and fidelity bonds (including financial institutions bond, property and casualty insurance, professional liability insurance and workers' compensation insurance), of the type and in amounts customarily carried by Persons conducting businesses similar to the Company's business. Except as set forth on Schedule 4.25, the Company has not received any written notice of cancellation (that has not been revoked) or written notice of a material amendment of any such insurance policy or bond which would reasonably be expected to have a Material Adverse Effect and is not in material default under any such policy or bond. Except as set forth on Schedule 4.25, there is no claim by the Company pending under any of such policies or bonds as to which coverage has been denied or disputed by the underwriters of such policies or bonds or in respect of which such underwriters have reserved their rights. All premiums payable under all such policies and bonds have been timely paid and the Company has otherwise complied with the terms and conditions of all such policies and bonds, in each case, in all material respects.

Section 4.26 Required Votes. The Required Votes are the only votes of the holders of any class or series of the Company's or ALJ's capital stock necessary to adopt this Agreement or approve the Merger.

ARTICLE 5. REPRESENTATIONS AND WARRANTIES OF ALJ

ALJ hereby represents and warrants as of the date hereof (except to the extent that the representation or warranty states that it is accurate only as of an earlier date) to Parent and Merger Sub that the statements set forth in this Article 5 are true and correct:

Section 5.1 Organization. ALJ is a corporation duly organized, validly existing and in good standing under the laws of the State of Delaware, and has the requisite corporate power and authority to own or lease all of its properties and assets and to carry on its business as it is now being conducted.

Section 5.2 Authorization; Enforceability. ALJ has all necessary corporate power and authority to execute and deliver this Agreement and, subject to obtaining the Required Votes, to perform its obligations hereunder. The execution and delivery by ALJ of this Agreement and the performance by ALJ of its obligations hereunder have been duly authorized by all necessary corporate action on the part of ALJ (subject to obtaining the Required Votes). This Agreement has been duly executed and delivered by ALJ and, assuming due authorization, execution and delivery by Parent and Merger Sub, constitutes a legal, valid and binding agreement of ALJ, enforceable against ALJ in accordance with its respective terms, subject to the effects of bankruptcy, insolvency, fraudulent conveyance, reorganization, moratorium and other similar Laws relating to or affecting creditors' rights generally and general equitable principles (whether

considered in a proceeding in equity or at law) and the discretion of courts in granting equitable remedies.

Section 5.3 No Violations.

(a) Except for (i) recordation of the Certificate of Merger and (ii) filings, permits, authorizations, consents and approvals as may be required under, and other applicable requirements of the HSR Act, no consents or approvals of, or filings, declarations or registrations with, any Governmental Authority are necessary for the consummation by ALJ of the transactions contemplated hereby, other than such other consents, approvals, filings, declarations or registrations that, if not obtained, made or given, would not reasonably be expected to have, individually or in the aggregate, a material adverse effect on ALJ or the Company.

(b) Neither the execution and delivery of this Agreement by ALJ nor compliance by ALJ with any of the terms or provisions hereof, will (i) violate any provision of the Organizational Documents of ALJ, (ii) assuming that the Required Votes and the authorizations, consents and approvals referred to in Section 5.3(a) are obtained, violate any Law or Governmental Order applicable to ALJ, or any of its properties or assets or (iii) assuming that the authorizations, consents and approvals referred to in Section 5.3(a) are obtained, violate, result in the loss of any material benefit under, constitute a default (or an event which, with notice or lapse of time, or both, would constitute a default) under, result in the termination of or a right of termination or cancellation under, accelerate the performance required by, or result in the creation of any Lien (other than Permitted Liens) upon any of the properties or assets of ALJ under, any of the terms, conditions or provisions of any note, bond, mortgage, indenture, deed of trust, license, lease, agreement or other instrument or obligation to which ALJ is a party, or by which it or any of its properties or assets is bound, except, in the case of clauses (ii) and (iii) above, for such violations, breaches, defaults, losses, terminations of rights thereof, accelerations or Lien creations which, individually or in the aggregate, would not reasonably be expected to have a material adverse effect on ALJ.

Section 5.4 Title to and Transfer of the Shares. ALJ owns all of the outstanding shares of the Company's Series A Common Stock free and clear of any Liens (other than Permitted Liens). The Company's Series A Common Stock held by ALJ is not subject to any voting trust agreement or other contract, including any contract restricting or otherwise relating to the voting, dividend rights or disposition of such shares.

Section 5.5 Litigation. As of the date hereof, there are no claims, suits, actions or proceedings pending or, to ALJ's Knowledge, threatened in writing, nor are there, to the Knowledge of ALJ, any investigations or reviews pending or threatened in writing against, relating to or affecting ALJ or any of its subsidiaries or Affiliates that (a) seek to delay or prevent the consummation of the Merger or (b) would reasonably be expected to affect adversely the ability of ALJ to fulfill its obligations hereunder.

Section 5.6 Brokers. Except for Houlihan Lokey Capital, Inc. and Roth, no broker, finder or investment banker is entitled to any brokerage, finder's or other fee or commission in connection with the transactions contemplated by this Agreement based upon arrangements made by or on behalf of ALJ.

Section 5.7 Periodic Reports.

(a) ALJ has publicly provided annual reports with respect to its consolidated operating results and financial condition through the Pink Sheets website at (www.pinksheets.com) for the fiscal years ended September 30, 2009, 2010 and 2011 and has publicly provided quarterly reports for the first three quarters of its fiscal year ending September 30, 2012 (collectively, "ALJ's Periodic Reports"). Each such report did not, at the time it was filed (or, if amended prior to the date hereof, as of the date of such amendment), contain any untrue statement of a material fact, or omit to state a material fact, required to be stated therein or necessary in order to make the statements made therein, in light of the circumstances under which they were made, not misleading.

(b) The consolidated financial statements set forth in ALJ's Periodic Reports (i) present fairly in all material respects the consolidated financial condition, operations and cash flow (and changes in financial position, if any) of ALJ as of the dates thereof or for the periods covered thereby (subject, in the case of unaudited interim statements, to normal and recurring year-end adjustments) and (ii) have been prepared in accordance with GAAP applied on a consistent basis during the periods involved (provided that any interim financial statements do not contain notes or other presentation items that may be required by GAAP).

Section 5.8 Proxy Statement. The proxy statement to be sent to the stockholders of ALJ in connection with the special meeting of the stockholders of ALJ (the "ALJ Stockholders' Meeting") to consider the approval of the Merger (such proxy statement, as amended or supplemented, being referred to herein as the "Proxy Statement") shall not, on the date first mailed to the stockholders of the ALJ, and at the time of the ALJ Stockholders' Meeting, contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances in which they were made, not false or misleading. Notwithstanding the foregoing, ALJ makes no representation or warranty with respect to any information supplied by Parent, Merger Sub or any of their representatives for inclusion in the Proxy Statement or any other document disseminated to ALJ's stockholders in connection with this Agreement and the Merger.

Section 5.9 Fairness Opinion. Prior to the execution of this Agreement, the ALJ Board received an opinion from Roth Capital Partners, LLC ("Roth") to the effect that, as of the date thereof and based upon and subject to the various qualifications and assumptions set forth therein, the consideration to be received in connection with the Merger by ALJ is fair, from a financial point of view, to ALJ and to the holders of ALJ Common Stock.

Section 5.10 Section 338(h)(10) Election. ALJ is eligible to make a Section 338(h)(10) Election with respect to the Merger.

ARTICLE 6. REPRESENTATIONS AND WARRANTIES OF PARENT AND THE MERGER SUB

Each representation and warranty contained in this Article 6 is qualified all disclosures made in the section of the Disclosure Schedules of Parent and the Merger Sub that correspond or are reasonably related to such section in this Agreement. Except as set forth in such Disclosure

Schedules, Parent and Merger Sub hereby jointly and severally represent and warrant as of the date hereof (except to the extent that the representation or warranty states that it is accurate only as of an earlier date) to the Company that the statements set forth in this Article 6 are true and correct:

Section 6.1 Organization. Each of Parent and Merger Sub is a corporation duly organized, validly existing and in good standing under the laws of the State of Delaware, and has the requisite corporate power and authority to own or lease all of its properties and assets and to carry on its business as it is now being conducted.

Section 6.2 Authorization. Each of Parent and Merger Sub has all necessary corporate power and authority to execute and deliver this Agreement and to consummate the transactions contemplated hereby. The execution, delivery and performance by Parent and Merger Sub of this Agreement, and the consummation of the transactions contemplated hereby, have been duly authorized and approved by their respective Boards of Directors and by Parent as the sole stockholder of Merger Sub and no other corporate action on the part of Parent or Merger Sub is necessary to authorize the execution and delivery by Parent and Merger Sub of this Agreement and the consummation by them of the transactions contemplated hereby. This Agreement has been duly executed and delivered by Parent and Merger Sub, and, assuming due and valid authorization, execution and delivery hereof by the Company and ALJ, is a valid and binding obligation of each of Parent and Merger Sub, enforceable against each of them in accordance with its terms, except that such enforceability may be limited by (a) bankruptcy, insolvency, moratorium or other similar laws affecting or relating to the enforcement of creditors' rights generally or (b) general principles of equity.

Section 6.3 No Violations.

(a) Except for (i) recordation of the Certificate of Merger as required by the DGCL and (ii) filings, permits, authorizations, consents and approvals as may be required under, and other applicable requirements of the HSR Act, no consents or approvals of, or filings, declarations or registrations with, any Governmental Authority are necessary for the consummation by Parent and Merger Sub of the Merger, other than such other consents, approvals, filings, declarations or registrations that, if not obtained, made or given, would not reasonably be expected to have, individually or in the aggregate, a material adverse effect on Parent or Merger Sub.

(b) Neither the execution and delivery of this Agreement by Parent or Merger Sub, nor the consummation by Parent or Merger Sub of the Merger, nor compliance by Parent or Merger Sub with any of the terms or provisions hereof, will (i) conflict with or violate any provision of the Organizational Documents of Parent or Merger Sub or (ii) assuming that the authorizations, consents and approvals referred to in Section 6.3(a) are obtained, (A) violate any Law or Governmental Order applicable to Parent, Merger Sub, or any of their respective properties or assets or (B) violate, conflict with, result in the loss of any material benefit under, constitute a default (or an event which, with notice or lapse of time, or both, would constitute a default) under, result in the termination of or a right of termination or cancellation under, accelerate the performance required by, or result in the creation of any Lien (other than Permitted Liens) upon any of the properties or assets of Parent or Merger Sub under, any of the terms,

conditions or provisions of any note, bond, mortgage, indenture, deed of trust, license, lease, agreement or other instrument or obligation to which Parent or Merger Sub is a party, or by which they or any of their respective properties or assets may be bound or affected, except, in the case of clause (ii) above, for such violations, conflicts, breaches, defaults, losses, terminations of rights thereof, accelerations or Lien creations which, individually or in the aggregate, would not reasonably be expected to have a material adverse effect on Parent or Merger Sub.

Section 6.4 Merger Sub's Operation and Capitalization. Merger Sub was formed solely for the purpose of engaging in the transactions contemplated hereby and has not engaged in any business activities or conducted any operations other than in connection with the transactions contemplated hereby and has no, and prior to the Effective Time will have no, assets, liabilities or obligations of any nature other than those incident to its formation and pursuant to this Agreement and the Merger. The authorized capital stock of Merger Sub consists of 1000 shares of common stock, $0.01 par value per share, all of which shares have been validly issued, are fully paid and nonassessable and are owned by Parent free and clear of any Liens.

Section 6.5 Litigation. There are no claims, suits, actions or proceedings pending or, to Parent or Merger Sub's Knowledge, threatened in writing, nor are there, to the Knowledge of Parent and Merger Sub, any investigations or reviews pending or threatened in writing against, relating to or affecting Parent or Merger Sub or any of their respective subsidiaries or Affiliates that (a) seek to question, delay or prevent the consummation of the Merger or (b) would reasonably be expected to affect adversely the ability of Parent or Merger Sub to fulfill its obligations hereunder.

Section 6.6 Stock Ownership. Neither Parent nor Merger Sub nor any of their respective subsidiaries beneficially own any shares of Company Capital Stock or any shares of capital stock of ALJ.

Section 6.7 Availability of Funds. Subject always to consummation of the Note Offering and receipt by Parent of the Financing Minimum Threshold, as of the date hereof and continuing through the Effective Time, Parent and Merger Sub collectively have sufficient funds in immediately available U.S. dollars on hand or available through legally binding equity commitments to satisfy all of their obligations under this Agreement, including the payment and funding of the Closing Date Disbursements, the Preferred Stock Purchase Consideration and the Company Common Stock Merger Consideration and to pay all fees and expenses related to the transactions contemplated by this Agreement payable by them.

Section 6.8 Investment Intent. Parent and Merger Sub are acquiring the Company Capital Stock for their own account solely for the purpose of investment and not with a view to, or for sale in connection with, any distribution thereof in violation of the Securities Act of 1933.

Section 6.9 Independent Investigation. Each of Parent and Merger Sub acknowledge and agree that (a) they have undertaken an independent investigation and verification of the business, operations and financial condition of the Company and (b) except for the express representations and warranties set forth in Article 4 and Article 5 they have not been induced by or relied upon any representation, warranty or other statement, express or implied, made by the

Company, ALJ or any of their respective stockholders, officers, directors, employees, Affiliates, advisors, agents or other representatives or any other Person.

Section 6.10 Brokers, Finders and Investment Bankers. No broker, finder or investment banker is entitled to any brokerage, finder's or other fee or commission in connection with the transactions contemplated by this Agreement based upon arrangements made by or on behalf of Parent or Merger Sub.

Section 6.11 Proxy Statement. The information supplied by Parent and Merger Sub for inclusion in the Proxy Statement, if any, shall not, as of the date that the Proxy Statement is first mailed to the stockholders of ALJ, and at the time of the ALJ Stockholders' Meeting, contain any untrue statement of a material fact, or omit to state any material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they were made, not false or misleading, or necessary to correct any statement in any earlier communication with respect to the solicitation of proxies for the ALJ Stockholders' Meeting that shall have become false or misleading. Notwithstanding the foregoing, Parent and Merger Sub make no representation or warranty with respect to any information supplied by ALJ, the Company or any of their respective representatives for inclusion in any of the foregoing documents.

ARTICLE 7. CERTAIN COVENANTS AND AGREEMENTS

Section 7.1 Conduct of Business Prior to the Closing. Except as contemplated by this Agreement and except as set forth on Schedule 7.1, pending the Closing, the Company shall conduct its business in all material respects only in the ordinary course and consistent with past practice and shall exercise commercially reasonable efforts to preserve substantially intact its business organization and to preserve its business relationships. Without limiting the generality of the foregoing, except as contemplated by this Agreement and except as set forth in Schedule 7.1, subject to the requirements of Law or contract, the Company shall not do any of the following without the prior written consent of Parent (which consent shall not be unreasonably withheld, delayed or conditioned):

(a) merge or consolidate with, or acquire an interest in, any Person or otherwise acquire any material assets, except for purchases of inventory in the ordinary course of business consistent with past practice;

(b) sell or otherwise dispose of, or encumber, any material properties or assets, except pursuant to existing contracts or commitments, or for dispositions in the ordinary course of business consistent with past practice;

(c) incur, assume or guarantee any indebtedness for borrowed money, except pursuant to the Company's existing line of credit in the ordinary course of business;

(d) issue, sell, pledge, dispose of, grant, encumber or redeem any capital stock of the Company or other equity interests, notes, bonds or other securities of the Company, or any option, warrant or other right to acquire the same;

(e) increase the compensation or benefits payable by it to its employees or contractors except for increases in compensation or benefits in the ordinary course of business;

(f) enter into any Employment Contract or Independent Contractor Contract with any new employee or contractor which cannot be terminated by the Company upon notice of ninety (90) days or less without material penalty or premium and provides for annual salary after the date hereof in excess of Fifty Thousand Dollars ($50,000) per year;

(g) make any change in any material accounting policies customarily followed by it (other than changes required by GAAP);

(h) amend its Organizational Documents;

(i) enter into or make any material amendment, modification or other change to any management contracts, partnership agreements, joint venture agreements, limited liability operating agreements and/or any other Material Agreements or any contracts with an Affiliate of the Company other than in the ordinary course of business;

(j) declare, set aside, make or pay any dividend or other distribution, payable in cash, stock, property or otherwise, with respect to any Company Capital Stock;

(k) reclassify, combine, split, subdivide or redeem, or purchase or otherwise acquire, directly or indirectly, any of its capital stock;

(l) make any loans, advances or capital contributions, except for Employee loans or advances for travel and reasonable business expenses and extended payment terms for customers, in each case subject to applicable Law and only in the ordinary course of business;

(m) authorize or make any commitment with respect to any capital expenditures or other expenditures in excess of Two Hundred Fifty Thousand Dollars ($250,000) for any particular fiscal year;

(n) make or direct to be made any equity investments in any entity (provided that any acquisitions of businesses, whether by acquisition of equity interests, assets, or other means, will be subject to clause (i) above);

(o) grant any severance or termination pay or benefits to any director, officer or other employee of the Company or establish, adopt or enter into any new Employee Benefit Plan;

(p) enter into any new line of business;

(q) make or change any Tax election, change an annual Tax accounting period, adopt or change any Tax accounting period, adopt or change any Tax accounting method, file any amended Tax Return, enter into any closing agreement with respect to Taxes, settle any Tax Claim or assessment relating to the Company, surrender any right to claim a refund of Taxes, consent to any extension or waiver of the limitation period applicable to any Tax Claim or assessment relating to the Company in a manner that is not in the ordinary course of business,

destroy or dispose of any books and records with respect to Tax matters relating to periods beginning before the Effective Time and for which the statute of limitations is still open or under which a record retention agreement is in place with a Governmental Authority, or take any other similar action relating to the filing of any Tax Return or the payment of any Tax, if such election, adoption, change, amendment, agreement, settlement, surrender, consent or other action would have the effect of increasing the Tax liability of the Company for any period ending after the Effective Time or decreasing any Tax attribute of the Company existing on the Closing Date, in either case by an amount that is material individually or in the aggregate with all other similar amounts;

(r) settle, pay, discharge or satisfy any Liability or obligation (absolute, accrued, asserted or unasserted, contingent or otherwise), including any Action, other than, in the ordinary course of business, and other than those that involve only the payment or receipt of money in an amount in the aggregate of less than Two Hundred Five Hundred Thousand Dollars ($250,000);

(s) enter into or amend any Contract that subjects the Company or Parent or any of its subsidiaries to any non-competition, "most-favored nation," or other exclusive rights of any type or scope or that otherwise restricts in a material respect the Company or, upon completion of the Merger, Parent or any of its subsidiaries, from engaging or competing in any line of business, in any location;

(t) except for any D&O insurance policy and related side policies, terminate, cancel, amend or modify any insurance coverage policy maintained by Company that is not promptly replaced by a comparable amount of insurance coverage; or

(u) announce an intention to enter into, or enter into, any formal or informal Contract or otherwise make a commitment to do any of the foregoing.

(v) Notwithstanding the foregoing, nothing in this Agreement is intended to give Parent or Merger Sub, directly or indirectly, the right to control or direct the business or operations of the Company at any time prior to the Effective Time.

Section 7.2 No Solicitation.

(a) Company Takeover Proposal.

(i) Until the Closing, neither ALJ nor the Company shall, and ALJ and the Company shall cause their respective Affiliates, directors, officers, stockholders, employees, agents, consultants and other advisors and representatives not to, directly or indirectly (i) solicit, initiate or knowingly encourage the submission of, any Company Takeover Proposal, or (ii) participate in any discussions or negotiations regarding, or furnish to any person any information regarding the Company in connection with, or take any other action to facilitate knowingly the making of any inquiry or any proposal that constitutes, or would reasonably be expected to lead to, any Company Takeover Proposal. ALJ and the Company agree that any such negotiations in progress as of the date of this Agreement will be terminated or suspended during such period.

(ii) Notwithstanding the foregoing, prior to obtaining the Required Votes, ALJ or the Company may, in response to a Company Takeover Proposal made after the date hereof, that did not result from a breach of this Section 7.2 and that the ALJ Board or the Company Board determines in good faith after consultation with outside counsel and an independent financial advisor of nationally recognized reputation is or is reasonably likely to result in a Superior Company Proposal, or may result in a Superior Company Proposal after clarification from the Person making such Company Takeover Proposal regarding the material terms and conditions thereof, and subject to providing prior written notice of its decision to take such action to Parent: (A) furnish information with respect to ALJ or the Company to the person making such Company Takeover Proposal pursuant to a confidentiality agreement not less restrictive of the other party (except with respect to any standstill provision) than the Confidentiality Agreement, provided that all such information not previously provided to Parent is provided or made available on a substantially concurrent basis to Parent and (B) participate in discussions or negotiations with the person making such Company Takeover Proposal regarding such Company Takeover Proposal.

(b) Change in Recommendation.

(i) Except as set forth in this Section 7.2, neither the ALJ Board nor the Company Board, as applicable, shall (A) (1) withdraw or modify, or propose to withdraw or modify, the approval or recommendation by the Company Board or the ALJ Board of this Agreement or the Merger, as applicable, or (2) approve or recommend, or propose to approve or recommend, any Company Takeover Proposal (either (1) or (2) being a "Change in Recommendation") or (B) approve, cause or permit the Company or ALJ to enter into any letter of intent, agreement in principle, acquisition agreement or similar agreement (each, an "Acquisition Agreement") relating to any Company Takeover Proposal.

(ii) Notwithstanding the foregoing, prior to obtaining the Required Votes, to the extent that the ALJ Board or the Company Board, as applicable, determines in good faith, after consultation with outside counsel, that a failure to do so would be inconsistent with the fiduciary obligations of the ALJ Board or Company Board, as applicable, under applicable Laws, the ALJ Board or Company Board, as applicable, may, in response to a Superior Company Proposal:

(A) make a Change in Recommendation or

(B) terminate this Agreement pursuant to Section 9.1(f) in order to enter into an Acquisition Agreement with respect to a Superior Company Proposal;

provided, however, that any such determination to make a Change in Recommendation or terminate this Agreement shall not be made prior to the second (2nd) Business Day following delivery of a Change in Recommendation Notice to Parent. A "Change in Recommendation Notice" means a written notice to Parent from ALJ or the Company, as applicable, advising Parent that the ALJ Board or the Company Board, as applicable, is prepared to make a Change in Recommendation or to terminate this Agreement to accept a Superior Company Proposal (and if in connection with a Superior Company Proposal, specifying the terms and conditions of such

Superior Company Proposal and identifying the person making such Superior Company Proposal). Any material amendment to the price or any other material term of such Superior Company Proposal shall require a new Change in Recommendation Notice and a new two (2) Business Day period, as provided above. If promptly requested by Parent during such two (2) Business Day period after the delivery of any Change in Recommendation Notice, ALJ and the Company will engage in reasonable, good faith negotiations with Parent regarding any modifications to the terms and conditions of this Agreement proposed by Parent. If Parent proposes any such modifications to the terms and conditions of this Agreement, neither the Company nor ALJ may make a Change in Recommendation or terminate this Agreement pursuant to Section 9.1(f) unless and until the Board of Directors of the Company or ALJ, as the case may be, determines in good faith, after consultation with its outside counsel and financial advisers, that the Company Takeover Proposal resulting in the proposed Change in Recommendation continues to constitute a Superior Company Proposal, after taking into account any changes in the terms and conditions of this Agreement proposed by Parent in accordance with this Section 7.2(b)(ii)(C).

(c) Company Takeover Proposal Information. The Company or ALJ, as applicable, shall promptly, but in any event within forty-eight (48) hours of receipt by members of the Company Board or ALJ Board, as applicable, advise Parent orally and in writing of any Company Takeover Proposal or any inquiry with respect to, or that would reasonably be expected to lead to or contemplates, any Company Takeover Proposal (including the terms thereof and any change to the terms of any such Company Takeover Proposal or inquiry) and the identity of the person making any such Company Takeover Proposal or inquiry. The Company shall (i) keep Parent reasonably informed of the status of any such Company Takeover Proposal or inquiry, and (ii) promptly advise Parent of any material amendments to the terms of any such Company Takeover Proposal or inquiry.

(d) Required Disclosure. Nothing contained in this Section 7.2 or elsewhere in this Agreement shall prohibit the Company or ALJ from (i) complying with any Law requiring disclosure with respect to any Company Takeover Proposal to the stockholders of ALJ or the Company, as applicable, or (ii) making any disclosure to any of their respective stockholders if, in the good faith judgment of the Company Board or the ALJ Board, as applicable, after consultation with outside counsel, failure to so disclose could reasonably be expected to be inconsistent with their fiduciary duties under applicable Law.

(e) Waivers and Releases. Notwithstanding anything in this Agreement to the contrary, at any time prior to obtaining the Required Votes, the ALJ Board may grant a waiver or release under, or determine not to enforce, any standstill or similar agreement with respect to any class of equity securities of ALJ if the ALJ Board determines in good faith (after consultation with its outside legal counsel) that the failure to take such action could reasonably be expected to be inconsistent with its fiduciary duties under applicable Law.

Section 7.3 Access to Information. From the date hereof until the Closing, and except as limited by Law in the reasonable good faith judgment of the Company, the Company shall afford the employees, authorized agents and representatives of Parent, at Parent's sole risk and expense, with reasonable access, during normal business hours and upon reasonable advance notice, to the offices, properties, facilities, books and records (to the extent that such books and

records are located at the Company's offices in Ashland, Kentucky) of the Company, as Parent reasonably deems necessary or advisable, and to those Employees of the Company to whom Parent reasonably requests access. The foregoing shall not require the Company to permit any inspection, or to disclose any information, that in the Company's reasonable judgment is reasonably likely to result in waiver of any attorney-client privilege or the disclosure of any trade secrets of third parties or violate any obligations of the Company with respect to confidentiality. The Company shall not be required to take any action that would unreasonably disrupt its normal operations. All requests for information made pursuant to this Section 7.3 shall be directed to the Company's Chief Executive Officer, or such other officer, consultant or advisor of the Company as may be designated by it to receive such requests. All information obtained by Parent and its employees, agents and representatives pursuant to this Section 7.3 shall be kept confidential and treated in accordance with the Confidentiality Agreement.

Section 7.4 Regulatory and Other Authorizations; Notices and Consents.

(a) To the extent not already obtained, each of the Parties shall use all commercially reasonable efforts to obtain all permits, authorizations, consents, orders and approvals of all Government Authorities that may be or become necessary for its execution and delivery of, and the performance of its obligations pursuant to, this Agreement and will cooperate fully with the other Party in promptly seeking to obtain all such permits, authorizations, consents, orders and approvals. Each Party agrees to make an appropriate filing pursuant to the HSR Act with respect to the transactions contemplated by this Agreement as soon as practicable after the date hereof (if not already made) and in any event no later than five (5) Business Days following the date hereof. Each Party shall supply as promptly as practicable to the appropriate Governmental Authorities any additional information and documentary material that may be requested pursuant thereto.

(b) All filings, applications, notices, analyses, appearances, presentations, memoranda, submissions, briefs, arguments, opinions and proposals made or submitted by or on behalf of any Party before any Governmental Authority in connection with the approval of the contemplated transactions (except with respect to Taxes) shall require the joint approval of Parent and the Company and be under the joint control of Parent and the Company, acting with the advice of their respective counsel, it being the intent that the Parties will consult and cooperate with one another, and consider in good faith the views of one another, in connection with any such filing, application, notice, analysis, appearance, presentation, memorandum, submission, brief, argument, opinion and proposal; provided that nothing will prevent a Party from responding to or complying with a subpoena or other legal process required by Law or submitting factual information in response to a request therefor. In addition, except as prohibited by Law, each Party shall (i) promptly (and, in any event, within five (5) Business Days) notify the other Party of any communication to that Party from any Governmental Authority relating to the approval or disapproval of the transactions contemplated hereby; and (ii) not participate in any meetings or substantive discussions with any Governmental Authority with respect thereto without consulting with and offering the other Party a meaningful opportunity to participate in such meetings or discussions.

Section 7.5 Notice of Developments. Prior to the Closing, each Party shall, promptly after obtaining Knowledge of the occurrence (or non-occurrence) of any event, circumstance or

fact arising subsequent to the date of this Agreement which would result in the failure to satisfy the conditions set forth in Section 8.1, Section 8.2 or Section 8.3, as applicable, give notice thereof to the other Party. No notification pursuant to this Section 7.5 will be deemed to amend or supplement the Disclosure Schedules, prevent or cure any misrepresentation, breach of warranty or breach of covenant, or limit or otherwise affect any rights or remedies available to any Party.

Section 7.6 Resignations. On the Closing Date, the Company shall cause to be delivered to Parent duly signed resignations from the applicable members of the Company's board of directors, effective immediately after the Closing.

Section 7.7 Transfer Taxes. Parent will pay all transfer, documentary, sales, use, stamp, registration, value added and other similar Taxes and fees incurred in connection with the Merger, other than any such Taxes and fees imposed on holders of Company Capital Stock as a result of the Merger.

Section 7.8 Section 338(h)(10) Election. ALJ shall join with Parent in making a Section 338(h)(10) Election. ALJ will provide Parent with properly completed copies of IRS Form 8023 (and any required schedules thereto, and any corresponding state or local Tax forms) fifteen (15) calendar days prior to the Closing Date. Parent will review and provide comments as appropriate. For U.S. federal income Tax purposes (and, to the extent applicable, state and local Tax purposes), Parent and ALJ will report the Merger as a purchase and sale, respectively, of the assets of the Company in accordance with the Section 338(h)(10) Election, and will not take any position contrary thereto.

Section 7.9 Allocation of Total Purchase Price.

(a) The portion of the Total Purchase Price and other items properly includible in the deemed sales price of the assets of the Company pursuant to the Section 338(h)(10) Election will be allocated, for Tax purposes, among the Company's assets in a manner consistent with the provisions of Section 338 and Section 1060 of the Code and all Regulations promulgated thereunder (the "Allocation").

(b) Seven (7) calendar days prior to the Closing Date, Parent will prepare and deliver to ALJ and the Company a preliminary calculation of the Allocation. ALJ and the Company will provide comments prior to the Closing, which comments Parent will not reject unless such comments are unreasonable. On or before February 28, 2013, Parent will prepare and deliver to ALJ and the Company an IRS Form 8883 in connection with the Section 338(h)(10) Election, any similar allocation form required under state or local law and any other forms required to be filed under applicable law in connection with the Section 338(h)(10) Election, which forms will reflect the final calculation of the Allocation, which will not be materially different from the preliminary calculation of the Allocation unless agreed to by ALJ, the Company and Parent. The parties acknowledge that Parent may obtain a third-party appraisal, at Parent's expense, in connection with the Allocation and the preparation of IRS Form 8883.

(c) Parent, ALJ and the Company agree not to take any reporting position that is inconsistent with IRS Form 8883 (and any such similar forms) as filed, and will not take any position or action inconsistent therewith upon examination of any Tax Return, in any refund claim, in any litigation, investigation or otherwise; provided, however, that if, in any audit of any Tax Return of the Company by a Governmental Authority, the fair market values of the relevant assets of the Company are finally determined to be different from the fair market values set forth in IRS Form 8883 (and any such similar forms) as filed, Parent, ALJ and the Company may (but will not be obligated to) take any position or action consistent with the fair market values as finally determined in such audit. If any Governmental Authority disputes any portion of the Allocation set forth on IRS Form 8883 (or any similar form) as filed, the party receiving notice of the dispute will promptly notify the other party(ies) concerning resolution of the dispute.

Section 7.10 Indemnification.

(a) From and after the Effective Time until the sixth anniversary of the Effective Time, Parent shall cause the Surviving Corporation to comply with all obligations of the Company in existence or in effect on the date hereof under its Organizational Documents to indemnify, defend and hold harmless each person who is now, or has been at any time prior to the date of this Agreement or who becomes such prior to the Effective Time, an officer, director or fiduciary of the Company (the "Indemnified D&O Parties") against any and all losses, claims, damages, costs, expenses (including reasonable attorneys' fees and expenses), fines, Liabilities or judgments or amounts that are paid in settlement in connection with any claim, Action, suit, proceeding or investigation based in whole or in part on or arising in whole or in part out of the fact that such person is or was a director, officer or fiduciary of the Company whether pertaining to any action or omission existing or occurring at or prior to the Effective Time and whether asserted or claimed prior to, or at or after, the Effective Time ("Indemnified D&O Liabilities"), including all Indemnified D&O Liabilities based in whole or in part on, or arising in whole or in part out of, or pertaining to this Agreement or the transactions contemplated hereby; provided, however, that such indemnification shall be to the fullest extent the Surviving Corporation is permitted under the DGCL to indemnify its own directors, officers or fiduciaries. To the fullest extent not prohibited by law, from and after the Effective Time, all rights to indemnification as of the date hereof in favor of the Indemnified D&O Parties with respect to their activities as officers, directors or fiduciaries of the Company prior to the Effective Time, as provided in its Organizational Documents in effect on the date hereof, or otherwise in effect on the date hereof, shall survive the Merger and shall continue in full force and effect for a period of not less than six (6) years from the Effective Time, provided that in the event any claim or claims are asserted or made within such six-year period, all such rights to indemnification in respect of such claim or claims shall continue until the final disposition thereof. The Surviving Corporation shall not, for a period of six (6) years from the Effective Time, amend, waive or otherwise alter its Organizational Documents so as to impair or limit the Surviving Corporation's obligations to indemnify the Indemnified D&O Parties except as required by Law.

(b) Prior to the Effective Time, the Company may obtain a "tail" insurance policy with a claims period of six (6) years from the Effective Time with respect to directors' and officers' liability insurance in an amount and scope no less favorable than the existing policy of ALJ for claims arising from facts or events that occurred on or prior to the Effective Time at a cost that is reasonable and customary for tail insurance policies with ALJ's existing directors'

and officers' liability policy insurer or an insurer with a comparable insurer financial strength rating as ALJ's existing directors' and officers' liability policy insurer; provided that if the Company shall not have obtained such tail policy prior to the Effective Time, the Surviving Corporation will provide for a period of not less than six (6) years after the Effective Time an insurance policy for the Indemnified D&O Parties that provides coverage for events occurring at or prior to the Effective Time (the "D&O Insurance") that is not less favorable taken as a whole than the existing policy of ALJ or, if substantially equivalent insurance coverage is unavailable, the best available coverage; provided, however, that the Surviving Corporation shall not be required to pay an annual premium for the D&O Insurance in excess of one hundred fifty percent (150%) of the annual premium currently paid by ALJ for such insurance; provided further, however, that if the annual premium of such coverage exceeds such amount, the Surviving Corporation shall use its commercially reasonable efforts to obtain a policy with the greatest coverage available for a cost not exceeding such amount. The Company shall use commercially reasonable efforts to obtain competitive quotes (from insurance providers with comparable ratings) for such insurance coverage in an effort to reduce the cost thereof.

(c) Successors. In the event Parent or any of its successors or assigns (i) consolidates with or merges into any other Person and shall not be the continuing or surviving corporation or entity of such consolidation or merger or (ii) transfers all or substantially all of its properties and assets to any Person, then and in either such case, proper provisions shall be made so that the continuing or surviving entity or transferee, as appropriate, shall assume the obligations set forth in this Section 7.10.

Section 7.11 Efforts to Close. Subject in every case to compliance with Section 7.4, through the Closing Date, subject to the terms and conditions herein provided, the Parties will, and will cause the respective subsidiaries within their control to, use commercially reasonable efforts to take all reasonable actions and do all reasonable things necessary, proper or advisable, under Laws, contract or otherwise to consummate and make effective, as soon as reasonably practicable, the transactions contemplated hereby, including the satisfaction of all conditions thereto set forth herein, including, without limitation, reaching agreement on the information set forth in the Inventory Certificate and Closing Balance Sheet. Without limitation to the foregoing, through the Closing Date the Parties shall be obliged to keep each other reasonably informed of the steps taken in compliance with this Section 7.11 and the progress toward satisfying the closing conditions set forth in Article 8 including by communicating with each other on a regular basis with respect to progress made to date in respect of satisfaction of any and all of the closing conditions set forth in Article 8 and any issues arising in connection therewith which might reasonably be expected to delay or prevent such satisfaction.

Section 7.12 Further Assurances. Each Party covenants and agrees to prepare, execute, acknowledge, file, record, publish and deliver such other instruments, certificates and documents, and to take such other actions, as may be required by Law or reasonably requested by any other Party to carry out the purposes of this Agreement.

Section 7.13 Employee Matters; Employee Benefit Plans. Without limiting the obligations set forth in Section 7.18 herein, for a period of one (1) year after the Effective Time, Parent shall provide or cause the Company to provide compensation and benefits to the Employees that, taken as a whole, are substantially similar in the aggregate to those provided to

such employees as of the Effective Time, unless otherwise required on account of collective bargaining.

(a) With respect to any "employee benefit plan," as defined in Section 3(3) of ERISA, maintained by Parent or any of its affiliates in which Employees will be eligible to participate from and after the Effective Time, for purposes of determining eligibility to participate and vesting each Employee's service with the Company shall be treated as service with Parent or any of its subsidiaries; provided, however, that such service shall not be recognized for purposes of benefit accrual under any employee benefit plan or to any extent that such recognition would result in any duplication of benefits.

(b) Parent shall use its commercially reasonable efforts to waive, or cause to be waived, any pre-existing condition limitations, exclusions, actively-at-work requirements and waiting periods under any welfare benefit plan maintained by Parent or any of its affiliates in which Employees (and their eligible dependents) will be eligible to participate from and after the Effective Time, except to the extent that such pre-existing condition limitations, exclusions, actively-at-work requirements and waiting periods would not have been satisfied or waived under the comparable Employee Benefit Plan immediately prior to the Effective Time. Parent shall use its commercially reasonable efforts to recognize, or cause to be recognized, the dollar amount of all co-payments, deductibles and similar expenses incurred by each Employee (and his or her eligible dependents) during the calendar year in which the Effective Time occurs for purposes of satisfying such year's deductible and co-payment limitations under the relevant welfare benefit plans in which they will be eligible to participate from and after the Effective Time.

(c) The provisions contained in this Section 7.13 are included for the sole benefit of the Parties hereto and shall not create any right in any other Person, including any employees, former employees, any participant in any Employee Benefit Plan or any beneficiary thereof or any right to continued employment with the Company, provided, however, that any such termination is effected in accordance with applicable Law and the terms of the Collective Bargaining Agreement to the extent applicable.

Section 7.14 Company Required Vote. Immediately following the affirmative vote of a majority of the outstanding shares of common stock of ALJ ("ALJ Common Stock") in favor of the Merger, ALJ will deliver to the Company and to Parent, a written consent and approval of ALJ as the sole holder of the Company's Series A Common Stock approving the adoption of this Agreement and the Merger and such consent and approval shall not be amended, withdrawn, modified, superseded or otherwise changed in any manner prior to the earlier of Closing or the termination of this Agreement pursuant to Section 9.1 of this Agreement. ALJ and the Company acknowledge that the foregoing written consent and approval of ALJ, once delivered, will satisfy the requirements of subclause (a) of the definition of Required Votes.

Section 7.15 ALJ Stockholders' Meeting.

(a) ALJ shall prepare the Proxy Statement promptly after the execution of this Agreement, and shall use its commercially reasonable efforts to prepare the Proxy Statement within ten (10) business days after the date hereof. Parent shall provide promptly to ALJ such

information concerning Parent and Merger Sub as may be reasonably requested by ALJ for inclusion in the Proxy Statement. At the earliest practicable time ALJ shall cause the Proxy Statement to be mailed to its stockholders. Unless the Company Board or the ALJ Board shall have effected a Change in Recommendation in accordance with Section 7.2(b), prior to mailing the Proxy Statement, ALJ shall provide Parent and its counsel with a reasonable opportunity to review and comment on such materials in advance.

(b) If, at any time prior to the Effective Time, any event or information relating to ALJ, the Company, Parent, Merger Sub, or any of their Affiliates, should be discovered by ALJ, Parent or the Company which should be set forth in an amendment or supplement to the Proxy Statement, so that such document would not include any misstatement of a material fact or omit to state any material fact necessary to make the statements therein not false or misleading, the Party which discovers such information shall promptly notify the other parties and ALJ shall cause an appropriate amendment or supplement describing such information to be disseminated to its stockholders.

(c) ALJ shall in accordance with applicable Law, Governmental Order and ALJ's Organizational Documents (i) use commercially reasonable efforts to duly call, give notice of, convene and hold a special meeting of its stockholders as promptly as practicable, and in any event (to the extent permissible under applicable Law and Governmental Order) within twenty-five (25) days, after the mailing of the Proxy Statement to the stockholders of ALJ, for the purpose of considering the approval of the Merger, and (ii) unless the ALJ Board shall have effected a Change in Recommendation in accordance with Section 7.2(b), (A) include in the Proxy Statement the ALJ Board's recommendation that the holders of ALJ Common Stock vote in favor of the Merger (which recommendation shall be deemed a part of the ALJ Board Recommendation), and (B) use its commercially reasonable efforts to solicit from the stockholders of ALJ proxies in favor of the Merger and secure the vote or consent of ALJ's stockholders as required by the DGCL or other applicable Law to effect the Merger. ALJ shall consult with Parent regarding the date of the ALJ Stockholders' Meeting and shall not postpone or adjourn the ALJ Stockholders' Meeting without the prior written consent of Parent; provided, however, that nothing herein shall prevent ALJ from postponing or adjourning (one time only for no more than five (5) business days in the case of clause (w)) the ALJ Stockholders' Meeting if and to the extent that:

> (w) there are holders of an insufficient number of shares of ALJ Common Stock present or represented by a proxy at the ALJ Stockholders' Meeting to constitute a quorum at the ALJ Stockholders' Meeting and ALJ uses its commercially reasonable efforts during any such postponement or adjournment to obtain such a quorum,
>
> (x) ALJ is required to postpone or adjourn the ALJ Stockholders' Meeting by applicable Law or Governmental Order and ALJ uses its commercially reasonable efforts to hold or resume the ALJ Stockholders' Meeting as soon as practicable,
>
> (y) the ALJ Board shall have determined in good faith (after consultation with outside legal counsel) that it is required by Law or it is otherwise advisable in the exercise of its fiduciary duties to postpone or adjourn the ALJ Stockholders' Meeting,

including in order to give stockholders of ALJ sufficient time to evaluate any information or disclosure that ALJ has sent to its stockholders or otherwise made available to its stockholders by issuing a press release or otherwise (including in connection with any Change in Recommendation), or

(z) the ALJ Board or the Company Board shall have provided to Parent a Change in Recommendation Notice in accordance with Section 7.2(b)(ii), in which case the ALJ Board or the Company Board, as applicable, shall have the right, for each such Change in Recommendation Notice so delivered, to postpone or adjourn the Stockholders Meeting to a date no later than fifteen (15) business days after the date of delivery to Parent of such Change in Recommendation Notice.

(d) ALJ shall ensure that the ALJ Stockholders' Meeting is called, noticed, convened, held and conducted, and that all parties solicited by ALJ or its Affiliates in connection with the ALJ Stockholders' Meeting are solicited, in compliance in all material respects with all applicable Laws and Governmental Orders. The approval of the Merger and adjournment of the ALJ Stockholders' Meeting, as necessary, to solicit additional proxies if there are insufficient votes in favor of the Merger, shall be the only matters which ALJ shall propose to be acted on by the ALJ's stockholders at the ALJ Stockholders' Meeting unless otherwise approved in writing by Parent.

(e) At the ALJ Stockholders' Meeting, Parent and Merger Sub shall cause all ALJ capital stock then owned by them and their subsidiaries, if any, to be voted in favor of the Merger.

(f) Without limiting the generality of the foregoing, ALJ agrees that its obligation to duly call, give notice of, convene and hold the ALJ Stockholders' Meeting shall not be affected by any Change of Recommendation by ALJ or the Company. Unless this Agreement is terminated in accordance with Section 9.1, ALJ agrees that it shall not submit to the vote of the stockholders of ALJ any Company Takeover Proposal (whether or not a Superior Company Proposal) prior to the vote of the Company's stockholders with respect to the Merger at the ALJ Stockholders' Meeting.

(g) Each of the ALJ stockholders listed as signatories in the Stockholder Support Agreement attached hereto as **Exhibit G** (the "Stockholder Support Agreement") will execute and deliver to Parent the Stockholder Support Agreement concurrently with the Company's execution and delivery of this Agreement, pursuant to which such ALJ stockholders (a) agree to vote or cause to be voted, at the ALJ Stockholders' Meeting, in favor of the Merger and approval of this Agreement and transactions contemplated hereby, all shares of ALJ Common Stock now or later held of record or beneficially owned by such ALJ stockholder; and (b) agree to take or refrain from such other actions in the manner specified in the Stockholder Support Agreement.

Section 7.16 Obligations of Merger Sub. Prior to the earlier of the Effective Time or the termination of this Agreement in accordance with its terms:

(a) Merger Sub shall not, and Parent shall cause Merger Sub not to, undertake any business or activities other than in connection with this Agreement and engaging in the Merger.

(b) Parent shall take all action necessary to cause Merger Sub to perform its obligations under this Agreement and to consummate the Merger on the terms and subject to the conditions set forth in this Agreement.

Section 7.17 Conduct of Parent and Merger Sub Prior to the Closing. Parent and Merger Sub shall not engage in any action or enter into any transaction or permit any action to be taken or transaction to be entered into that would reasonably be expected to materially delay the consummation of, or otherwise adversely affect, the Merger. Without limiting the generality of the foregoing, Parent shall not, and shall cause its subsidiaries not to, acquire (whether via merger, consolidation, stock or asset purchase or otherwise), or agree to so acquire, any material amounts of assets of or any equity in any Person or any business or division thereof, unless that acquisition or agreement would not (a) impose any delay in the obtaining of, or increase the risk of not obtaining, any authorizations, consents, orders, declarations or approvals of any Governmental Authority necessary to consummate the Merger or the expiration or termination of any waiting period under applicable Law, or (b) increase the risk of any Governmental Authority entering an order prohibiting the consummation of the Merger or increase the risk of not being able to remove any such order on appeal or otherwise.

Section 7.18 Collective Bargaining Agreement. In accordance with Article IV, Section 1 of the Collective Bargaining Agreement, Parent and Merger Sub hereby agree to recognize, and will cause the Surviving Corporation to recognize upon the Closing, the United Steel, Paper and Forestry, Rubber, Manufacturing, Energy, Allied Industrial and Service Workers International Union (the "Union") as the bargaining representative for the Employees, as such term is defined in the Collective Bargaining Agreement, and Parent accepts, and will cause the Surviving Corporation to accept, the Collective Bargaining Agreement with the Union establishing the terms and conditions of employment of such Employees. Parent shall cause the Surviving Corporation to continue to honor the Collective Bargaining Agreement in accordance with its terms.

Section 7.19 Financial Statements. Until the Closing, on or before the 21st day of each month, the Company will deliver to Parent unaudited financial statements of the Company as at and for the monthly period ending on the last day of the preceding month, which will include a balance sheet and statement of income.

Section 7.20 FIRPTA Certificate. Prior to Closing, ALJ shall provide Parent with a certification executed by ALJ and stating, under penalty of perjury, ALJ's U.S. taxpayer identification number and address and that ALJ is not a "foreign person" as defined in Section 1445 of the Code.

Section 7.21 Termination of Agreements. Prior to Closing, ALJ and the Company shall take such steps as are required to terminate, with effect from Closing, the Tax Sharing Agreement, the Management Agreement and the Fee and Reimbursement Agreement.

Section 7.22 “As Is” Purchase. PARENT ACKNOWLEDGES THAT IT WILL, SUBJECT ONLY TO ALJ’S OR THE COMPANY’S EXPRESS REPRESENTATIONS, WARRANTIES, COVENANTS, AND OBLIGATIONS IN THIS AGREEMENT, ACQUIRE THE COMPANY IN “AS IS” CONDITION, WITH ALL FAULTS, IN RELIANCE UPON PARENT’S INSPECTION THEREOF. EXCEPT AS OTHERWISE EXPRESSLY SET FORTH IN THIS AGREEMENT, AND WITHOUT LIMITING ALJ’S OR THE COMPANY’S EXPRESS REPRESENTATIONS AND WARRANTIES, NEITHER ALJ NOR THE COMPANY MAKES ANY REPRESENTATIONS OR WARRANTIES OF ANY KIND WHATSOEVER WITH RESPECT TO ANY OF THE ASSETS OR LIABILITIES OF THE COMPANY, WHETHER EXPRESS OR IMPLIED, INCLUDING ANY REPRESENTATIONS OR WARRANTIES CONCERNING OR WITH RESPECT TO (A) THE VALUE, NATURE, QUALITY OF CONDITION, OR STATE OF REPAIR OF ANY OF THE ASSETS OF THE COMPANY, (B) THE COMPLIANCE OF ALJ OR THE COMPANY, OR ANY REAL PROPERTY OWNED OR LEASED BY IT, OR THE OPERATION OF ANY FACILITIES OF THE COMPANY, WITH LAW, OR (C) THE HABITABILITY, MERCHANTABILITY, MARKETABILITY, PROFITABILITY OR FITNESS FOR A PARTICULAR PURPOSE OF ANY PERSONAL OR REAL PROPERTY OWNED OR LEASED BY THE COMPANY. PARENT HEREBY EXPRESSLY DISCLAIMS THE IMPLIED WARRANTY OF HABITABILITY, THE IMPLIED WARRANTY OF MERCHANTABILITY, THE IMPLIED WARRANTY OF FITNESS FOR A PARTICULAR PURPOSE, AND ALL IMPLIED WARRANTIES RELATING TO THE QUALITY OF OR OTHERWISE RELATING TO THE PHYSICAL CONDITION OF THE ASSETS OF THE COMPANY.

Section 7.23 Note Offering.

(a) Parent shall use reasonable best efforts to take, or cause to be taken, all actions and to do, or cause to be done, all things necessary, proper or advisable to arrange, with reasonable best efforts by Parent to obtain a closing no later than the Outside Date, the sale of additional 12.500% senior secured notes due 2016 issued pursuant to the indenture dated as of December 5, 2011 among Parent, the Guarantors (as defined therein) and Wilmington Trust, National Association as trustee and as noteholder collateral agent (the “Notes”), for the Financing Minimum Threshold (the “Note Offering”). The Company acknowledges that the consummation of the Note Offering requires certain consents from Parent’s existing senior lenders and noteholders and the execution of a supplemental indenture in respect thereof.

(b) The Company shall provide such reasonable cooperation in connection with the arrangement of the Note Offering as may be reasonably requested by Parent, including (i) participation in meetings, drafting sessions, presentations, road shows, due diligence and sessions with the financing sources, investors and rating agencies, (ii) furnishing Parent and the financing sources as promptly as practicable with financial and other pertinent information of the type and form customarily included in offering documents used in private placements under Rule 144A of the Securities Act (including pro forma financial information) and other documents required to satisfy any customary negative assurance opinion, to consummate the Note Offering at the time the Note Offering is to be consummated, (iii) assisting Parent and its financing sources in the preparation of (A) any offering documents, private placement memoranda and other informational and marketing materials for any portion of the Note Offering and (B) materials for rating agency presentations, (iv) reasonably cooperating with the marketing efforts

of Parent and the financing sources for any portion of the Note Offering, (v) executing and delivering any necessary pledge and security documents and otherwise reasonably facilitating the granting of a security interest (and perfection thereof) in collateral, guarantees, mortgages, other definitive financing documents or other certificates or documents as may be reasonably requested by Parent; provided that no such pledge or security document shall be effective prior to the Effective Time, (vi) obtaining customary authorization letters with respect to the offering memoranda and consents of accountants for use of their reports in any materials relating to the Note Offering and (vii) taking all corporate actions, subject to the occurrence of the Closing, necessary to permit the consummation of the Note Offering. Parent shall reimburse ALJ and the Company for all reasonable out-of-pocket legal and accounting fees and expenses incurred by the Company pursuant to this Section 7.23(b).

ARTICLE 8. CONDITIONS

Section 8.1 Conditions to Obligations of each Party to Effect the Merger. The obligation of each Party to effect the Merger and to take the other actions contemplated hereunder to be taken by it at the Closing is subject to the fulfillment or waiver of each of the following conditions:

(a) Required Votes. The Required Votes shall have been obtained on or prior to the Closing Date.

(b) Termination of Tax Sharing Agreement. The Tax Sharing Agreement and any similar agreements shall have been terminated in their entirety, provided, however, provision shall have been made for all payments thereunder for periods (including partial periods) prior to the Closing Date.

(c) Termination of Management Agreement and Fee and Reimbursement Agreement. Each of the Management Agreement and the Fee and Reimbursement Agreement shall have been terminated in its entirety. The Company shall not have made any payment under the Fee and Reimbursement Agreement.

(d) Closing Deliverables. Each of the Company and Parent shall have delivered or caused to have been delivered to one another or such other party designated by the Company, as applicable, the items required by Section 2.3.

(e) Stock Purchase Agreement. Merger Sub, the Company and all the holders of Company Preferred Stock and Series B Common Stock shall have duly executed the Stock Purchase Agreement and shall have duly complied with the terms thereof required to be complied with prior to the Closing, and the only item remaining in order to effect consummation of the securities purchases contemplated thereby shall be the payment of the relevant purchase funds to the holders of Company Preferred Stock and Series B Common Stock at the Closing.

Section 8.2 Conditions to Obligations of the Company to Effect the Merger. The obligation of the Company to effect the Merger and to take the other actions contemplated hereunder to be taken by it at the Closing is subject to the fulfillment or waiver of each of the following conditions (which may be waived in whole or in part by the Company):

(a) Representations, Warranties and Covenants. The representations and warranties of Parent and Merger Sub contained in this Agreement that (i) are contained in Section 6.2 or (ii) are qualified by materiality, including material adverse effect, shall be true and correct as of the date of this Agreement and as of the Closing Date and the representations and warranties of Parent and Merger Sub contained in this Agreement that are not so qualified shall be true and correct in all material respects as of the date of this Agreement and as of the Closing Date, in each case as if made as of the Closing Date (other than such representations and warranties as are made as of another date, which shall be true and correct in all material respects as of such date). The covenants and agreements contained in this Agreement to be complied with by Parent and Merger Sub at or before the Closing shall have been complied with in all material respects. The Company shall have received a certificate from Parent signed by an executive officer thereof with respect to the matters described in this Section 8.2(a).

(b) Regulatory Approvals. Any waiting period (and any extension thereof) under the HSR Act shall have expired or shall have been terminated.

(c) No Order. There shall not be in effect any Law or Governmental Order prohibiting the Merger.

(d) Third Party Consents. There shall have been obtained all approvals, consents, authorizations and waivers from third parties (who are not Governmental Authorities) listed on Schedule 8.2(d).

(e) Collective Bargaining Agreement. Parent and Merger Sub shall have taken all actions reasonably requested by the Union to evidence their agreement to recognize and accept the Collective Bargaining Agreement and the Surviving Corporation's obligation to recognize and honor the Collective Bargaining Agreement in accordance with its terms thereof.

Section 8.3 Conditions to Obligations of Parent and Merger Sub. The obligation of the Parent and Merger Sub to effect the Merger and to take the other actions contemplated hereunder to be taken by them at the Closing is subject to the fulfillment or waiver of each of the following conditions (which may be waived in whole or in part by the Parent):

(a) Representations and Warranties. The representations and warranties of the Company and ALJ contained in this Agreement that (i) are contained in Section 4.2, Section 4.5 and Section 5.3 or (ii) are qualified by materiality, including material adverse effect, shall be true and correct as of the date of this Agreement and as of the Closing Date and the representations and warranties of the Company and ALJ contained in this Agreement that are not referenced in the foregoing subclauses (i) and (ii) shall be true and correct in all material respects as of the date of this Agreement and as of the Closing Date, in each case as if made as of the Closing Date (other than such representations and warranties as are made as of another date, which shall be true and correct in all material respects as of such date). The covenants and agreements contained in this Agreement to be complied with by the Company or ALJ at or before the Closing shall have been complied with in all material respects. Parent shall have received certificates from each of the Company and ALJ signed by an executive officer thereof with respect to the matters described in this Section 8.3(a).

(b) Regulatory Approvals. Without limiting Section 7.4 and subject to Parent's compliance therewith, any waiting period (and any extension thereof) under the HSR Act applicable to the Merger contemplated hereby shall have expired or shall have been terminated.

(c) No Order or Action. There shall not be in effect any Law or Governmental Order directing that the Merger not be consummated or which has the effect of rendering it unlawful to consummate such transaction, and there must not have been commenced any Action that in any case could prevent or make illegal or restrain the consummation of the Merger.

(d) Closing Date Disbursements and Calculation of Merger Consideration. At least two (2) Business Days prior to the Closing Date, Parent shall have received a certificate, executed on behalf of the Company by an executive officer thereof, and attaching copies of payoff and release letters, in form and substance reasonably satisfactory to Parent, from all Persons to whom Company Debt is owed and which set out the amounts to be paid, setting forth the (i) Company Debt Payoff Amount, (ii) the Company Transaction Expenses, (iii) the Preferred Stock Purchase Consideration, (iv) Company Common Stock Merger Consideration, (v) the Series A Common Stock Merger Consideration, (vi) the Series B Common Stock Purchase Consideration, (vii) the Preferred Stock Per Share Amount, (viii) the Series A Common Stock Per Share Amount, (ix) the Series B Common Stock Per Share Amount, (x) the number of shares of Company Preferred Stock outstanding as of the Closing Date and each holder thereof, (xi) the number of shares of Company Common Stock outstanding as of the Closing Date, (xii) the number of shares of Series A Common Stock outstanding as of the Closing Date and each holder thereof and (xiii) the number of shares of Series B Common Stock outstanding as of the Closing Date and each holder thereof.

(e) Closing Net Working Capital. The Closing Net Working Capital shall be at least Twenty Four Million Dollars ($24,000,000).

(f) No Material Adverse Effect. Since the Balance Sheet Date, there shall not have occurred any Material Adverse Effect. Notwithstanding anything to the contrary set forth herein, the failure of the Company to obtain the prior written consent of the counterparty under that certain Equipment Lease (as defined in Schedule 4.3) for the transactions contemplated hereby, shall not constitute a Material Adverse Effect or give rise to any right to terminate this Agreement.

(g) Third Party Consents. There shall have been obtained all approvals, consents, authorizations and waivers from third parties (who are not Governmental Authorities) listed on Schedule 8.3(g).

(h) Note Offering. The Note Offering shall have been consummated (or shall be consummated simultaneously with the Closing) and Parent shall have received the Financing Minimum Threshold.

ARTICLE 9. TERMINATION

Section 9.1 Termination and Abandonment. Anything herein or elsewhere to the contrary notwithstanding, this Agreement may be terminated and the Merger contemplated herein may be abandoned at any time prior to the Effective Time, whether before or after the Required Votes have been obtained:

(a) by the mutual written consent of the Parent, on the one hand, and the Company and ALJ, on the other hand;

(b) by Parent, on the one hand, or ALJ or the Company, on the other hand, upon notice to the other, at any time after February 28, 2013 (the "Outside Date") if the Closing shall not have occurred on or prior to the Outside Date; provided, however, that the right to terminate this Agreement under this Section 9.1(b) shall not be available to any Party whose failure to fulfill any obligation under this Agreement shall have been the cause of, or shall have resulted in, the failure of the Closing to occur on or prior to such date;

(c) at any time prior to the Outside Date by Parent, on the one hand, or ALJ or the Company, on the other hand, upon notice to the other, if the terminating Party's conditions to Closing cannot be reasonably satisfied by the Outside Date; provided, however, that (i) Parent may not terminate this Agreement pursuant to this Section 9.1(c), if it or the Merger Sub has failed to comply with their respective obligations under this Agreement in any material respect and have not adequately cured any such failure to comply on or before the Outside Date and (ii) neither ALJ nor the Company may terminate this Agreement pursuant to this Section 9.1(c), if either ALJ or the Company has failed to comply with any of their obligations under this Agreement in any material respect and any such failure to comply has not adequately been cured on or before the Outside Date;

(d) by either Parent, on the one hand, or ALJ or the Company, on the other hand, upon notice to the other, if the Required Votes shall not have been obtained at or by the time immediately following the ALJ Stockholders' Meeting (giving effect to any adjournment or postponement thereof permitted by the terms hereof);

(e) prior to the Closing, by either Parent, on the one hand, or ALJ or the Company, on the other hand, upon notice to the other, if it is not then in material breach or default under this Agreement, of a material breach or default by the other Party under this Agreement that if not cured could result in failure of the conditions to Closing set forth in Article 8, which is not cured within thirty (30) days after receipt by the other Party of written notice from the terminating Party specifying with particularity such breach or default of this Agreement; or

(f) by the Company or ALJ, in accordance with Section 7.2(b); provided, however, that the Company or ALJ, as applicable, shall substantially concurrently with such termination enter into an Acquisition Agreement relating to such Superior Company Proposal.

(g) By ALJ or the Company, upon written notice to Parent, at any time after the Financing Confirmation Date but no later than December 31, 2012, if the Note Offering shall not have been consummated for the Financing Minimum Threshold on or prior to the Financing

Confirmation Date; unless within forty-eight (48) hours of the Financing Confirmation Date ALJ notifies Parent that (i) it will agree to receive the Financing Shortfall in Notes (at par) in lieu of cash or (ii) one or more designees of ALJ notify Parent that they will purchase Notes in an amount equal to the Financing Shortfall in the Note Offering.

Section 9.2 Termination Fee. The Company shall promptly pay to Parent the Termination Fee if this Agreement is terminated by:

(a) the Company or ALJ pursuant to Section 9.1(f); or

(b) either ALJ or the Company, on the one hand, or Parent, on the other hand, pursuant to Section 9.1(d) or by either ALJ or the Company, on the one hand, or Parent, on the other hand, pursuant to Section 9.1(b), provided that, within twelve (12) months of such termination, ALJ or the Company either enters into an Acquisition Agreement with respect to a Company Takeover Proposal in respect of which ALJ or the Company was engaging in discussions between the date of this Agreement and the date of such termination, which is subsequently consummated, or consummates a Company Takeover Proposal in respect of which ALJ or the Company was engaging in discussions between the date of this Agreement and the date of such termination (provided, however, that for purposes of this Section 9.2(b) only all references to fifteen percent (15%) in the definition of Company Takeover Proposal shall be references to fifty and one tenth percent (50.1%)).

In no event shall more than one Termination Fee be payable hereunder.

The "Termination Fee" shall be a fee equal to three percent (3%) of the Total Purchase Price. The Company shall pay the Termination Fee within three Business Days of a termination referenced in Section 9.2(a). The Company shall pay the Termination Fee within three Business Days of consummation of the Company Takeover Proposal referenced in Section 9.2(b).

Section 9.3 Reverse Termination Fee. Parent shall promptly pay to the Company the Reverse Termination Fee if this Agreement is terminated by:

(a) either ALJ or the Company, on the one hand, or Parent, on the other hand, pursuant to Section 9.1(b), if the Closing shall not have occurred on or prior to the Outside Date as a result of the condition set forth in Section 8.3(h) not being satisfied prior to the Outside Date; or

(b) by Parent pursuant to Section 9.1(c), if the reason for such termination is that the condition set forth in Section 8.3(h) cannot be reasonably satisfied by the Outside Date.

In no event shall more than one Reverse Termination Fee be payable hereunder. The Parties understand and agree that in no event shall Parent be required to pay the Reverse Termination Fee if the Termination Fee has already become due.

The "Reverse Termination Fee" shall be a fee equal to three percent (3%) of the Total Purchase Price. Parent shall pay the Reverse Termination Fee within three Business Days of a termination referenced in this Section 9.3.

Section 9.4 Effect of Termination. In the event of termination of this Agreement as provided in Section 9.1, this Agreement shall forthwith become void and of no further force or effect and there shall be no liability on the part of any Party except (a) as set forth in the last sentence of Section 7.3, Section 9.2, Section 9.3 and in Article 10 and (b) that nothing herein shall relieve any Party from liability for any willful breach of this Agreement. For purposes of this Agreement, "willful breach" shall mean a breach or failure to perform an obligation or agreement that is a consequence of an act undertaken by the breaching party with the actual knowledge that the taking of such act would, or would reasonably be expected to, cause a breach of this Agreement.

ARTICLE 10. MISCELLANEOUS PROVISIONS

Section 10.1 Non-Survival of Representations and Warranties. The representations, warranties and covenants of the Company, ALJ, Parent and Merger Sub contained in this Agreement, or any instrument delivered pursuant to this Agreement, shall terminate at the Effective Time, except the obligations set forth in Section 7.8, Section 7.9, Section 7.10, Section 7.13, Section 7.18, Section 9.2, Section 9.3 and Article 10 that by their terms survive the Effective Time shall survive.

Section 10.2 Expenses. Except as otherwise specified in this Agreement, all costs and expenses, including fees and disbursements of counsel, financial advisors and accountants, incurred in connection with this Agreement, the agreements contemplated hereby and the transactions contemplated hereby and thereby shall be paid by the party incurring such costs and expenses, whether or not the Closing shall have occurred, provided, however, that Parent and the Company shall (if not already done so prior to the date hereof) jointly pay for all filing fees relating to antitrust, competition and foreign investment matters.

Section 10.3 Disclaimer Regarding Projections. In connection with Parent's investigation of the Company, Parent confirms that it has received from the Company and/or the representatives thereof certain projections and other forecasts and certain business plan information. Parent acknowledges that there are uncertainties inherent in attempting to make such projections and other forecasts and plans, that Parent is familiar with such uncertainties, that Parent is taking full responsibility for making its own evaluation of the adequacy and accuracy of all projections and other forecasts and plans so furnished to it, and that Parent is not relying on any such projections, forecasts or plans and shall have no claim against anyone with respect thereto. Accordingly, Parent acknowledges that the Company makes no representation or warranty with respect to such projections, forecasts or plans and that the Company makes only those representations and warranties explicitly set forth in Article 4.

Section 10.4 Materiality. There have been included in the Schedules, and may be included elsewhere in this Agreement, items which are not "material"; such inclusion shall not be deemed to be an acknowledgement by the Company that such items are "material" and shall not be used to further define the meaning of "material" for purposes of this Agreement.

Section 10.5 Notices. All notices, requests, claims, demands and other communications hereunder shall be in writing and shall be given or made (and shall be deemed to have been duly given or made upon receipt) by delivery in person, by courier service or by telecopy to the

respective parties at the following addresses (or at such other address for a Party as shall be specified in a notice given in accordance with this Section 10.5):

(a) If, prior to the Closing Date, to the Company:

KES Acquisition Company
P.O. Box 2119
Ashland, KY 41105-2119
Facsimile: (606) 929-1261
Attention: Chief Executive Officer

with a copy to:

Morrison & Foerster LLP
755 Page Mill Road
Palo Alto, CA 94304
Facsimile: (858) 523-2809
Attention: Christopher M. Forrester

(b) If to Parent:

Optima Specialty Steel, Inc.
200 South Biscayne Boulevard
Suite 3660
Miami, Florida 33131
Facsimile: (305) 375-7501
Attention: General Counsel

with a copy to:

Baker & McKenzie LLP
300 East Randolph Street, Suite 5000
Chicago, IL, 60601
Facsimile: (312) 698-2702
Attention: Edward J. West

Section 10.6 Public Announcements. No Party shall make, or cause to be made, any press release or public announcement in respect of this Agreement, the Merger or the transactions contemplated hereby or otherwise communicate with any news media regarding any of the foregoing without the prior written consent of the other parties, and the parties shall cooperate as to the timing and contents of any such press release or public announcement; provided, however, that a Party may, without the prior consent of the other parties, make such press release or public announcement as may be required by Law. The first public announcement by the parties of the transactions contemplated by this Agreement shall be in the

form of a joint press release to be jointly prepared and approved by each of Parent and the Company.

Section 10.7 Headings; Table of Contents. The descriptive headings contained in this Agreement and table of contents of this Agreement are for convenience of reference only and shall not affect in any way the meaning or interpretation of this Agreement.

Section 10.8 Severability. If any term or other provision of this Agreement is determined by a court of competent jurisdiction to be invalid, illegal or incapable of being enforced, all other terms and provisions of this Agreement shall nevertheless remain in full force and effect so long as the economic or legal substance of the transactions contemplated hereby is not affected in any manner materially adverse to any Party. Upon such determination that any term or other provision is invalid, illegal or incapable of being enforced, the Parties shall negotiate in good faith to modify this Agreement so as to effect the original intent of the Parties as closely as possible in an acceptable manner in order that the transactions contemplated hereby are consummated as originally contemplated to the greatest extent possible.

Section 10.9 Entire Agreement. This Agreement and the Confidentiality Agreement constitute the entire agreement of the Parties with respect to the subject matter hereof and supersede all prior agreements and undertakings, both written and oral, among the Parties with respect to the subject matter hereof.

Section 10.10 Binding Effect; Assignment. This Agreement shall be binding upon and inure to the benefit of the Parties and their respective successors and permitted assigns. This Agreement may not be assigned by operation of law or otherwise by any Party without the prior written consent of the other Parties (which consent may be granted or withheld in the sole discretion of such other Parties), and any attempted assignment in violation of this Section 10.10 shall be void.

Section 10.11 No Third Party Beneficiaries. Except as provided in Section 7.10 and Section 7.18, this Agreement shall be binding upon and inure solely to the benefit of the Parties and their permitted assigns and nothing herein, express or implied, is intended to or shall confer upon any other Person other than the Parties any legal or equitable right, benefit or remedy of any nature whatsoever (including any rights as a third party beneficiary or otherwise) under or by reason of this Agreement.

Section 10.12 Amendment. This Agreement may not be amended except by an instrument in writing signed by the Parties.

Section 10.13 Waiver. Any Party may (a) extend the time for the performance of any of the obligations or other acts of any other Party, (b) waive any inaccuracies in the representations and warranties of another Party contained herein or in any document delivered by another Party pursuant hereto or (c) waive compliance with any of the agreements or conditions of another Party contained herein. Any such extension or waiver shall be valid only if set forth in an instrument in writing signed by the Party to be bound thereby. Any waiver of any term or condition shall not be construed as a waiver of any subsequent breach or a subsequent waiver of the same term or condition, or a waiver of any other term or condition, of this Agreement. The

failure of any Party to assert any of its rights hereunder shall not constitute a waiver of any of such rights.

Section 10.14 Governing Law. This Agreement shall be governed by, and construed in accordance with, the laws of the State of Delaware, without reference to the choice of law doctrine of Delaware. All actions and proceedings arising out of or relating to this Agreement shall be heard and determined in any federal court sitting in the County of New Castle, Delaware, unless there is no federal court jurisdiction, in which case the action or proceeding shall be heard and determined in any state court sitting in the County of New Castle, Delaware, and the Parties hereby irrevocably submit to the jurisdiction of such courts in any such action or proceeding and irrevocably waive the defense of an inconvenient forum. Each Party irrevocably consents to the service of any and all process in any such action or proceeding by the mailing of copies of such process to such Party at its address specified in Section 10.5. Nothing in this Section 10.14 shall affect the right of any Party to serve legal process in any other manner permitted by Law. The consents to jurisdiction set forth in this Section 10.14 shall not constitute general consents to service of process in the State of Delaware and shall have no effect for any purpose except as provided in this Section 10.14 and shall not be deemed to confer rights on any person other than the Parties.

Section 10.15 Equitable Relief. The Parties agree that irreparable harm and significant damage, the amount of which would be difficult to estimate, would occur in the event that any of the provisions of this Agreement were not performed (or threatened to not be performed) in accordance with their specified terms or were otherwise breached (or threatened to be breached), thus making any remedy at Law or in damages inadequate. Accordingly, the Parties agree that they shall each be entitled to injunctive relief to prevent breaches (and to enforce specifically the terms and provisions) of this Agreement. Nothing herein shall be construed to limit the Parties' respective rights to other remedies, which shall be in addition to those set forth in this provision. Notwithstanding the foregoing or anything herein to the contrary, it is acknowledged and agreed that the Company shall not be entitled to seek specific performance of Parent's obligations under Section 7.23.

Section 10.16 Counterparts. This Agreement may be executed in one or more counterparts, and by the Parties in separate counterparts, each of which when executed shall be deemed to be an original but all of which taken together shall constitute one and the same agreement. Facsimile signatures shall have the same force and effect as signatures.

Section 10.17 Construction. This Agreement and any documents or instruments delivered pursuant hereto shall be construed without regard to the identity of the Person who drafted the various provisions of the same. Each and every provision of this Agreement and such other documents and instruments reflects a negotiated outcome and as such shall be construed as though the Parties participated equally in the drafting of the same. Any rule of construction providing that a document or provision be construed against the drafting party shall not be applicable to this Agreement or such other documents and instruments.

Section 10.18 Exhibits and Schedules to this Agreement. All Annexes, Exhibits and Schedules hereto, or documents expressly incorporated into this Agreement, are hereby

incorporated into this Agreement and are hereby made a part hereof as if set out in this Agreement.

Section 10.19 Time of the Essence. Time is of the essence with respect to all dates and time periods set forth or referred to in this Agreement. The Parties acknowledge that each will be relying upon the timely performance by the other of its obligations hereunder as a material inducement to enter into this Agreement.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed, as of the date first above written.

OPTIMA SPECIALTY STEEL, INC.

By: /s/ Mordechai Korf
Mordechai Korf
Executive Chairman

KES OPTIMA ACQUISITION INC.

By: /s/ Mordechai Korf
Mordechai Korf
Executive Chairman

KES ACQUISITION COMPANY

By: /s/ John Scheel
John Scheel
Chief Executive Officer

ALJ REGIONAL HOLDINGS, INC.

By: /s/ John Scheel
John Scheel
Chief Executive Officer

Annex B
Roth Opinion

CONFIDENTIAL

November 18, 2012

The Board of Directors
ALJ Regional Holdings, Inc.
244 Madison Avenue
PMB #358
New York, NY 10016

Members of the Board of Directors:

Roth Capital Partners, LLC ("Roth" or "we" or "us") understands that ALJ Regional Holdings, Inc. (the "Client" or "you") proposes to enter into an Agreement and Plan of Merger (the "Merger Agreement") by and among Optima Specialty Steel, Inc., a Delaware corporation ("Optima"), Cheetah Merger Sub Inc., a Delaware corporation and wholly owned subsidiary of Optima ("Merger Sub"), the Client, and Kentucky Electric Steel, Inc., a Delaware corporation and a majority owned subsidiary of the Client (the "Company"), purusant to which, among other things, at the Effective Time (as defined in the Merger Agreement), Merger Sub will be merged with and into the Company with the Company being the surviving corporation in the merger (the "Merger"). Pursuant to the Merger, the Company will become a subsidiary of Optima and Optima will pay the total purchase price of One Hundred Twelve Million Five Hundred Thousand Dollars ($112,500,000.00) (the "Total Purchase Price") in cash to the Company (the "Transaction"). In addition to repaying existing debt and transaction expenses, the Total Purchase Price will be used to compensate holders of each outstanding share of (i) Series A Common Stock, par value $0.0001 per share, of the Company ("Series A Common Stock"), (ii) Series B Common Stock, par value $0.0001 per share, of the Company ("Series B Common Stock") and (iii) Series A Preferred Stock, par value $0.0001 per share, of the Company. We have assumed, at your direction, that, in the Transaction, the Client will receive (i) Two Hundred Sixty-Seven Thousand Six Hundred Twenty-Two Dollars ($267,622) in cash related to the repayment by the Company of the 8% subordinated term loans under the Subordinated Financing Agreement, dated as of July 20, 2009, by and among the Company, the lenders a party thereto and Ableco, L.L.C. as collateral and administrative agent (the "Subordinated Notes Consideration"), (ii) Forty-Seven Million Seven Hundred Thirty Thousand Two Hundred Eighty-Nine Dollars ($47,730,289) in cash related to the cancelation of the Series A Common Stock and payment of consideration in the Transaction (the "Series A Common Stock Consideration"), and (iii) One Hundred Nineteen Thousand Three Hundred Eleven Dollars ($119,311) in cash related to the cancelation of the Series B Common Stock and payment of consideration in the Transaction (the "Series B Common Stock Consideration" and together with the Subordinated Notes Consideration and the Series A Common Stock Consideration, the "Aggregate Consideration"). The terms and conditions of the Transaction are more fully set forth in the Merger Agreement.

You have requested our opinion as to the fairness, from a financial point of view, to the Client and to the holders of its Common Stock, $.01 par value ("Client Common Stock") of the Aggregate Consideration to be received by the Client in the Transaction.

For purposes of the opinion set forth herein, we have, among other things, reviewed a draft execution version of the Merger Agreement received by us November 18, 2012, and also:

(i) reviewed certain available financial statements and other business and financial information relating to the Company that we deemed relevant to our inquiry;

(ii) reviewed certain financial forecasts of the Company prepared by the management of the Client (the "Forecasts");

(iii) discussed the past and current business, operations, financial condition and prospects of the Company with management of the Client;

(iv) compared the financial performance of the Company, with that of certain publicly traded companies we deemed relevant;

(v) compared certain financial terms of the Transaction to financial terms, to the extent publicly available, of certain other transactions we deemed relevant; and

(vi) performed such other analyses and considered such other information and factors as we have deemed appropriate.

In conducting our review and arriving at our opinion, at your direction, we have not independently verified any of the foregoing information, and we have assumed and relied upon such information being accurate and complete in all material respects, and we have further relied upon the assurances of management of the Client and the Company that they are not aware of any facts that would make any of the information reviewed by us inaccurate, incomplete or misleading in any material respect. With respect to the Forecasts, we have assumed, upon the direction of Client's management, that they have been reasonably prepared on bases reflecting the best currently available estimates and good faith judgments of the Client's management as to the future financial performance of the Company. We have not been engaged to assess the achievability of any projections or the assumptions on which they were based, and we express no view as to such projections or assumptions. In addition, we have not assumed any responsibility for any independent valuation or appraisal of the assets or liabilities, including any ongoing litigation and administrative investigations, of the Company, nor have we been furnished with any such valuation or appraisal, nor have we made any physical inspection of the properties or assets of the Company. We have not evaluated the solvency or creditworthiness of the Company or Optima under any applicable law relating to bankruptcy, insolvency, fraudulent transfer or similar matters. We express no opinion regarding the liquidation value of the Company or any other entity. Without limiting the generality of the foregoing, we have undertaken no independent analysis of any pending or threatened litigation, regulatory action, possible unasserted claims or other contingent liabilities, to which the Company or any of its affiliates is a party or may be

subject, and at the direction of the Client and with its consent, our opinion makes no assumption concerning, and therefore does not consider, the possible assertion of claims, outcomes or damages arising out of any such matters.

We also have assumed, at your direction, that the Transaction will be consummated in accordance with the terms set forth in the Merger Agreement and any related documents (the "Transaction Documents") without waiver, modification or amendment of any material term, and in compliance with applicable federal, state and local statutes, rules, regulations and ordinances, that such Transaction Documents are enforceable against each of the parties thereto in accordance with their respective terms, that the representations and warranties of each party in the Transaction Documents are true and correct, that each party will perform on a timely basis all covenants and agreements required to be performed by it under the Transaction Documents and that all conditions to the consummation of the Transaction will be satisfied without waiver thereof. Additionally, we have assumed, at your direction, that all necessary governmental, regulatory and other approvals, consents, releases and waivers required for the Transaction will be obtained and that in the course of obtaining any of the foregoing, no modification, delay, limitation, restriction or condition will be imposed or waivers made that would have an adverse effect on the Company or on the contemplated benefits of the Transaction. We have further assumed, at your direction, that the Transaction Documents when signed will conform to the last drafts of the Transaction Documents provided to us in all respects material to our analysis, and that the Transaction will be consummated in all material respects as described in the last drafts of the agreements reviewed by us. We have further assumed, at your direction, that the Aggregate Consideration to be received by the Client in the Transaction will be distributed pro-rata to the holders of Client Common Stock, although we understand that, in fact, no such distribution will occur.

Our opinion addresses only the fairness, from a financial point of view, to the Client and to the holders of Client Common Stock, of the Aggregate Consideration to be received by the Client in the Transaction and no opinion or view is expressed with respect to any consideration received in connection with the Transaction by the holders of any class of securities, creditors or other constituencies of any party. Our opinion does not in any manner address any other term, aspect or implication of the Transaction (other than the Aggregate Consideration to the extent expressly specified herein), including, without limitation, the form or structure of the Transaction or any agreement, arrangement or understanding entered into in connection with the Transaction or otherwise, including, without limitation, the fairness of the amount or nature of, or any other aspect relating to (i) any compensation to any officers, directors or employees of any party to the Transaction, or any class of such persons or (ii) the Merger Agreement. We were not requested to, and we did not, participate in the negotiations of the terms of the Transaction, nor were we requested to, and we did not, provide any advice or services in connection with the Transaction other than the delivery of this opinion. We express no view or opinion as to any such matters. Our opinion also does not address the relative merits of the Transaction as compared to any alternative business strategies or transactions that might exist for Client or the Company, the underlying business decision of the Client or the Company to proceed with the Transaction, or the effects of any other transaction in which the Client or the Company might engage. Our opinion is necessarily

based on economic, market and other conditions as they exist and can be evaluated on, and the information made available to us on, the date hereof. We express no opinion as to the underlying valuation, future performance or long-term viability of the Client or the Company. In addition, we express no opinion or recommendation as to how any stockholder should vote or act in connection with the transaction or any related matter.

We have acted as financial advisor to the Board of Directors of the Client (the "Board") solely to render an independent fairness opinion in connection with the Transaction. We will receive a fee for our services upon rendering this opinion to the Board. The fee for this opinion is not contingent upon the consummation of the Transaction. In addition, the Client has agreed to indemnify us for certain liabilities and other items arising out our engagement and to reimburse us for certain expenses in connection with our services.

Roth, as part of its investment banking business, is continually engaged in the valuation of businesses and their securities in connection with mergers and acquisitions, negotiated underwritings, secondary distributions of listed and unlisted securities, private placements and valuations for estate, corporate and other purposes. We may in the future provide investment banking and other financial services to the Client for which we would expect to receive compensation. We have not otherwise had a material relationship with, nor otherwise received fees from, the Client or the Company or any other parties to the Transaction during the two years preceding the date hereof. We may, in the future, provide investment banking and financial advisory services to the Client, other parties to the Transaction or entities that are affiliated with the Client or other parties to the Transaction, for which we would expect to receive compensation. We are a full service securities firm engaged in securities trading and brokerage activities, as well as providing investment banking and other financial services. In the ordinary course of business, we and our affiliates may acquire, hold or sell, for our and our affiliates' own accounts and for the accounts of customers, equity, debt and other securities and financial instruments (including bank loans and other obligations) of the Client and the other parties to the Transaction, and, accordingly, may at any time hold a long or a short position in such securities.

It is understood that this letter is solely for the information of the Board (in its capacity as such) in connection with and for purposes of its evaluation of the Transaction and does not constitute a recommendation to any stockholder as to how such stockholder should vote or act on any matter relating to the Transaction. This opinion is not rendered to or for the benefit of and shall not confer rights or remedies upon, any person other than the Board and may not be relied upon by any other person, used for any other purpose or reproduced, disseminated, quoted or referred to at any time, in any manner or for any purpose without our prior written consent. In furnishing this opinion, we do not admit that we are experts within the meaning of the term "experts" as used in the Securities Act of 1933, as amended, and the rules and regulations thereunder (the "Securities Act"), nor do we admit that this opinion constitutes a report or valuation within the meaning of Section 11 of the Securities Act. Furthermore, this opinion shall not be construed as creating or implying the existence of any fiduciary duty on Roth's part to any party.

Our opinion is based on financial, economic, monetary and other conditions and circumstances as in effect on, and the information made available to us as of, the date hereof. It should be understood that, although subsequent developments may affect our opinion, we do not have any obligation to update, revise, reaffirm or withdraw our opinion, or otherwise comment on or consider events occurring after the date hereof, and we expressly disclaim any responsibility to do so. The issuance of this opinion was approved by our fairness opinion committee.

On the basis of and subject to the foregoing, and such other factors as we deemed relevant, we are of the opinion as of the date hereof that the Aggregate Consideration to be received in the Transaction by the Client is fair, from a financial point of view, to the Client and to the holders of Client Common Stock.

Very truly yours,

ROTH Capital Partners

Annex C
KES Financial Statements
for the Period Ended June 30, 2012

Financial Statements

of
KES Acquisition Company
For the Period Ended June 30, 2012

KES Acquisition Company
2704 South Big Run Rd.
Ashland, KY 41102

July 25, 2012

Officer Certification – Article VII, Section 7.01

This is to certify that in accordance with the Financing Agreement dated February 23, 2007 (the "Agreement"; capitalized terms are used herein as defined in the Agreement) and as amended hereby, and as the same may have heretofore been and may hereafter be further amended, modified, supplemented, extended, renamed, restated, or replaced, that the attached Financial Statements are complete in accordance with GAAP applied in a manner consistent with the most recent audited financial statements.

We have reviewed the provisions of the Agreement for the period covered by the financial statements. Our review did not disclose the existence during such period of an event of default or default or if an event of default or default existed the nature and period of existence thereof and action which the Borrower and Company proposed to take or have taken with respect thereto are attached in a separate document.

Sincerely,

D.A. Reisenberg-CFO
KES Acquisition Company

KES Acquisition Company
Statement of Assets, Liabilities and Equity
Jun 30, 2012 and 2011

Assets

	2012	2011
Current Assets		
Cash, pledged - Note 1 & 3	$ (470,458.32)	$ (1,063,391.40)
Accounts Receivable-Note 1 & 3	14,680,002.20	17,706,078.36
Allowances	(708,494.81)	(673,774.31)
Inventory-Lower of cost or mark	26,191,384.64	27,426,528.62
Prepaid Expenses - Note 3	272,870.04	463,282.64
Total Current Assets	**39,965,303.75**	**43,858,723.91**
Property and Equipment		
Property&Equipment-Note 1,2,&3	5,107,202.78	5,107,202.78
Accumulated Depreciation	(2,844,457.98)	(2,483,860.54)
Total Property and Equipment	**2,262,744.80**	**2,623,342.24**
Other Assets		
Deferred Tax Asset	719,494.00	441,839.00
Loan Costs Net - Note 3	309,088.58	0.00
Deposits - Note 3	224,460.00	924,460.00
Total Other Assets	**1,253,042.58**	**1,366,299.00**
Total Assets	**$ 43,481,091.13**	**$ 47,848,365.15**

KES Acquisition Company
Statement of Assets, Liabilities and Equity
Jun 30, 2012 and 2011

Liabilities and Stockholders' Equity

	2012	2011
Current Liabilities		
Accounts Payable	$ 9,795,651.11	$ 11,579,913.19
Interco ALJ Regional Holdings	648,687.00	362,718.86
Deferred tax liability	383,158.00	410,438.00
Accrued Expenses	10,505,181.05	11,742,246.96
Total Current Liabilities	**21,332,677.16**	**24,095,317.01**
Long-Term Liabilities		
LOC - PNC Bank	705,144.26	10,881,097.90
LIBOR - PNC Bank	6,000,000.00	0.00
Note Payable - PNC	4,500,000.00	1,485,286.00
Capital Lease Obligation	45,075.20	211,570.75
Series A Preferred Stock (13%)	5,937,500.00	5,937,500.00
Notes Related Parties	19,242,104.97	31,197,712.93
Total Long-Term Liabilities	**36,429,824.43**	**49,713,167.58**
Total Liabilities	**57,762,501.59**	**73,808,484.59**
Stockholders' Equity		
Cl A Voting Common($.0001 par)	6.40	6.40
Cl B Non-Voting Com($.0001 par)	1.59	1.59
Additional Paid in Capital	(51,383,779.82)	(51,347,180.72)
Retained Earnings	28,532,264.41	19,884,815.02
Net Income	8,570,096.96	5,502,238.27
Total Stockholders' Equity	**(14,281,410.46)**	**(25,960,119.44)**
Total Liabilities and Stockholders' Equity	**$ 43,481,091.13**	**$ 47,848,365.15**

KES Acquisition Company
Statement of Revenues and Expenses
Month Ended Jun 30, 2012 and 2011 and 3 Quarters Ended Jun 30, 2012 and 2011

	Month Ended Jun 30, 2012	%	Month Ended Jun 30, 2011	%	3 Quarters Ended Jun 30, 2012	%	3 Quarters Ended Jun 30, 2011	%
Revenue								
Sales	$ 14,134,697.02	100.00 %	$ 16,057,857.61	100.00 %	$ 125,398,237.38	100.00 %	$ 116,130,159.67	100.00 %
Total Revenue	**14,134,697.02**	**100.00 %**	**16,057,857.61**	**100.00 %**	**125,398,237.38**	**100.00 %**	**116,130,159.67**	**100.00 %**
Cost of Goods Sold								
Cost of Goods Sold	600,746.38	4.25 %	823,459.62	5.13 %	6,637,191.67	5.29 %	6,399,974.95	5.51 %
Melt Shop/Caster Operations	3,035,496.46	21.48 %	4,057,646.08	25.27 %	32,852,123.34	26.20 %	33,156,515.07	28.55 %
Rolling Mill Operations	824,379.85	5.83 %	742,850.18	4.63 %	5,828,800.47	4.65 %	5,398,664.46	4.65 %
Ending Inventory	7,964,464.73	56.35 %	7,816,252.56	48.68 %	61,144,072.53	48.76 %	54,041,476.47	46.54 %
Current Period Adjustments	(49,129.00)	(0.35)%	0.00	0.00 %	(362,639.02)	(0.29)%	(107,899.67)	(0.09)%
Purchases Discounts	(11,955.15)	(0.08)%	(12,559.45)	(0.08)%	(96,435.93)	(0.08)%	(164,736.33)	(0.14)%
Depreciation - Note 1	30,055.58	0.21 %	30,055.58	0.19 %	270,500.22	0.22 %	283,750.18	0.24 %
Total Cost of Goods Sold	**12,394,058.85**	**87.69 %**	**13,457,704.57**	**83.81 %**	**106,273,613.28**	**84.75 %**	**99,007,745.13**	**85.26 %**
Gross Profit	**1,740,638.17**	**12.31 %**	**2,600,153.04**	**16.19 %**	**19,124,624.10**	**15.25 %**	**17,122,414.54**	**14.74 %**
Operating Expenses								
Selling Expenses	161,532.32	1.14 %	200,836.39	1.25 %	1,645,269.91	1.31 %	1,507,139.01	1.30 %
G&A Expenses	295,488.09	2.09 %	391,266.85	2.44 %	3,261,004.75	2.60 %	2,851,607.81	2.46 %
Total Operating Expenses	**457,020.41**	**3.23 %**	**592,103.24**	**3.69 %**	**4,906,274.66**	**3.91 %**	**4,358,746.82**	**3.75 %**
Operating Income (Loss)	**1,283,617.76**	**9.08 %**	**2,008,049.80**	**12.51 %**	**14,218,349.44**	**11.34 %**	**12,763,667.72**	**10.99 %**
Other Income								
Interest Income	0.00	0.00 %	0.00	0.00 %	9,000.00	0.01 %	36,219.69	0.03 %
Other Income	750.00	0.01 %	750.44	0.00 %	6,805.74	0.01 %	29,813.37	0.03 %
Miscellaneous Income	0.00	0.00 %	0.00	0.00 %	0.00	0.00 %	0.03	0.00 %
Total Other Income	**750.00**	**0.01 %**	**750.44**	**0.00 %**	**15,805.74**	**0.01 %**	**66,033.09**	**0.06 %**

KES Acquisition Company

Statement of Revenues and Expenses

Month Ended Jun 30, 2012 and 2011 and 3 Quarters Ended Jun 30, 2012 and 2011

	Month Ended Jun 30, 2012	%	Month Ended Jun 30, 2011	%	3 Quarters Ended Jun 30, 2012	%	3 Quarters Ended Jun 30, 2011	%
Other Expenses								
Interest Expense .	246,871.25	1.75 %	333,394.20	2.08 %	2,629,267.75	2.10 %	3,231,899.64	2.78 %
Loan Fees	25,410.95	0.18 %	19,030.31	0.12 %	263,899.47	0.21 %	338,300.90	0.29 %
Other Expenses	0.00	0.00 %	0.00	0.00 %	0.00	0.00 %	4.00	0.00 %
Management Incentive	132,833.00	0.94 %	252,983.00	1.58 %	1,634,069.00	1.30 %	1,404,782.00	1.21 %
State Taxes	49,114.00	0.35 %	140,178.00	0.87 %	307,677.00	0.25 %	731,880.00	0.63 %
ALJ Taxes	173,166.00	1.23 %	285,864.00	1.78 %	829,145.00	0.66 %	1,620,596.00	1.40 %
Total Other Expenses	**627,395.20**	**4.44 %**	**1,031,449.51**	**6.42 %**	**5,664,058.22**	**4.52 %**	**7,327,462.54**	**6.31 %**
Income (Loss) Before Income Taxes	**656,972.56**	**4.65 %**	**977,350.73**	**6.09 %**	**8,570,096.96**	**6.83 %**	**5,502,238.27**	**4.74 %**
Income Tax		**0.00 %**		**0.00 %**		**0.00 %**		**0.00 %**
Net Income (Loss)	**$ 656,972.56**	**4.65 %**	**$ 977,350.73**	**6.09 %**	**$ 8,570,096.96**	**6.83 %**	**$ 5,502,238.27**	**4.74 %**

See Officer's Certified Report

KES Acquisition Company
STATEMENT OF CASH FLOWS
Month Ended Jun 30, 2012 and 2011

	Jun 30, 2012	Jun 30, 2011
Cash Flows from Operating Activities		
Net Income		
Net Income (Loss)	$ 656,972.56	$ 977,350.73
Total Net Income	**656,972.56**	**977,350.73**
Adjustments to Net Income		
Adjustments to reconcile Net Income (Loss) to net Cash:		
(Increase) Decrease in:		
Accounts Receivable-Note 1 & 3	(363,387.92)	(3,669,294.23)
Allowances	109,691.40	140,210.49
Inventory-Lower of cost or mark	1,060,567.27	(961,959.51)
Prepaid Expenses - Note 3	54,256.42	(50,027.97)
Increase (Decrease) in:		
Accounts Payable	245,298.70	(417,150.86)
Interco ALJ Regional Holdings	173,166.00	0.00
Accrued Expenses	260,219.78	691,459.10
Total Adjustments	**1,539,811.65**	**(4,266,762.98)**
Net Cash Provided By (Used In) Operating Activities	**2,196,784.21**	**(3,289,412.25)**
Cash Flows from Investing Activities		
Accumulated Depreciation	30,055.58	30,055.58
Loan Costs Net - Note 3	11,281.00	0.00
Net Cash Provided By (Used In) Investing Activities	**41,336.58**	**30,055.58**
Cash Flows from Financing Activities		
LOC - PNC Bank	(153,023.89)	2,364,294.98
LIBOR - PNC Bank	(1,500,000.00)	0.00
Note Payable - PNC	(500,000.00)	(500,000.00)
Capital Lease Obligation	(14,646.46)	(12,997.99)
Net Cash Provided By (Used In) Financing Activities	**(2,167,670.35)**	**1,851,296.99**
Net Increase (Decrease) in Cash	**70,450.44**	**(1,408,059.68)**
Cash at Beginning of Period		
Cash at Beginning of Period	(540,908.76)	344,668.28
Total Cash at Beginning of Period	**(540,908.76)**	**344,668.28**
Cash at End of Period	**$ (470,458.32)**	**$ (1,063,391.40)**

KES Acquisition Company
STATEMENT OF CASH FLOWS
3 Quarters Ended Jun 30, 2012 and 2011

	Jun 30, 2012	Jun 30, 2011
Cash Flows from Operating Activities		
Net Income		
Net Income (Loss)	$ 8,570,096.96	$ 5,502,238.27
Total Net Income	**8,570,096.96**	**5,502,238.27**
Adjustments to Net Income		
Adjustments to reconcile Net Income (Loss) to net Cash:		
(Increase) Decrease in:		
Accounts Receivable-Note 1 & 3	545,921.41	(6,098,416.69)
Allowances	4,963.32	96,891.91
Inventory-Lower of cost or mark	2,159,746.44	(6,153,870.42)
Prepaid Expenses - Note 3	830,594.93	983,383.40
Increase (Decrease) in:		
Accounts Payable	(84,083.99)	5,558,283.55
Interco ALJ Regional Holdings	648,687.00	0.00
Accrued Expenses	(1,715,141.41)	1,699,325.62
Total Adjustments	**2,390,687.70**	**(3,914,402.63)**
Net Cash Provided By (Used In) Operating Activities	**10,960,784.66**	**1,587,835.64**
Cash Flows from Investing Activities		
Accumulated Depreciation	270,500.22	283,750.18
Loan Costs Net - Note 3	89,630.66	176,712.34
Deposits - Note 3	700,000.00	0.00
Net Cash Provided By (Used In) Investing Activities	**1,060,130.88**	**460,462.52**
Cash Flows from Financing Activities		
LOC - PNC Bank	(10,310,249.86)	(1,753,171.52)
LIBOR - PNC Bank	6,000,000.00	0.00
Note Payable - PNC	(1,500,000.00)	(2,014,714.00)
Capital Lease Obligation	(126,716.47)	(112,454.44)
Notes Related Parties	(844,496.85)	1,315,487.12
Net Cash Provided By (Used In) Financing Activities	**(6,781,463.18)**	**(2,564,852.84)**
Net Increase (Decrease) in Cash	**5,239,452.36**	**(516,554.68)**
Cash at Beginning of Period		
Cash at Beginning of Period	(5,709,910.68)	(546,836.72)
Total Cash at Beginning of Period	**(5,709,910.68)**	**(546,836.72)**
Cash at End of Period	**$ (470,458.32)**	**$ (1,063,391.40)**

KES Acquisition Company

STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

3 Quarters Ended Jun 30, 2012

	Jun 30, 2012
Revenue	$ 125,398,237.38
Cost of Goods Sold	106,273,613.28
Gross Profit	**19,124,624.10**
Operating Expenses	4,906,274.66
Operating Income (Loss)	**14,218,349.44**
Other Income	15,805.74
Other Expenses	5,664,058.22
Income (Loss) Before Income Taxes	**8,570,096.96**
Income Tax	
Net Income (Loss)	**$ 8,570,096.96**
Retained Earnings at Beginning of Period	19,884,815.02
Adjustments to Retained Earnings	77,352.43
Retained Earnings At End of Period	**$ 28,532,264.41**

Annex D
KES Financial Statements
For Years Ended September 30, 2009, 2010 and 2011

Explanatory Notes:

September 30, 2009

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. ALJ maintains a substantial NOL, which provides KES the ability to offset a large portion of KES' taxable income. In lieu of accruing and paying Federal Income Taxes on KES' financial statements for the period ending September 30, 2009, KES incurred a tax sharing payment due to ALJ in the amount of approximately $155,000, included in KES' Current Income Tax Expense. This amount represents approximately 50% of the Federal taxes which would have been due if was operating as a stand-alone company. Therefore, the estimated current federal income tax expense as of September 30, 2009 would have been approximately $310,000.

The additional income taxes due on KES' financial statements for the period ending September 30, 2009 would have increased current income tax expense on the financial statements from $201,217 to $356,217. Further, this would have decreased net income for the period ending September 30, 2009 from $332,860 to $177,860.

Additionally, KES has been operating under a Management Agreement with Pinnacle pursuant to which Pinnacle provides, at its expense, employees to serve as the general manager of the Mill and provide oversight and general management of the operations of the Mill. For the year ending September 30, 2009, KES paid Pinnacle $1,083,582, which is included in KES' cost of operations.

September 30, 2010

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. ALJ maintains a substantial NOL, which provides KES with the ability to offset a large portion of KES' taxable income. In lieu of accruing and paying Federal Income Taxes on KES' Financial Statements for the period ending September 30, 2010, KES incurred tax sharing payments due to ALJ in the amount of approximately $1,138,000, included in KES' Current Income Tax Expense. This amount represents approximately 50% of the Federal taxes which would have been due if KES was operating as a stand-alone company. Therefore, the estimated current federal income tax expense as of September 30, 2010 would have been approximately $2,276,000.

The additional income taxes due on KES' financial statements for the period ending September 30, 2010 would have increased current income tax expense on the financial statements from $1,621,943 to $2,759,943. Further, this would have decreased net income for the period ending September 30, 2010 from $6,483,863 to $5,345,863.

Additionally, KES has been operating under a Management Agreement with Pinnacle pursuant to which Pinnacle provides, at its expense, employees to serve as the general manager of the Mill and provide oversight and general management of the operations of the Mill. For the year ending September 30, 2010, KES paid Pinnacle $1,498,061, which is included in KES' cost of operations.

September 30, 2011

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. ALJ maintains a substantial NOL, which provides KES the ability to offset a large portion of KES' taxable income. In lieu of accruing and paying Federal Income Taxes on KES' Financial Statements for the period ending September 30, 2011, KES incurred tax sharing payments due to ALJ in the amount of approximately $2,451,425, included in KES' Current Income Tax Expense. This amount represents approximately 50% of the Federal taxes which would have been due if KES was operating as a stand-alone

company. Therefore, the estimated current federal income tax expense as of September 30, 2011 would have been approximately $4,902,850.

The additional income taxes due on KES' financial statements for the period ending September 30, 2011 would have increased current income tax expense on the financial statements from $3,511,310 to $5,962,735. Further, this would have decreased net income for the period ending September 30, 2011 from $8,647,448 to $6,196,023.

Additionally, KES has been operating under a Management Agreement with Pinnacle pursuant to which Pinnacle provides, at its expense, employees to serve as the general manager of the Mill and provide oversight and general management of the operations of the Mill. For the year ending September 30, 2011, KES paid Pinnacle $2,823,355, which is included in KES' cost of operations.

KES Acquisition Company

(A Majority-Owned Subsidiary of ALJ, Inc.)

Financial Statements

Years Ended September 30, 2011 and 2010

KES Acquisition Company (A Majority-Owned Subsidiary of ALJ, Inc.)

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September 30, 2011 and 2010

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Independent Auditor's Report on Financial Statements

To Board of Directors and Stockholders of
KES Acquisition Company

We have audited the accompanying balance sheets of KES Acquisition Company (a Corporation) as of September 30, 2011 and 2010 and the related statements of income, changes in stockholders' deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of KES Acquisition Company as of September 30, 2011 and 2010 and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information included on pages 18-20 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements taken as a whole.

Mountjoy Chilton Medley LLP

Louisville, Kentucky
December 14, 2011

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KES Acquisition Company (A Majority-Owned Subsidiary of ALJ, Inc.)
Balance Sheets
September 30, 2011 and 2010

	2011	2010
ASSETS		
Current assets		
Cash and equivalents	$ 684,790	$ 81,805
Accounts receivable, net allowance for doubtful accounts of $703,532 and $576,882	14,522,392	11,030,780
Other receivables	24,728	430,822
Inventories	28,351,131	21,272,658
Prepaid expenses and other current assets	1,078,736	1,015,843
Deferred income taxes	719,494	441,839
Total current assets	45,381,271	34,273,747
Property, plant and equipment, net	2,533,245	2,907,092
Other assets		
Loan cost, net	398,719	176,712
Deposits	924,460	924,460
	$ 49,237,695	$ 38,282,011
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current liabilities		
Book overdraft	$ 6,394,700	$ 628,642
Accounts payable	9,888,998	6,023,281
Accrued expenses	4,985,463	4,679,767
Income taxes payable	767,300	275,372
Income taxes payable - parent	830,829	232,470
Current portion of long-term debt	2,535,208	3,209,395
Current portion of capital lease obligation	171,792	152,233
Total current liabilities	25,574,290	15,201,160
Long-term liabilities		
Subordinated notes payable	20,086,602	29,882,226
Line of credit	11,015,394	12,634,269
Term notes payable, less current portion	4,000,000	823,880
Due to parent company	-	362,719
Deferred income taxes	383,158	410,438
Capital lease obligation	-	171,792
Preferred stock subject to mandatory redemption; 5,937.5 shares of A 13% cumulative, non-convertible, redeemable preferred stock, mandatory redemption and liquidation value of $1,000 per share, at September 30, 2011 and 2010, plus cumulative dividends of ($5,092,260 and $4,320,385, respectively)	11,029,760	10,257,885
Total long-term liabilities	46,514,914	54,543,209
Stockholders' deficit		
Common stock, $0.0001 par value; 80,000 (64,008 Series A, voting; 13,064 and 15,992 Series B, non-voting at September 30, 2011 and 2010, respectively) shares authorized, issued and outstanding	8	8
Additional paid-in capital	(51,383,780)	(51,347,181)
Retained earnings	28,532,263	19,884,815
	(22,851,509)	(31,462,358)
	$ 49,237,695	$ 38,282,011

See accompanying notes.

KES Acquisition Company (A Majority-Owned Subsidiary of ALJ, Inc.)
Statements of Income
Years Ended September 30, 2011 and 2010

	2011	2010
Net sales	$ 162,020,525	$ 112,828,496
Cost of goods sold	137,455,886	96,952,237
Gross profit	24,564,639	15,876,259
Operating expenses:		
General and administrative expenses	6,086,247	4,341,125
Selling expenses	2,071,418	1,695,618
Total operating expenses	8,157,665	6,036,743
Income from operations	16,406,974	9,839,516
Other income (expense):		
Interest income	36,220	8,950
Other revenue	33,851	-
Gain on forgiveness of debt	-	3,729,997
Interest expense	(4,240,372)	(4,818,633)
Loan fees	(382,850)	(631,731)
Other expenses	-	(82,513)
	(4,553,151)	(1,793,930)
Income before income taxes	11,853,823	8,045,586
Income tax expense (benefit):		
Current	3,511,310	1,621,943
Deferred	(304,935)	(60,220)
	3,206,375	1,561,723
Net income	$ 8,647,448	$ 6,483,863

See accompanying notes.

KES Acquisition Company (A Majority-Owned Subsidiary of ALJ, Inc.)
Statements of Changes in Stockholders' Deficit
Years Ended September 30, 2011 and 2010

	Common Stock	Additional Paid-in Capital	Retained Earnings	Total
Balance at September 30, 2009	$ 8	$ (52,003,431)	$ 13,400,952	$ (38,602,471)
Net income	-	-	6,483,863	6,483,863
Repurchase of 6,562.5 shares of mandatorily redeemable preferred stock	-	656,250	-	656,250
Balance at September 30, 2010	8	(51,347,181)	19,884,815	(31,462,358)
Net income	-	-	8,647,448	8,647,448
Purchase of 2,928 shares of treasury stock	-	(36,599)	-	(36,599)
Balance at September 30, 2011	$ 8	$ (51,383,780)	$ 28,532,263	$ (22,851,509)

See accompanying notes.

KES Acquisition Company (A Majority-Owned Subsidiary of ALJ, Inc.)
Statements of Cash Flows
Years Ended September 30, 2011 and 2010

	2011	2010
Cash Flows From Operating Activities		
Net income	$ 8,647,448	$ 6,483,863
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	550,559	845,338
Allowance for doubtful accounts	126,650	(86,139)
Deferred income tax	(304,935)	(60,220)
Capitalized interest on subordinated notes payable	1,315,487	2,024,704
Unpaid cumulative dividend on preferred stock	771,875	579,834
Gain on debt forgiveness	-	(3,729,997)
Changes in:		
Accounts receivable	(3,618,262)	(1,509,638)
Other receivables	406,094	(140,799)
Prepaid expenses and other current assets	(62,893)	(709,093)
Inventories	(7,078,473)	(3,546,520)
Other assets	-	(18,025)
Accounts payable	3,865,717	(530,367)
Accrued expenses	305,696	(102,631)
Income taxes payable	1,090,287	228,074
Net cash provided by (used in) operating activities	6,015,250	(271,616)
Cash Flows From Financing Activities		
(Payments on) proceeds from line of credit, net	(1,618,875)	8,109,937
Proceeds from PNC term note	5,014,714	4,000,000
Payments on PNC term note	(2,514,714)	(500,000)
Payments on Ableco term notes payable	-	(5,592,011)
Payments on subordinated notes payable	(10,798,777)	-
Proceeds from Lake Forest term notes payable	535,208	533,275
Payments on Lake Forest term notes payable	(533,275)	-
Payments on capital lease obligation	(152,233)	(135,100)
Repurchase of preferred stock	-	(5,906,250)
Purchase of treasury stock	(36,599)	-
Loan costs	(711,053)	-
Payment to parent company	(362,719)	-
Book overdraft	5,766,058	(382,752)
Net cash (used in) provided by financing activities	(5,412,265)	127,099
Increase (decrease) in cash and equivalents during the year	602,985	(144,517)
Cash and equivalents at beginning of year	81,805	226,322
Cash and equivalents at end of year	$ 684,790	$ 81,805

See accompanying notes.

KES Acquisition Company (A Majority-Owned Subsidiary of ALJ, Inc.)
Statements of Cash Flows
Years Ended September 30, 2011 and 2010

Supplemental Disclosures of Cash Flow Information:	2011	2010
Interest paid	$ 5,024,022	$ 4,656,657
Income taxes paid	$ 2,420,703	$ 1,393,869

Noncash Investing and Financing Transactions:

As part of the Company's debt restructuring in 2011, described in Note G, 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.

As part of the Company's debt restructuring in 2010, described in Note G related to the 13% Preferred Stock, 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.

See accompanying notes.

Note A – Nature of Operations

KES Acquisition Company (the Company) is engaged in the business of manufacturing and selling steel bar flats from its operations of a steel mini-mill located in Ashland, Kentucky. The Company's sales occur throughout North America.

Business Combination:

On February 23, 2007 (the Restructuring Date), the Company completed a financial and corporate restructuring designed to reduce outstanding obligations and streamline corporate operations. On that date, Atacama KES Holding Corporation, a wholly-owned subsidiary, and KES Acquisition Company, LLC, a wholly-owned subsidiary, were merged (the Merger) into Youthstream Acquisition Corp. (Acquisition Corp.). Acquisition Corp., which immediately changed its name to KES Acquisition Company (KES Acquisition Co.), was the surviving corporation. As a result of the Merger, ALJ, Inc. now has only one operating subsidiary, KES Acquisition Co., in which it owns 83.05% of the Series B, non-voting common stock and 100% of the Series A, voting common stock.

Note B – Summary of Significant Accounting Policies

1. Basis of Accounting: The financial statements of the Company are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

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

3. Revenue Recognition: The Company recognizes revenues 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.

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

5. 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.

Note B – Summary of Significant Accounting Policies (Continued)

6. Inventory: Inventories are comprised of raw materials (consisting of alloys and scrap metal), semi-finished goods and finished goods. Inventory costs include material, labor and manufacturing overhead. Inventories are valued at the lower of average cost or market. The average cost of the billets and scrap metal is adjusted periodically to reflect current changes in cost inputs. The market value of billet and scrap metal inventories was determined using replacement costs. All inventories are carried at average cost as of September 30, 2011 and 2010.

7. Property, Plant and Equipment: Property, plant and equipment are stated at cost. Expenditures for 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 of property, plant and equipment is provided using the straight-line method, generally 3 to 20 years for machinery and equipment, and 20 to 40 years for buildings. Equipment under capital lease is amortized using the straight-line method over the primary lease term.

8. 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 in accordance with generally accepted accounting principles. 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.

9. Loan Costs: The Company amortizes loan costs from origination date through the loan maturity date. The loan cost amortization expense was - and $444,816 for 2011 and 2010, respectively.

10. 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 goods sold.

11. 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 income on a straight-line basis over the lease term.

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

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

Note B – Summary of Significant Accounting Policies (Continued)

13. 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. During 2011 and 2010, the Company recognized self-insured health care expense of approximately $3,282,000 and $3,123,000, respectively. At September 30, 2011 and 2010, estimated claims incurred but not reported were $227,838 and $445,589, respectively, which are included in accrued expenses in the balance sheet at such date.

14. Advertising Costs: The Company expenses advertising costs as incurred. Advertising expense amounted to $24,439 and $28,552 for the years ended September 30, 2011 and 2010, respectively.

15. Prepaid Expenses: Prepaid expenses consist primarily of prepaid insurance and a state income tax credit.

16. 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 adopted new regulations relating to accounting for uncertainty in income taxes in 2009, as required by generally accepted accounting principles. Per these regulations, the Company should evaluate its uncertain tax positions in relation to accounting for contingencies. 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's adoption of the new regulations resulted in no material impact to the financial statements.

    The Company is included in the consolidated federal income tax return of its parent (ALJ). ALJ files income tax returns in the U.S. federal jurisdiction and the Company files in one state jurisdiction. The Company is no longer subject to U.S. federal and state tax examinations by tax authorities for years before 2007.

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

17. Reclassifications: Certain amounts for 2010 have been reclassified to conform to the 2011 presentation. These reclassifications had no effect on the previously reported net or comprehensive income.

18. Subsequent Events: Subsequent events for the Company have been considered through the date of the Independent Auditor's Report which represents the date the financial statements were available to be issued.

Note C – Concentration of Credit Risk

The Company maintains its cash balances with one financial institution located in Pennsylvania. The balances are insured by the Federal Deposit Insurance Corporation (FDIC) up to $250,000. At September 30, 2011 and 2010, the Company maintains deposits in excess of their limit that are 100% insured by the institution's new financial collateral programs.

Note C – Concentration of Credit Risk (Continued)

During 2011, the Company had four suppliers that accounted for approximately 65% of raw materials purchases, of which approximately $3,704,000 was included in accounts payable at September 30, 2011. During 2010, the Company had three suppliers that accounted for approximately 65% of raw materials purchases, of which approximately $1,451,000 was included in accounts payable at September 30, 2010. During 2011, the Company had four customers that accounted for 22% of net sales, of which approximately $4,397,000 was included in accounts receivable at September 30, 2011. During 2010, the Company had four customers that accounted for 23% of net sales, of which approximately $3,538,000 was included in accounts receivable at September 30, 2010.

Note D - Inventories

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

	2011	2010
Raw materials and scrap	$ 2,739,663	$ 2,264,749
Finished goods	11,293,799	8,325,355
Semi-finished goods	14,317,669	10,682,554
	$ 28,351,131	$ 21,272,658

Note E – Property, Plant and Equipment

The balances of the major classes of depreciable assets are as follows:

	Estimated Useful Life	2011	2010
Machinery and equipment	3-20 years	$ 4,385,726	$ 4,385,726
Buildings and improvements	20-40 years	572,496	572,496
Land		142,530	142,530
Vehicle	5 years	6,450	6,450
		5,107,202	5,107,202
Accumulated depreciation		(2,573,957)	(2,200,110)
		$ 2,533,245	$ 2,907,092

Depreciation expense for the years ended September 30, 2011 and 2010 was $373,847 and $400,522, respectively.

Note F – Capital Lease Obligation

The Company leases various equipment under a capital lease arrangement requiring monthly payments of $15,244 per month for a term of 4 years commencing October 1, 2008, reflecting a total obligation of $578,918. The Company determined that the fair value of this asset at the date of acquisition was $578,918.

Note F – Capital Lease Obligation (Continued)

Future minimum lease payments are as follows:

Years Ending September 30,	Amount
2012	$ 182,924
Less amount representing interest	(11,132)
Present value of minimum lease payments	$ 171,792
Current maturities	$ 171,792
Non-current maturities	-
	$ 171,792
Leased property under capital leases at September 30, 2011 includes:	
Equipment	$ 578,918
Less accumulated depreciation	(347,352)
	$ 231,566

Note G – Long Term Debt

Restructured Debt Obligations

On February 23, 2007 (the "Restructuring Date"), the Company entered into a Financing Agreement and Security Agreement providing for a revolving line (the "Revolver") and two new term loans (collectively, the "Term Loan" and together with the Revolver, the "Credit Facility") with Ableco Finance LLC ("Ableco") and PNC Bank, National Association ("PNC", and together with Ableco, the "Senior Lenders"). The details of which are noted below.

As part of the Restructuring, the Company repurchased, for $21 million, $21,000,000 in principal amount of the Subordinated Notes plus certain accrued interest thereon, including certain notes previously issued to reflect a portion of such interest which was unpaid (the "Repurchased Notes") and restructured the remaining $22,000,000 in Subordinated Notes and the accrued interest thereon (including certain notes previously issued to reflect a portion of such interest that was unpaid), to eliminate scheduled principal payments, extend the final maturity until 2017, capitalize the accrued but unpaid interest on such notes, and provide that in the future the Company has the ability to capitalize, at its discretion, future interest payments on the Subordinated Notes (the "Remaining Notes"). The interest rate on the Remaining Notes remains at 8%. The Remaining Notes are subordinated to the Credit Facility noted above. The Remaining Notes are non-recourse to the assets of the Company, but provide for a springing security interest on substantially all of the Company's assets upon repayment of the Credit Facility.

On the Restructuring Date, the Company also repurchased $12,500,000 of its 13% Preferred Stock and accrued dividends thereon of $1,250,000.

On July 20, 2009, the Company entered into the third amendment to the Financing Agreement and first amendment to the Security Agreement (the "Amendment") by and among the Company, the lenders a party thereto (the "Senior Lenders"), Ableco, as collateral agent, and PNC, as administrative agent.

Note G – Long Term Debt (Continued)

The Amendment modifies the Financing Agreement by and among the Company, the lenders a party thereto, Ableco and PNC which provides for the Company's revolving line of credit and senior term loan and modifies the related Security Agreement (together, the "Credit Facility").

On July 20, 2009, the Company also entered into the Subordinated Financing Agreement by and among the Company, the lenders a party thereto and Ableco as collateral and administrative agent (the "Subordinated Financing Agreement"). Pursuant to the Subordinated Financing Agreement certain 8% Secured Subordinated Notes dated February 23, 2007 (the "Sub Notes") were exchanged for term loans in the same amounts (including interest paid-in-kind) issued pursuant to the Subordinated Financing Agreement (the "Subordinated Loans"). The Subordinated Financing Agreement did not impact the amount of the Company's indebtedness with respect to the subordinated debt, but provides for certain rights and remedies in favor of the subordinated lenders, subject to the rights of the Senior Lenders, including a second priority security interest in substantially all of the Company's assets. By comparison, the terms of the Sub Notes and related loan agreement, provided for covenants and a security interest only once the Credit Facility was paid in full.

On May 28, 2010, the Company entered into the Revolving Credit, Term Loan and Security Agreement (the “Loan Agreement”) by and among the Company, the financial institutions from time to time a party thereto and PNC as a lender and as agent for the lenders. The Loan Agreement provided for an asset-based revolving credit line of $23 million (the “Revolver”) and a term loan of $4 million (the “Term Loan”, and together with the Revolver, the “New Credit Facility”). The New Credit Facility had a three year term. The Term loan amortized at $500,000 per quarter over eight quarters, through May 2012. Both the Revolver and the Term Loan were subject to interest at variable rates based on the LIBOR or the base commercial lending rate of PNC as publicly announced from time to time. In addition, the New Credit Facility contained customary covenants, including financial covenants requiring the Company to maintain certain fixed charge coverage and leverage ratios.

A related party personally guaranteed the Term Loan, in exchange for payment of a guaranty fee by the Company. The terms of the guaranty by the related party were approved by the independent members of the Board.

The Company used the proceeds of the New Credit Facility: (1) to repay all outstanding obligations under the Financing Agreement dated February 23, 2007, as amended, by and among the Company, the lenders a party thereto, Ableco, as collateral agent and PNC, as administrative agent, (2) to pay certain fees and expenses related to the New Credit Facility, and (3) to redeem shares of its 13% Series A Preferred Stock, as described in detail below.

On May 28, 2010, the Company repurchased 6,562.5 shares of its 13% Series A Preferred Stock (the “Repurchased Stock”) plus accrued dividends thereon for aggregate consideration of $5.9 million (the “Stock Repurchase”). The Company recorded $656,250 as a credit to additional paid-in capital and recognized a gain of approximately $4.5 million related to accrued dividends forgiven. The gain was netted with approximately $750,000 in loan and legal fees related to the debt restructure. The Repurchased Stock had a face value of approximately $6.6 million plus accrued dividends of approximately $4.5 million. The Stock Repurchase was affected pursuant to stock repurchase agreements between the Company and the holders of the Repurchased Stock dated May 28, 2010. The remaining Series A Preferred Stock continue to have a 13% cumulative dividend. The 13% Series A Preferred Stock contain 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 the Company’s full and complete repayment of the Subordinated Loans. As of June 30, 2010, the balance outstanding on the 13% Series A Preferred Stock was approximately $5.9 million and related accrued dividends payable were approximately $4.3 million.

Note G – Long Term Debt (Continued)

On September 30, 2011, the Company restructured debt, and entered into an agreement with PNC resulting in an Amended and Restated Revolving Credit, Term Loan and Security Agreement (the "Amended and Restated Agreement"). The Amended and Restated Agreement provides for an asset-based revolving credit line of $30 million Revolver ("Amended and Restated Revolver"), and a new term loan of $6 million (the "Amended and Restated Term Loan"). The Amended and Restated Term Loan has a three year term and amortizes at $500,000 per quarter over twelve quarters, through September 2014. Both the Amended and Restated Revolver and the Amended and Restated Term Loan bear interest at variable rates based on the LIBOR or the base commercial lending rate of PNC as publicly announced from time to time. In addition, the agreement contains customary covenants, including financial covenants requiring the Company to maintain certain fixed charge coverage and leverage ratios.

Related parties personally guaranteed the Amended and Restated Revolver and the Amended and Restated Term Loan in exchange for payment of a guaranty fee by the Company. The terms of the guaranty by the related parties were approved by the independent members of the Board.

The Amended and Restated Agreement contains various restrictive covenants and financial covenants. At September 30, 2011 and 2010, the Company was in compliance with all specified covenants.

In the event that the Company is not in compliance with the financial covenants in any future period, the Company intends to seek a further 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 Amended and Restated Agreement at that time.

The Company used the proceeds of the Amended and Restated Agreement to: (1) pay approximately $10.8 million on the subordinated notes payable, (2) to pay certain fees and expenses related to the new agreement, and (3) to redeem 2,928 shares of its Series B Common Stock for $36,599.

As part of the debt restructure, the Company recorded a gain of approximately $312,000 related to the extinguishment of debt related to the subordinated notes. The gain was offset against approximately $710,000 of loan costs which are being amortized over the three year term of the loan.

Line of Credit

The Company's financing agreement with PNC provides the Amended and Restated Revolver, introduced above. Under the terms of the agreement, the Company has the ability to borrow up to $30,000,000, subject to compliance with a fixed charge coverage ratio and leverage ratios. The Company's outstanding revolving line is also subject to the lender's borrowing base formula which is based on a percentage of the Company's cash, eligible accounts receivable, eligible inventory and certain reserves. Interest is payable monthly in arrears on the outstanding principal balance at variable rates based on the LIBOR rate or a "Reference Rate." At September 30, 2011, $11,015,394 bears interest at 5.25%. At September 30, 2010, $12,634,269 was outstanding with interest at 6%. The Amended and Restated Revolver matures on September 30, 2014, and is secured by substantially all of the assets of the Company and has been presented as a non-current liability in the balance sheet. The Amended and Restated Revolver is guaranteed by related parties pursuant to a Limited Guaranty Agreement dated September 30, 2011.

Note G – Long Term Debt (Continued)

Notes Payable - Term

As part of the September 30, 2011 debt restructure, the Amended and Restated Term Loan, introduced above, was issued at $6,000,000 with a maturity date of September 30, 2014. The note amortizes at $500,000 per quarter over the next 12 quarters, through September 2014. In addition, the Amended and Restated Term Loan is subject to an annual "excess cash flow" payment which can expedite the amortization of the loan. The Amended and Restated Term Loan has a variable interest rate based on the LIBOR or the base commercial lending rate of PNC as publicly announced from time to time. At September 30, 2011, the interest rate was 7.25%. The note is secured by substantially all of the assets of the Company and is guaranteed by related parties pursuant to a Limited Guaranty Agreement dated September 30, 2011.

In 2010, the Company's financing with PNC provided for a Term Loan in the amount of $4 million. The Term Loan was to mature on May 28, 2012 and amortized at $500,000 per quarter over the next 7 quarters through May 2012. As of September 30, 2010, the balance of the Term Loan was $3,500,000. The Term Loan had a variable interest rate based on the LIBOR or the base commercial lending rate of PNC. This note was repaid on September 30, 2011.

The Company also has a note payable with Lake Forest Bank & Trust Company. The note is due in three equal payments of $181,472. The payments are due every three months beginning on December 1, 2011. The interest rate on the note is 3.75%. The Company had a similar note in the prior year with a balance at September 30, 2010 of $533,275. This note was repaid in 2011.

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

Years Ending September 30,	
2012	$ 2,535,208
2013	2,000,000
2014	2,000,000
	$ 6,535,208

Subordinated Notes Payable

Subordinated notes payable consists of a series of subordinated secured promissory notes issued pursuant to the Credit Facility dated February 23, 2007 and the subordinated Financing Agreement dated July 20, 2009 as described above. The notes are subject to the provisions of the subordination agreement dated February 23, 2007 by Ableco, as senior collateral agent. The notes bear interest at 8% per annum, with interest payable annually. At its discretion, the Company may capitalize unpaid accrued interest into the outstanding principal of the notes. Principal is due and payable upon the earlier to occur of (i) an event of default under the Credit Facility or (ii) each note's respective due date, which is February 22, 2017. At September 30, 2011 and 2010, the balance outstanding on the subordinated notes was $20,086,602 and $29,882,226, respectively ($6,660,999 and $15,364,715 of the notes are payable to related parties (see Note L). Interest capitalized (i.e. interest added back to the outstanding principal of the notes, after which all interest shall accrue on the increased outstanding principal) on subordinated notes payable in 2011 and 2010 was $1,315,487 and $2,024,704, respectively.

Note G – Long Term Debt (Continued)

Preferred Stock

As of September 30, 2011 and 2010, the Company has 5,937.5 shares of outstanding Series A Preferred Stock. The Series A Preferred Stock has a 13% cumulative dividend and is non-voting. 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 the Company's full and complete repayment of the remaining notes. As of September 30, 2011, the balance outstanding on the 13% Preferred Stock was $5,937,500 and related accrued dividends payable were $5,092,260 and $1,187,500 of the preferred stock is held by related parties (see Note L). As of September 30, 2010, the balance outstanding on the 13% Preferred Stock was $5,937,500 and related accrued dividends payable were $4,320,385 and $1,900,000 of the preferred stock was held by related parties (see Note L).

Note H – Income Taxes

The Company is included in the consolidated federal income tax return of its parent (ALJ). The Company has entered into a tax allocation agreement with ALJ. According to the terms of the agreement, the Company has recorded a stand-alone federal tax provision equal to 50% of any "Separate Company Tax Liability" of the Company. The "Separate Company Tax Liability" is the amount of the federal income tax liability which the Company would have incurred if its federal income tax had been determined with a separately filed return under the current applicable IRS Code. The "Separate Company Tax Liability" is determined without regard to any "Acquisition Tax Effects", as defined, which include but are not limited to interest on the Preferred Stock, interest on the Subordinated Notes and the gain from the debt forgiveness. The Company's tax provision has been presented on a stand-alone basis in accordance with the agreement and is as follows:

	2011	2010
Income tax expense - current:		
Federal	$ 2,451,425	$ 1,138,724
State	1,059,885	483,219
	3,511,310	1,621,943
Income tax benefit - deferred:		
Federal	(225,387)	(44,510)
State	(79,548)	(15,710)
	(304,935)	(60,220)
	$ 3,206,375	$ 1,561,723

The effective tax rate differs from that which could be expected when applying the statutory tax rate primarily as the result of the provisions of the tax sharing agreement.

Note H – Income Taxes (Continued)

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

	2011	2010
Net non-current deferred tax liabilities:		
Tax depreciation in excess of book	$ (414,815)	$ (440,856)
Asset retirement obligation	31,657	30,418
Net deferred tax liabilities	(383,158)	(410,438)
Net current deferred tax assets:		
Management incentive	488,372	182,945
Accrued health care cost	52,403	102,485
Accrued remediation cost	14,862	13,075
Accrued vacation	2,045	10,651
Allowance for doubtful accounts	161,812	132,683
Net deferred tax assets	719,494	441,839
Net deferred tax asset	$ 336,336	$ 31,401

Note I – 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 for which the Company is obligated more than one year at September 30, 2011 are as follows:

Year Ending September 30,	
2012	$ 723,908
2013	723,908
2014	497,725
2015	45,359
2016	45,359
Total	$ 2,036,259

Total equipment rental expense amounted to $723,908 in September 30, 2011 and 2010.

Note J – Uncertainties and Contingencies

Historically, the Company has been subject to various lawsuits, claims and other legal actions arising in the ordinary course of business. As of December 14, 2011, management was not aware of any legal contingencies involving the Company. In the opinion of management, any potential matters involve such amounts that unfavorable disposition would not have a material adverse effect on the financial position, results of operations, or cash flows of the Company.

Note K – Operating Commitments

The Company has been operating under a Management Services Agreement with a management company effective through October 31, 2014 pursuant to which the management company provides, at its expense, employees to serve as the general manager of the Company and provide oversight and general management of the operations of the Company. Pursuant to the Management Services 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. Total management fee expense was $2,823,355 and $1,498,061 for the years ended September 30, 2011 and 2010. As of September 30, 2011 and 2010, the balance of accrued management fee was $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 $3,593,000 and $3,036,000 at September 30, 2011 and 2010, respectively.

Note L – Related Party Transactions

Balances and transactions with related parties as of and for the year ended September 30, 2011 and 2010 are as follows:

	2011	2010
Subordinated notes payable	$ 6,660,999	$ 15,364,715
13% Preferred stock	1,187,500	1,900,000
Accrued dividend on 13% Preferred stock	1,018,452	1,382,523
Income taxes payable ‑ parent	830,829	232,470
Loan fee expense	33,333	39,133
Interest expense	881,738	1,655,264
Income tax expense ‑ parent	2,451,425	1,138,724

Note M - Employee Benefit Plan

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. Vesting in the Company's matching contribution plus earnings is based on the number of years of credited service. 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, 2011 and 2010 were approximately $462,000 and $410,000, respectively.

Supplementary Information

KES Acquisition Company (A Majority-Owned Subsidiary of ALJ, Inc.)
Schedules of Cost of Goods Sold
Years Ended September 30, 2011 and 2010

	2011	2010
Cost of Goods Sold		
Materials	$ 94,787,250	$ 59,146,547
Utilities	8,843,743	8,555,518
Freight	8,254,695	6,400,517
Labor	8,051,198	7,391,029
Supplies	4,706,553	4,851,767
Employee benefits	4,472,646	4,403,185
Production expenses	4,193,499	3,391,758
Repairs and maintenance	3,741,142	1,975,909
Depreciation and amortization	373,847	400,522
Quality control expenses	31,313	435,485
	$ 137,455,886	$ 96,952,237

See accompanying independent auditor's report.

KES Acquisition Company (A Majority-Owned Subsidiary of ALJ, Inc.)
Schedules of General and Administrative Expenses
Years Ended September 30, 2011 and 2010

	2011	2010
General and Administrative Expenses		
Management fees and incentive	$ 2,823,355	$ 1,498,061
Wages	562,591	536,682
Taxes and license	447,815	377,882
Insurance	436,249	422,208
Employee benefits	283,306	305,477
Pollution prevention	198,896	133,188
Accounting fees	184,925	216,500
Repair and maintenance	178,832	53,308
Outside consultants	146,973	137,378
Janitor	140,203	134,322
Travel and training	97,987	125,737
Legal fees	84,170	72,083
Bad debt	77,310	(95,180)
Medical/safety supplies	76,815	64,858
Office expense	53,334	36,126
Equipment rental	53,111	50,531
Security	51,624	63,858
Telephone	51,045	49,738
Bank service charges	38,447	76,048
Payroll fees	33,289	37,640
Miscellaneous	28,496	30,956
Utilities	23,354	5,548
Dues and subscriptions	14,120	8,176
	$ 6,086,247	$ 4,341,125

See accompanying independent auditor's report.

KES Acquisition Company (A Majority-Owned Subsidiary of ALJ, Inc.)
Schedules of Selling Expenses
Years Ended September 30, 2011 and 2010

	2011	2010
Selling Expenses		
Commissions and wages	$ 1,635,307	$ 1,245,024
Employee benefits	285,033	293,955
Travel	62,657	78,885
Payroll taxes	36,582	26,282
Insurance	27,400	22,920
Advertising	24,439	28,552
	$ 2,071,418	$ 1,695,618

See accompanying independent auditor's report.

FINANCIAL STATEMENTS

KES ACQUISITION COMPANY

(A MAJORITY-OWNED SUBSIDIARY OF ALJ, INC.)

Years Ended September 30, 2010 and 2009

KES ACQUISITION COMPANY (A MAJORITY-OWNED SUBSIDIARY OF ALJ, INC.)

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INDEPENDENT AUDITOR'S REPORT

To Board of Directors and Stockholders of
KES Acquisition Company

We have audited the accompanying balance sheets of KES Acquisition Company (a Corporation) as of September 30, 2010 and 2009 and the related statements of income, changes in stockholders' deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of KES Acquisition Company as of September 30, 2010 and 2009 and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information included on pages 19-21 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements, and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Mountjoy Chilton Medley LLP

Louisville, Kentucky
December 14, 2010

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KES ACQUISITION COMPANY (A MAJORITY-OWNED SUBSIDIARY OF ALJ, INC.)

BALANCE SHEETS

September 30, 2010 and 2009

	2010	2009
ASSETS		
Current assets		
Cash and equivalents	$ 81,805	$ 226,322
Accounts receivable, net allowance for doubtful accounts of $576,882 and $663,021	11,030,780	9,435,003
Other receivables	430,822	290,023
Inventories	21,272,658	17,726,138
Prepaid expenses and other current assets	1,015,843	306,750
Deferred income taxes - current	441,839	364,028
Total current assets	34,273,747	28,348,264
Property, plant and equipment, net	2,907,092	3,307,614
Other assets		
Loan cost, net	176,712	621,528
Deposits	924,460	906,435
	$ 38,282,011	$ 33,183,841
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current liabilities		
Book overdraft	$ 628,642	$ 1,011,394
Accounts payable	6,023,281	6,553,648
Accrued expenses	4,679,767	4,782,398
Income taxes payable	275,372	110,813
Income taxes payable - parent	232,470	168,955
Current portion of long-term debt	3,209,395	2,188,736
Current portion of capital lease obligation	152,233	135,099
Total current liabilities	15,201,160	14,951,043
Long-term liabilities		
Subordinated notes payable	29,882,226	27,857,522
Line of credit	12,634,269	4,524,332
Term notes payable, less current portion	823,880	3,403,275
Due to parent company	362,719	362,719
Deferred tax liability	410,438	392,847
Capital lease obligation	171,792	324,026
Preferred stock subject to mandatory redemption; 5,937.5 and 12,500 shares of A 13% cumulative, non-convertible, redeemable preferred stock, mandatory redemption and liquidation value of $1,000 per share, at September 30, 2010 and 2009, respectively, plus cumulative dividends of ($4,320,385 and $7,470,548)	10,257,885	19,970,548
Total long-term liabilities	54,543,209	56,835,269
Stockholders' deficit		
Common stock, $0.0001 par value; 80,000 (64,008 Series A, voting; 15,992 Series B, non-voting) shares authorized, issued and outstanding	8	8
Additional paid-in capital	(51,347,181)	(52,003,431)
Retained earnings	19,884,815	13,400,952
	(31,462,358)	(38,602,471)
	$ 38,282,011	$ 33,183,841

See accompanying independent auditor's report and notes to financial statements.

KES ACQUISITION COMPANY (A MAJORITY-OWNED SUBSIDIARY OF ALJ, INC.)

STATEMENTS OF INCOME

For the years ended September 30, 2010 and 2009

	2010	2009
Net sales	$ 112,828,496	$ 110,079,361
Cost of goods sold	97,397,053	97,601,925
Gross profit	15,431,443	12,477,436
Operating expenses:		
General and administrative expenses	4,341,125	3,799,503
Selling expenses	1,695,618	1,684,370
Total operating expenses	6,036,743	5,483,873
Income from operations	9,394,700	6,993,563
Other income (expense):		
Interest income	8,950	9,099
Other revenue	-	366,094
Gain on forgiveness of debt	3,729,997	-
Interest expense	(4,818,633)	(5,333,940)
Loan fees	(186,915)	(509,654)
Other expenses	(82,513)	(50,727)
	(1,349,114)	(5,519,128)
Net income before income taxes	8,045,586	1,474,435
Income tax expense (benefit):		
Current	1,621,943	201,217
Deferred	(60,220)	940,358
	1,561,723	1,141,575
Net income	$ 6,483,863	$ 332,860

See accompanying independent auditor's report
and notes to financial statements.

KES ACQUISITION COMPANY (A MAJORITY-OWNED SUBSIDIARY OF ALJ, INC.)

STATEMENTS OF CHANGES IN STOCKHOLDERS' DEFICIT

For the years ended September 30, 2010 and 2009

	Common Stock	Additional Paid-in Capital	Retained Earnings	Total
Balance at September 30, 2008	$ 8	$ (52,003,431)	$ 13,068,092	$ (38,935,331)
Net income	-	-	332,860	332,860
Balance at September 30, 2009	8	(52,003,431)	13,400,952	(38,602,471)
Net income	-	-	6,483,863	6,483,863
Repurchase of mandatorily redeemable preferred stock	-	656,250	-	656,250
Balance at September 30, 2010	$ 8	$ (51,347,181)	$ 19,884,815	$ (31,462,358)

See accompanying independent auditor's report
and notes to financial statements.

KES ACQUISITION COMPANY (A MAJORITY-OWNED SUBSIDIARY OF ALJ, INC.)

STATEMENTS OF CASH FLOWS

For the years ended September 30, 2010 and 2009

	2010	2009
Cash Flows From Operating Activities		
Net income	$ 6,483,863	$ 332,860
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Depreciation and amortization	845,338	768,823
Allowance for doubtful accounts	(86,139)	(84,029)
Deferred income tax	(60,220)	1,290,738
Capitalized interest on subordinated notes payable	2,024,704	2,192,081
Unpaid cumulative dividend on preferred stock	579,834	1,625,000
Gain on debt forgiveness	(3,729,997)	-
Changes in:		
Accounts receivable	(1,509,638)	8,975,275
Other receivables	(140,799)	(258,517)
Prepaid expenses and other current assets	(709,093)	393,124
Inventories	(3,546,520)	14,591,211
Other assets	(18,025)	-
Accounts payable	(530,367)	(6,610,728)
Accrued expenses	(102,631)	(2,079,317)
Income taxes payable	228,074	(963,315)
Net cash (used in) provided by operating activities	(271,616)	20,173,206
Cash Flows From Financing Activities		
Proceeds from (payments on) line of credit, net	8,109,937	(13,681,417)
Proceeds from PNC term note	4,000,000	-
Payments on PNC term note	(500,000)	-
Payments on Ableco term notes payable	(5,592,011)	(4,951,401)
Proceeds from Lake Forest term notes payable	533,275	-
Payments on capital lease obligation	(135,100)	(498,199)
Repurchase of preferred stock	(5,906,250)	-
Loan costs	-	(709,272)
Book overdraft	(382,752)	(650,741)
Net cash provided by (used in) financing activities	127,099	(20,491,030)
Decrease in cash and equivalents during the year	(144,517)	(317,824)
Cash and equivalents at beginning of year	226,322	544,146
Cash and equivalents at end of year	$ 81,805	$ 226,322

See accompanying independent auditor's report
and notes to financial statements.

KES ACQUISITION COMPANY (A MAJORITY-OWNED SUBSIDIARY OF ALJ, INC.)

STATEMENTS OF CASH FLOWS

For the years ended September 30, 2010 and 2009

Supplemental Disclosures of Cash Flow Information:	2010	2009
Interest paid	$ 4,656,657	$ 5,287,526
Income taxes paid	$ 1,393,869	$ 849,213

Noncash Investing and Financing Transactions:

As part of the Company's debt restructuring, described in Note F related to the 13% Preferred Stock, the Company has recorded $656,250 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.

See accompanying independent auditor's report
and notes to financial statements.

NOTE A - NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

KES Acquisition Company (the Company) is engaged in the business of manufacturing and selling steel bar flats from its operations of a steel mini-mill located in Ashland, Kentucky.

Business Combination

On February 23, 2007 (“the Restructuring Date”), the Company completed a financial and corporate restructuring designed to reduce outstanding obligations and streamline corporate operations. On that date, Atacama KES Holding Corporation, a wholly-owned subsidiary, and KES Acquisition Company, LLC, a wholly-owned subsidiary, were merged (the “Merger”) into Youthstream Acquisition Corp. ("Acquisition Corp."). Acquisition Corp., which immediately changed its name to KES Acquisition Company (“KES Acquisition Co.”), was the surviving corporation. As a result of the Merger, ALJ, Inc. now has only one operating subsidiary, KES Acquisition Co., in which it owns 80.21% of the common stock and 100% of the voting stock.

This summary of significant accounting policies of the Company is presented to assist in understanding the Company's financial statements. The financial statements and notes are representations of the Company's management who is responsible for their integrity and objectivity. These accounting policies conform to accounting principles generally accepted in the United States of America and have been consistently applied in the preparation of the financial statements.

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 and the Hierarchy of Generally Accepted Accounting Principles (“GAAP”). In substance, SFAS No. 168 makes the FASB 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.

Use of Estimates

Management uses estimates and assumptions in preparing these financial statements in accordance with accounting principles generally accepted in the United States of America. Those estimates and assumptions affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Revenue Recognition

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

Cash and Cash Equivalents

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

NOTE A - NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES--CONTINUED

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 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 stated at cost. Expenditures for 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 of property, plant and equipment is provided using the straight-line method, generally 3 to 20 years for machinery and equipment, and 20 to 40 years for buildings. Equipment under capital lease is amortized using the straight-line method over the primary lease term.

Loan Costs

The Company is amortizing loan costs from 2009 through the loan maturity date. The loan cost amortization expense was $444,816 and $87,744 for 2010 and 2009, respectively.

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 in accordance with generally accepted accounting principles. 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.

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.

NOTE A - NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES--CONTINUED

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 income on a straight-line basis over the lease term.

Asset Retirement Obligation

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

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

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. During 2010 and 2009, the Company recognized self-insured health care expense of approximately $3,123,000 and $2,607,000. At September 30, 2010 and 2009, estimated claims incurred but not reported were $445,589 and $414,398, which are included in accrued expenses in the balance sheet at such date.

Advertising Costs

The Company expenses advertising costs as incurred. Advertising expense amounts to $28,552 and $26,456 for the years ended September 30, 2010 and 2009,respectively.

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 adopted new regulations relating to accounting for uncertainty in income taxes, as required by generally accepted accounting principles. Per these regulations, the Company should evaluate its uncertain tax positions in relation to accounting for contingencies. 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's adoption of the new regulations resulted in no material impact to the financial statements.

NOTE A - NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES--CONTINUED

The Company is included in the consolidated federal income tax return of its parent (ALJ). The Company files income tax returns in the U.S. federal jurisdiction and one state jurisdiction. The Company is no longer subject to U.S. federal and state tax examinations by tax authorities for years before 2006.

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

Fair Value Measurements

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.

Reclassifications

Certain amounts in the September 30, 2009 financial statements have been reclassified to conform to the September 30, 2010 presentation. The reclassifications have no impact on net income or undistributed earnings.

Subsequent Event

The Company evaluated events occurring between the end of its most recent fiscal year and December 14, 2010, the date the financial statements were available to be issued. No events were identified requiring disclosure.

NOTE B - CONCENTRATIONS OF CREDIT RISK

The Company maintains its cash balances with one financial institution located in Pennsylvania. The balances are insured by the Federal Deposit Insurance Corporation (FDIC) up to $100,000. Effective October 3, 2008, the FDIC increased to $250,000 per financial institution, effective through December 31, 2013. At September 30, 2010 and 2009, the Company maintains deposits in excess of their limit that are 100% insured by the institution's new financial collateral programs.

During 2010, the Company had three suppliers that accounted for approximately 65% of raw materials purchases, of which approximately $1,451,000 was included in accounts payable at September 30, 2010. During 2009, the Company had three suppliers that accounted for approximately 42% of raw materials purchases, of which approximately $2,026,000 was included in accounts payable at September 30, 2009. During 2010, the Company had four customers that accounted for 23% of net sales, of which approximately $3,538,000 was included in accounts receivable at September 30, 2010. During 2009, the Company had four customers that accounted for 24% of net sales, of which approximately $3,775,000 was included in accounts receivable at September 30, 2009.

NOTE C - INVENTORIES

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

	2010	2009
Raw materials and scrap	$ 2,264,749	$ 4,104,769
Finished goods	8,325,355	4,653,488
Semi-finished goods	10,682,554	8,967,881
	$ 21,272,658	$ 17,726,138

NOTE D - PROPERTY, PLANT AND EQUIPMENT

The balances of the major classes of depreciable assets are as follows:

	Estimated Useful Life	2010	2009
Machinery and equipment	3-20 years	$ 4,385,726	$ 4,385,726
Buildings and improvements	20-40 years	572,496	572,496
Land		142,530	142,530
Vehicle	5 years	6,450	6,450
		5,107,202	5,107,202
Accumulated depreciation		(2,200,110)	(1,799,588)
		$ 2,907,092	$ 3,307,614

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

NOTE E - CAPITAL LEASE OBLIGATIONS

The Company leases various equipment under a capital lease arrangement requiring monthly payments of $15,244 per month for a term of 4 years commencing October 1, 2008, reflecting a total obligation of $578,918. The Company determined that the fair value of this asset at the date of acquisition was $578,918.

Future minimum lease payments are as follows:

Years Ending September 30,	Amount
2011	$ 182,924
2012	182,924
	365,848
Less amount representing interest	(41,823)
Present value of minimum lease payments	$ 324,025
Current maturities	152,233
Non-current maturities	171,792
	$ 324,025
Leased property under capital leases at September 30, 2010 includes:	
Equipment	$ 578,918
Less accumulated depreciation	(231,568)
	$ 347,350

NOTE F - LONG TERM DEBT

Restructured Debt Obligations

On February 23, 2007, the Company entered into a Financing Agreement providing for a revolving line (the “Revolver”) and two new term loans (collectively, the “Term Loan” and together with the Revolver, the “Credit Facility”) with Ableco Finance LLC (“Ableco”) and PNC Bank, National Association (“PNC”, and together with Ableco, the “Senior Lenders”). The details of which are noted below.

As part of the Restructuring, the Company repurchased, for $21 million, $21,000,000 in principal amount of the Subordinated Notes plus certain accrued interest thereon, including certain notes previously issued to reflect a portion of such interest which was unpaid (the “Repurchased Notes”) and restructured the remaining $22,000,000 in Subordinated Notes and the accrued interest thereon (including certain notes previously issued to reflect a portion of such interest that was unpaid), to eliminate scheduled principal payments, extend the final maturity until 2017, capitalize the accrued but unpaid interest on such notes, and provide that in the future the Company has the ability to capitalize, at its discretion, future interest payments on the Subordinated Notes (the “Remaining Notes”). The interest rate on the Remaining Notes remains at 8%. The Remaining Notes are subordinated to the Credit Facility noted above. The Remaining Notes are non-recourse to the assets of the Company, but provide for a springing security interest on substantially all of KES Acquisition Co.’s assets upon repayment of the Credit Facility.

On the Restructuring Date, the Company also repurchased $12,500,000 of its 13% Preferred Stock and accrued dividends thereon for $1,250,000.

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

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

NOTE F - LONG TERM DEBT--CONTINUED

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

A related party personally guaranteed the Term Loan, in exchange for payment of a guaranty fee by the Company. The terms of the guaranty by the Guarantors were approved by the independent members of the Board.

The Company is using the proceeds of the New Credit Facility: (1) to repay all outstanding obligations under the Financing Agreement dated February 23, 2007, as amended, by and among the Company, the lenders party thereto, Ableco Finance LLC, as collateral agent and PNC, as administrative agent, (2) to pay certain fees and expenses related to the New Credit Facility, and (3) to redeem shares of its 13% Series A Preferred Stock, as described in detail below.

On May 28, 2010, the Company repurchased 6,562.5 shares of its 13% Series A Preferred Stock (the "Repurchased Stock") plus accrued dividends thereon for aggregate consideration of $5.9 million (the "Stock Repurchase"). The Company has recorded $656,250 as a credit to additional paid-in capital and recognized a gain of approximately $4.5 million related to accrued dividends forgiven. The gain was netted with approximately $750,000 in loan and legal fees related to the debt restructure. The Repurchased Stock had a face value of approximately $6.6 million plus accrued dividends of approximately $4.5 million. The Stock Repurchase was affected pursuant to stock repurchase agreements between the Company and the holders of the Repurchased Stock dated May 28, 2010. The remaining Series A Preferred Stock continues to have a 13% cumulative dividend. The 13% Series A Preferred Stock contains a liquidation preference equal to $1,000 per share, plus accrued but unpaid dividends, and is redeemable out of, and to the extent of, legally available funds, at a redemption price equal to the sum of $1,000 and all accrued but unpaid dividends on the first anniversary of the Company's full and complete repayment of the Subordinated Loans. As of June 30, 2010, the balance outstanding on the 13% Series A Preferred Stock was approximately $5.9 million and related accrued dividends payable were approximately $4.3 million.

Line of credit

The Company's financing agreement with PNC provides a revolving line of credit. Under the terms of the agreement, the Company has the ability to borrow up to $23,000,000, subject to compliance with a fixed charge coverage ratio and leverage ratios. The Company's outstanding revolving line is also subject to the lender's borrowing base formula which is based on a percentage of the Company's cash, eligible accounts receivable, eligible inventory and certain reserves. Interest is payable monthly in arrears on the outstanding principal balance at variable rates based on the LIBOR rate or a "Reference Rate." At September 30, 2010, $12,634,269 bears interest at 6%. At September 30, 2009, $2,524,332 was outstanding with interest at 10.25% and $2,000,000 was also outstanding with interest at 8.25%. The line of credit matures on May 28, 2013, and is secured by all of the assets of the Company and has been presented as a non-current liability in the balance sheet. The line is guaranteed by related parties pursuant to a Limited Guaranty agreement dated May 28, 2010.

The loan agreement contains various restrictive covenants and financial covenants. At September 30, 2010 and 2009, the Company was in compliance with all specified covenants.

NOTE F - LONG TERM DEBT--CONTINUED

In the event that the Company is not in compliance with the financial covenants in any future period, the Company intends to seek a further waiver of any default from the lender, and if no such waiver is received, the lender would have the right to accelerate the maturity of the line of credit at that time.

Notes payable - term

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

In the prior year the Company's financing agreement with Abelco provided for two term loans. The term loans totaled $19,000,000, had a maturity date of February 22, 2011 and amortized $500,000 per quarter for the first four quarters, $750,000 per quarter for the next five quarters and $500,000 per quarter thereafter. The notes contained interest at variable rates based on the LIBOR rate or a "Reference Rate". This note was paid in full as of September 30, 2010. As of September 30, 2009, the balance outstanding on the notes was $5,592,011 with an interest rate of 10.00%.

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

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

Years Ending September 30,		
2011	$	3,209,395
2012		823,880
	$	4,033,275

Subordinated notes payable

Subordinated notes payable consists of a series of subordinated secured promissory notes issued pursuant to the Credit Facility dated February 23, 2007 and the subordinated Financing Agreement dated July 20, 2009. The notes are subject to the provisions of the subordination agreement dated February 23, 2007 by Ableco, as senior collateral agent. The notes bear interest at 8% per annum, with interest payable annually. At its discretion, the Company may capitalize unpaid accrued interest into the outstanding principal of the notes. Principal is due and payable upon the earlier to occur of (i) an event of default under the Credit Facility or (ii) each note's respective due date, which is February 22, 2017. At September 30, 2010 and 2009, the balance outstanding on the subordinated notes was $29,882,226 and $27,857,522, respectively ($15,364,715 and $15,661,660 of the notes are payable to related parties (see Note K). Interest capitalized (i.e. interest added back to the outstanding principal of the notes, after which all interest shall accrue on the increased outstanding principal) on subordinated notes payable in 2010 and 2009 was $2,024,704 and $2,192,081, respectively.

NOTE F - LONG TERM DEBT--CONTINUED

Preferred Stock

As of September 30, 2010 and 2009, the Company has 5,937.5 and 12,500, respectively, shares of outstanding preferred stock. The remaining Series A Preferred Stock has a 13% cumulative dividend and is non-voting. 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 the Company's full and complete repayment of the remaining notes. As of September 30, 2010, the balance outstanding on the 13% Preferred Stock was $5,937,500 and related accrued dividends payable were $4,320,385 and $1,900,000 of the preferred stock is held by related parties (see Note K). As of September 30, 2009, the balance outstanding on the 13% Preferred Stock was $12,500,000 and related accrued dividends payable were $7,470,548 and $6,500,000 of the preferred stock was held by related parties (see Note K).

NOTE G - INCOME TAXES

The Company is included in the consolidated federal income tax return of its parent (ALJ). The Company has entered into a tax allocation agreement with ALJ. According to the terms of the agreement, the Company has recorded a stand-alone federal tax provision equal to 50% of any “Separate Company Tax Liability” of the Company. The “Separate Company Tax Liability” is the amount of the federal income tax liability which the Company would have incurred if its federal income tax had been determined with a separately filed return under the current applicable IRS Code. The “Separate Company Tax Liability” is determined without regard to any “Acquisition Tax Effects” which include but are not limited to interest on the 13% Preferred Stock, interest on the 8% Subordinated Notes and the gain from the debt forgiveness. The Company's tax provision has been presented on a stand-alone basis in accordance with the agreement and is as follows:

	2010	2009
Income tax expense - current:		
Federal	$ 1,138,724	$ 203,898
State	483,219	(2,681)
	1,621,943	201,217
Income tax benefit - deferred:		
Federal	(44,510)	691,239
State	(15,710)	249,119
	(60,220)	940,358
	$ 1,561,723	$ 1,141,575

The effective tax rate differs from that which could be expected when applying the statutory tax rate primarily as the result of the provisions of the tax sharing agreement.

NOTE G - INCOME TAXES--CONTINUED

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

	2010	2009
Net non-current deferred tax liabilities:		
Tax depreciation in excess of book	$ (440,856)	$ (422,073)
Asset retirement obligation	30,418	29,226
Net deferred tax liabilities	(410,438)	(392,847)
Net current deferred tax assets:		
Management incentive	182,945	96,880
Accrued health care cost	102,485	95,312
Accrued remediation cost	13,075	11,620
Accrued vacation	10,651	7,722
Allowance for doubtful accounts	132,683	152,494
Net deferred tax assets	441,839	364,028
	$ 31,401	$ (28,819)

NOTE H - OPERATING LEASE

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 for which the Company is obligated more than one year at September 30, 2010 are as follows:

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

Total equipment rental expense amounted to $723,908 and $450,439 in September 30, 2010 and 2009, respectively.

NOTE I - UNCERTAINTIES AND CONTINGENCIES

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

NOTE J - OPERATING COMMITMENTS

The Company has been operating under a Management Services Agreement with a management company effective through October 31, 2014 pursuant to which the management company provides, at its expense, employees to serve as the general manager of the Company and provide oversight and general management of the operations of the Company. Pursuant to the Management Services 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. Total management fee expense was $1,498,061 and $1,083,582 for the years ended September 30, 2010 and 2009. As of September 30, 2010 and 2009 the balance of accrued management fee was $795,413 and $421,216, respectively.

The Company has various short-term commitments for the purchase of materials, supplies and energy arising in the ordinary course of business which aggregated approximately $3,036,000 and $4,065,000 at September 30, 2010 and 2009, respectively.

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

NOTE K - RELATED PARTY TRANSACTIONS

Balances and transactions with related parties as of and for the year ended September 30, 2010 and 2009 are as follows:

	2010	2009
Subordinated notes payable	$ 15,364,715	$ 15,661,660
13% Preferred stock	1,900,000	6,500,000
Accrued dividend on 13% Preferred stock	1,382,523	3,884,685
Income taxes payable ‐ parent	232,470	168,955
Loan fee expense	39,133	250,000
Interest expense	1,655,264	1,082,374
Income tax expense ‐ parent	1,138,724	1,144,256

SUPPLEMENTARY INFORMATION

KES ACQUISITION COMPANY (A MAJORITY-OWNED SUBSIDIARY OF ALJ, INC.)

SCHEDULES OF COST OF GOODS SOLD

For the years ended September 30, 2010 and 2009

	2010	2009
Cost of Goods Sold		
Materials	$ 59,146,547	$ 56,146,759
Utilities	8,555,518	10,720,500
Labor	7,391,029	7,056,102
Supplies	4,851,767	6,804,519
Freight	6,400,517	6,788,715
Employee benefits	4,403,185	3,969,049
Production expenses	3,391,758	3,304,833
Repairs and maintenance	1,975,909	1,628,252
Depreciation and amortization	845,338	768,823
Quality control expenses	435,485	414,373
	$ 97,397,053	$ 97,601,925

See accompanying independent auditor's report.

KES ACQUISITION COMPANY (A MAJORITY-OWNED SUBSIDIARY OF ALJ, INC.)

SCHEDULES OF GENERAL AND ADMINISTRATIVE EXPENSES

For the years ended September 30, 2010 and 2009

	2010	2009
General and Administrative Expenses		
Management fees and incentive	$ 1,498,061	$ 1,083,582
Wages	536,682	544,495
Insurance	422,208	477,849
Taxes and license	377,882	226,750
Employee benefits	305,477	161,742
Accounting fees	216,500	218,859
Outside consultants	137,378	144,320
Janitor	134,322	136,291
Pollution prevention	133,188	47,877
Travel and training	125,737	91,622
Bank service charges	76,048	32,721
Legal fees	72,083	141,076
Medical/safety supplies	64,858	69,762
Security	63,858	63,705
Repair and maintenance	53,308	43,966
Equipment rental	50,531	54,633
Telephone	49,738	36,311
Payroll fees	37,640	37,123
Office expense	36,126	35,392
Miscellaneous	30,956	15,163
Dues and subscriptions	8,176	10,392
Utilities	5,548	8,388
Bad debt	(95,180)	117,484
	$ 4,341,125	$ 3,799,503

See accompanying independent auditor's report.

KES ACQUISITION COMPANY (A MAJORITY-OWNED SUBSIDIARY OF ALJ, INC.)

SCHEDULES OF SELLING EXPENSES

For the years ended September 30, 2010 and 2009

	2010	2009
Selling Expenses		
Commissions and wages	$ 1,245,024	$ 1,271,866
Employee benefits	293,955	229,296
Travel	78,885	104,806
Advertising	28,552	26,456
Payroll taxes	26,282	30,604
Insurance	22,920	21,342
	$ 1,695,618	$ 1,684,370

See accompanying independent auditor's report.

SPECIAL MEETING OF STOCKHOLDERS OF

ALJ REGIONAL HOLDINGS, INC.

December 21, 2012

NOTICE OF INTERNET AVAILABILITY OF PROXY MATERIAL:
The Notice of Meeting, proxy statement and proxy card
are available at http://www.aljregionalholdings.com/news.html

Please sign, date and mail
your proxy card in the
envelope provided as soon
as possible.

↓ Please detach along perforated line and mail in the envelope provided. ↓

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THE BOARD OF DIRECTORS RECOMMENDS A VOTE "FOR" PROPOSAL 1 AND "FOR" PROPOSAL 2.
PLEASE SIGN, DATE AND RETURN PROMPTLY IN THE ENCLOSED ENVELOPE. PLEASE MARK YOUR VOTE IN BLUE OR BLACK INK AS SHOWN HERE ☒

	FOR	AGAINST	ABSTAIN
1. TO APPROVE THE MERGER OF KES OPTIMA ACQUISITION INC. ("MERGER SUB"), A WHOLLY OWNED SUBSIDIARY OF OPTIMA SPECIALTY STEEL, INC. ("OPTIMA"), WITH AND INTO KES ACQUISITION COMPANY DBA KENTUCKY ELECTRIC STEEL ("KES"), ALJ'S MAJORITY-OWNED SUBSIDIARY, AS CONTEMPLATED BY THE AGREEMENT AND PLAN OF MERGER, DATED NOVEMBER 18, 2012, BY AND BETWEEN OPTIMA, MERGER SUB, KES AND ALJ.	☐	☐	☐
2. TO ADJOURN THE SPECIAL MEETING, IF NECESSARY OR APPROPRIATE TO SOLICIT ADDITIONAL PROXIES IF THERE ARE NOT SUFFICIENT VOTES AT THE TIME OF THE SPECIAL MEETING TO ESTABLISH A QUORUM OR TO APPROVE THE MERGER.	☐	☐	☐

In their discretion, the proxies are authorized to vote upon such other business as may properly come before the Special Meeting. This proxy when properly executed will be voted as directed herein by the undersigned stockholder. If no direction is made, this proxy will be voted FOR Proposal 1 and FOR Proposal 2.

To change the address on your account, please check the box at right and indicate your new address in the address space above. Please note that changes to the registered name(s) on the account may not be submitted via this method. ☐

Signature of Stockholder ______ Date: ______ Signature of Stockholder ______ Date: ______

Note: Please sign exactly as your name or names appear on this Proxy. When shares are held jointly, each holder should sign. When signing as executor, administrator, attorney, trustee or guardian, please give full title as such. If the signer is a corporation, please sign full corporate name by duly authorized officer, giving full title as such. If signer is a partnership, please sign in partnership name by authorized person.

ALJ REGIONAL HOLDINGS, INC.

Proxy for Special Meeting of Stockholders on December 21, 2012
Solicited on Behalf of the Board of Directors

The undersigned hereby appoints Jess M. Ravich, Chairman of the Board, and John Scheel, Chief Executive Officer and director, and each of them, with full power of substitution and power to act alone, as proxies to vote all the shares of ALJ Common Stock which the undersigned would be entitled to vote if personally present and acting at the Special Meeting of Stockholders of ALJ Regional Holdings, Inc., to be held on December 21, 2012 at 8:00 a.m. Pacific Time, at the offices of Morrison & Foerster LLP, 555 West Fifth Street, Suite 3500, Los Angeles, California 90013, and at any adjournments or postponements thereof, as follows:

The Board of Directors of the Company recommends a **"FOR" vote on each item**.

This is your proxy. Your vote is important.

(Continued and to be signed on the reverse side)

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