



Empire Resources, Inc.
2011 Annual Report

EMPIRE RESOURCES, INC.

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Important Information Regarding Forward Looking Statements

When used in this report, the terms “Company,” “we,” “our,” and “us” refers to Empire Resources, Inc. and its subsidiaries, consolidated for purposes of the Company’s financial statements.

Certain matters discussed under the captions “Business,” “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” and elsewhere in this Annual Report and the information incorporated by reference in this report may constitute forward-looking statements for purposes of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These forward-looking statements generally are identified by the words “believes,” “project,” “expects,” “anticipates,” “estimates,” “intends,” “strategy,” “plan,” “may,” “will,” “would,” “will be,” “will continue,” “will likely result,” and similar expressions. Forward-looking statements are based on current expectations and assumptions that are subject to risks and uncertainties which may cause actual results to differ materially from the forward-looking statements. Our particular risks include those factors listed under “Risk Factors”. We are also subject to many other uncertainties, including but not limited to changes in general, national or regional economic conditions; an act of war or terrorism that disrupts international shipping; changes in laws, regulations and tariffs; the imposition of anti-dumping duties on the products imported, changes in the size and nature of the Company’s competition; changes in interest rates, foreign currencies or spot prices of aluminum; loss of one or more foreign suppliers or key executives; loss of one or more significant customers; increased credit risk from customers; failure of the Company to grow internally or by acquisition and to integrate acquired businesses; and failure to improve operating margins and efficiencies. We undertake no obligation to update or revise publicly any forward-looking statements, whether as a result of new information, future events or otherwise.

Overview

We are principally engaged in the purchase, sale and distribution of semi-finished aluminum and steel products to a diverse customer base located throughout the Americas, Europe, Australia and New Zealand. We sell our products through our own marketing and sales personnel as well as through independent sales agents who are located in North America and in Europe and who receive commissions on sales. We purchase products from suppliers located throughout the world. Our two largest suppliers furnished approximately 47% of our products during 2011 as compared to 39% of our products during 2010. While in general we place orders with our suppliers based upon orders that we have received from our customers, we also purchase material for our own stock, which typically we use for shorter term deliveries to our customers.

Growth Strategy

We believe that our long-term growth will depend upon understanding our customers’ particular requirements and delivering a high-level of service and quality products that meet those requirements consistently. Our growth and profitability will also depend upon our ability to continue building our market knowledge and in particular our understanding of the production capabilities of our suppliers. We will also need to maintain, strengthen and expand our supplier relationships in light of continued pricing pressures. Finally, we will need to succeed in identifying and executing opportunities to provide our customers additional value added offerings, in both our existing markets and product offerings as well as in broader or new product groups and geographic areas.

Our strategy for growth consists of the following key elements:

Provide Customers with a High Level of Service and Cost Effective, Quality Products. We work closely with our customers to understand their specific requirements. This enables us to provide each customer with cost-effective, quality materials matching that customer’s particular needs. We also provide various ancillary services to our customers, such as arranging for products to be stored in warehouse facilities for release to them on a just-in-time delivery basis, providing them with timely information about market trends and product development, arranging for subsequent metal processing or finishing services and making material available from our own stock to meet our customers’ short term requirements. Our services are described more fully under “Sales, Marketing and Customer Service” below.

Expand Volumes and Product Breadth with Existing Suppliers and Customers. We continually seek to build on our market knowledge. We try to maintain a current understanding of our suppliers' production capabilities and of our customers' needs and markets. This enables us to recognize opportunities to introduce new product lines to our customers and to increase volume from our suppliers.

Strengthen and Expand Our Supplier Relationships. We endeavor to continue building our supply sources, both by expanding our relationships with existing suppliers and by adding new suppliers. In cultivating supplier relationships, we emphasize our combination of market knowledge and customer base, which we believe makes us an effective marketing and distribution channel for our suppliers. Conversely, we believe that our supplier relationships position us to offer our customers a wider range of products and services.

Provide Increasingly Efficient and Cost-Competitive Handling and Delivery Services. We utilize our own warehouse and distribution facility in Baltimore that serves the dual purpose of providing depot/warehousing capacity for just-in-time delivery and providing handling capability and inventory control at the Baltimore port of entry, our most active import location. This arrangement reduces freight and handling expenses while increasing efficiency. It also enables us to monitor deliveries and serve customers more effectively.

Provide Additional Products and Value Added Services. We may add capability to provide our customers with additional value-added services such as processing, financing, warehousing and distribution services.

The Industry

The industry in which we operate is the sale and distribution of semi-finished aluminum and steel products. These products are manufactured worldwide by rolling facilities, some of which are owned by large integrated companies and others by independent producers. The majority of the products we purchase are in turn sold to distributors, who sell to varied metal working industries including the automotive, housing and packaging industries.

Mergent, Inc. reports that North American aluminum demand totaled 10.652 billion pounds during the first half of 2011, which represents an increase of 7.4% from the same period of 2010. According to the same report, 3.8 million tons of aluminum and 23.93 million tons of steel were imported into the U.S., where we make the majority of our sales, for consumption during 2010.

Although demand for aluminum products in the U.S. has been cyclical, over the longer-term, demand has continued to increase. We believe that this growth reflects general population and economic growth, and the advantages of aluminum products, including light weight and a high degree of formability, recyclability and resistance to corrosion. Demand for steel in the U.S. has been cyclical as well, and was negatively impacted in recent years by depressed construction markets and general economic conditions. However, demand for steel products remains and we believe will continue to remain high.

According to Mergent, Inc., the distribution of aluminum shipments in the U.S. by market classification in 2010 broke down as follows: packaging – 31%; transportation – 28%; building – 14%; electrical – 9%; machinery – 7%; consumer durables – 7%; and others – 4%. According to the same source, the distribution of steel shipments in the U.S. during 2010 broke down as follows: construction – 42%; automotive – 24%; machinery and equipment – 12%; energy – 7%; containers – 4%; appliances – 4% and others – 4%. Mergent, Inc. predicts that U.S. and global demand for aluminum and steel will continue to increase in both the long term and the short term. In particular, the use of aluminum and certain types of steel in heavy truck manufacturing is likely to increase in light of new fuel regulations announced by the Obama Administration that will require truck manufacturers to reduce vehicle mass. The advantages of aluminum and lightweight steel are being recognized more generally by truck and engine manufacturers, as well as regulators, for example in the development of lightweight sealed steel fuel tanks for advanced hybrid vehicles. According to Mergent, Inc., these developments should increase demand from transportation markets, as should increases in environmentally responsible building. Negative factors affecting demand for aluminum and steel products include depressed construction markets, uncertainties from the European sovereign debt crisis, unrest in the Middle East, the Earthquake in Japan and the U.S. federal budget deficit.

Although trends within the industries above may impact overall demand for our products, we do not view our aluminum and steel sales in an industry specific manner (other than aluminum versus steel) or analyze our financial results or generate growth strategy with an eye toward specific industries. Our significant customers are general distributors who resell our products into various industries. They generally do not provide us with data on where they resell our products. Our sales are affected by the level of our distributors' inventory and their ability to resell such inventory, which in turn is affected by industry trends. Our marketing and growth strategies are aimed at meeting the needs of distributors and providing whatever products they may need at any given time rather than pushing any one particular product or seeking to expand our sales into any particular industry.

Within the semi-finished aluminum and steel products industry, we believe that we occupy a specialized niche as an alternative supplier with prices generally lower than those of our competitors. More specifically, our customers generally purchase semi-finished aluminum and steel products from several sources besides us, and our products generally comprise only a minority of the aluminum and steel products purchased by our customers. In addition, we offer customers visibility into the general wholesale metals marketplace that our larger competitors do not, since many of these competitors are vertically integrated, selling metal products they may have mined and manufactured, and do not provide the types of customer services we provide. We also offer our customers products from independent sources, which allow our customers to lessen their dependence on an increasingly concentrated domestic supply chain. We believe the fact that most of our customers find it important to retain us as an alternative supplier, coupled with our generally discounted prices, has shielded us from the potential negative impact of volatility in metal prices that affects our industry as a whole. When metal prices increased in the past, our customers generally did not reduce their purchases from us, although they may have reduced such purchases from other suppliers. See Risk Factors "Our future operating results could be impacted by the volatility of the prices of metals, which could cause our results to be adversely affected" on page 12.

On the supply side, suppliers to our industry include local mills and foreign suppliers. In addition, many of our largest competitors are vertically integrated, selling metal products they may have mined and manufactured. Maintaining and expanding our access to aluminum and steel supply is critical given the high demand for the aluminum and steel products we purchase. Since we purchase mainly from foreign suppliers, the main factor influencing our supply is our ability to maintain and expand our existing relationships with suppliers and add new suppliers, in particular through the services we provide as described under "Suppliers" above.

Our Products

We derive our revenues from the sale of semi-finished aluminum and steel products, which are produced by processing primary aluminum or steel and/or aluminum or steel scrap. A product is considered "semi-finished" if it has not yet been converted into a final end-product. Semi-finished products include aluminum sheet, coil, plate and foil, rod, bar and wire, extruded and cast products. We offer many of these forms of semi-finished products to our customers, for use as follows:

- *Aluminum Sheet/Coil.* Aluminum sheet/coil is used in many diverse industries, including transportation, construction and food service. Common applications include road signs and gas tanks for trailers.
- *Aluminum Plate.* One of the primary industries for aluminum plate is transportation. Common applications include ship building, automobiles and truck and dump bodies.
- *Aluminum Treadplate.* Aluminum treadplate with a bright finish, better known as "treadbright," is used both for its cosmetic appearance and its durability. Common uses are for industrial toolboxes, automotive runners and trimming.
- *Aluminum Foil.* Aluminum foil is used primarily in the packaging industry. Common applications include candy/gum wrappers as well as decorative wrapping for gifts.
- *Stainless Steel.* Stainless steel coil, sheet and plate products are widely utilized in applications in which aseptic and non-corrosive surfaces are essential. Common applications include the food service and marine-related industries.

- *Carbon Steel.* The uses of flat rolled carbon steel products span a myriad of applications including construction, automotive and consumer-related uses. Products currently supplied by the Company include hot rolled coils and plates, cold rolled and coated products such as painted, galvanized and galvalume materials.

During 2011, approximately 84% and 16% of our revenues were derived from the sale of aluminum products and steel products, respectively.

Demand for our products is not seasonal.

Sales, Marketing and Customer Service

We sell our products primarily through our own marketing and sales personnel. In addition, we sell less than 10% of our products through independent sales agents. We currently utilize five independent sales agents, three of whom are located in the United States, one in Canada and one in England. These sales agents are compensated pursuant to individually negotiated terms, with exact compensation generally tied to a fixed rate and the amount of products they actually sell.

Our inventory is comprised of material that has been ordered by customers and is in transit or is being held pending delivery to such customers and material that we stock to meet shorter delivery times to our customers.

We endeavor to support and grow our distribution capabilities by providing customers with quality products, access to alternative sources of supply, and customer service. We offer customers a range of services, including:

- sourcing products from the appropriate supplier in order to meet pricing and delivery requirements;
- handling foreign exchange transactions for purchases and sales in local currency;
- assuming responsibility for the shipment and timely delivery of the product to the customer;
- assisting customers in identifying materials and matching their particular needs;
- where necessary, arranging for subsequent metal processing and/or finishing services that may be required by the customer;
- arranging for materials that have been ordered by a customer (and are subject to a firm purchase commitment) to be stored at an appropriate warehouse for release to the customers on a just-in-time delivery basis;
- providing customers with information concerning market trends and product development; and
- making available material from our own local stocks to meet customers' short term requirements.

We carefully monitor the timing and processing of orders to meet customers' needs and commit to deliver orders within a time-period mutually agreed with the customer, generally within a 30-day window. We maintain constant and ongoing communication with our suppliers in order to ensure that these delivery dates are met and that customers are apprised of the delivery status of their orders.

Customers

We serve more than 300 customers in diverse industries, such as distribution, transportation, automobile, housing, appliances and packaging. In the year ended December 31, 2011, our top ten customers represented approximately 45% of our total revenues, with two customers, Samuel Son & Co. and Ryerson Inc., accounting for 11.6% and 12.3% of total revenues, respectively. In 2010, our top ten customers represented approximately 44% of our total revenues, with two customers, Samuel Son & Co. and Ryerson Inc., accounting for 10.7% and 10.4% of total revenues, respectively. These ten customers included nine full-service distribution centers (i.e., distributors that have the capacity to provide additional processing services), as well as a producer of various consumer and industrial products. Our customers are principally located throughout the Americas, Australia, New Zealand and Europe. Our U.S. customer base is not regional, and includes customers in 40 states with no significant geographic concentration in one state or region. During the year ended December 31, 2011, our revenues were attributable to the following countries: U.S. - 70%; Canada - 11%; Australia/New Zealand - 8%; South America - 6%; and Europe - 5%.

Customers generally place an order with us by submitting a purchase order setting forth their desired products, specifications and date and location of delivery. We confirm the transaction with our sales contract, which contains our standard terms and conditions, including a disclaimer of warranties, indemnification of us by the buyer and certain protections in case of insolvency or potential insolvency by the buyer (e.g., the right to terminate the contract and accelerate payments thereon) or the occurrence of certain contingencies that prevent us from fulfilling the contract on time. Typically the risk of loss passes to the customer upon delivery. Pricing is negotiated for each sales contract.

Suppliers

We maintain distribution arrangements and/or ongoing commitments with several foreign mills. We act as bulk purchasers for these suppliers, which provides them with the following benefits:

- we serve as an integrated marketing, distribution, and service channel for volume that our suppliers wish to export;
- we purchase bulk capacity from suppliers;
- we typically assume responsibility for transporting the products that we purchase;
- we eliminate foreign currency risks for suppliers; and
- we ensure prompt payment to suppliers for materials purchased.

We strive to maintain long-term relationships with our suppliers and to be a significant distributor for them. As a result, we are often able to obtain competitive pricing and to influence quality standards and delivery practices. We continuously work with our existing suppliers and explore other sources to strengthen our position in the market. Our principal suppliers are PT. Alumindo Light Metal Industries, Hulamin Ltd. and Elval Hellenic Aluminium. We have written agreements with PT. Alumindo Light Metal Industries and Hulamin Ltd., the material terms of which are summarized below:

PT. Alumindo Light Metal Industries. Our supply agreement with PT. Alumindo Light Metal Industries and its affiliates provides initially for the supply to us of a minimum of 3,500 metric tons of aluminum cold rolled coil per month, plus or minus 15% upon our written consent, to our specifications as set forth in our purchase orders. Under this supply agreement, the suppliers are also required to use their reasonable efforts to deliver to us an additional 500 metric tons of aluminum hot/cold rolled coil per month, plus or minus 15% upon our written consent. The suppliers' minimum commitment described above will increase to 5,000 metric tons of aluminum cold rolled coil per month, plus or minus 15% upon our written consent, on January 1, 2013. The suppliers' obligations to third parties will at all times be subject to their ability to produce sufficient supply for us to meet the minimum quantities set forth above. The price of the product shall be determined at least 60 days prior to the quarter in which the product is to be manufactured. The suppliers must provide the products to us at the lowest price at which they offer the same products to any third party in North America in equal or smaller quantities, and they are required to immediately lower existing prices if a lower price is offered to any such third party. We are also a party to a pre-payment advance agreement with PT. Alumindo Light Metal Industries and its affiliates

pursuant to which we will advance a total of \$10 million to these suppliers in order to augment their manufacturing capabilities. The pre-payment advance is to be repaid to us beginning on January 1, 2013 in monthly installments of approximately \$277,777.78. If we and the suppliers are unable to agree on a product price, the suppliers' monthly re-payment obligation will increase to \$555,555.56 and the outstanding balance will accrue interest, at the one month U.S. dollar LIBOR rate plus 3.5% per annum, per month. The entire remaining balance, if any, must be repaid on January 1, 2016. The supply agreement's initial term will end on the date that the pre-payment advance has been fully repaid, but the supply agreement will automatically renew for additional one year terms unless terminated by mutual written consent or in writing by either party at least 60 days prior to the termination date of the then current term. We have the right to terminate the supply agreement upon certain events of default, including the suppliers' breach of the agreement, failure to supply the product as specified in our purchase orders, becoming the subject of certain governmental demands, investigations or determinations involving illegal or trade-related acts, insolvency, bankruptcy or similar events, default under any loan or indebtedness or material adverse change in financial or other condition, or ability to perform under the agreement. Upon the occurrence of an event of default, the pre-payment advance would become due and payable to us upon demand.

Hulamin Ltd. Our agreement with Hulamin Ltd. is a letter of understanding which states that Hulamin Ltd. will work closely with us in satisfying market requirements, recognizing that we remain an important customer. The letter permits Hulamin Ltd. to sell its products directly to customers in North America.

Transportation

We arrange for transportation and delivery of the products purchased by customers. When we purchase products from an overseas supplier, we accept delivery either at the port in the supplier's home country or at the port of destination. If we take delivery at a foreign port, we will generally arrange for transportation to the port of destination on regularly scheduled port-to-port, sea-going transportation. Upon delivery of the products at the destination port, we use trucking and rail services to deliver the products to our customers.

Competition

Our principal competitors are global aluminum producers and rolling mills. Alcoa Inc., and Aleris Rolled Products, Inc. dominate the aluminum industry in North America. Alcoa Inc. and Aleris Rolled Products, Inc. are significantly larger than us, have significantly greater financial resources, and are active in significantly more areas of the aluminum products business than we are, including mining, refining, smelting and recycling. These companies also have access to material produced and imported from their own subsidiaries, which compete with us. There are also independent importers of aluminum and steel products which serve the North American aluminum and steel distribution industry. We compete with these other importers, as well as agents that act for or purchase from foreign aluminum producers including one of our suppliers, Hulamin Ltd. Our principal means of competition is market knowledge, customer service, and the ability to offer competitive terms and product quality, including providing value-added services to our customers and providing a full range of product offerings. We also believe that agents of foreign mills are generally less capable of providing the same value-added services to our customers because these agents are generally captive to a single foreign source and often lack the flexibility and range of product offerings that we offer our customers. We further believe that by offering our customers a full range of products from independent sources, we enable our customers to avoid dependency in an increasingly concentrated domestic supply chain.

Employees

As of December 31, 2011, we had approximately 55 employees. We also have independent sales representatives located in the United States and in Europe. None of our employees are represented under a collective bargaining agreement.

History

The Company was incorporated in the State of Delaware in 1990 under the name Integrated Technology USA, Inc. Until September 17, 1999, the Company was in the business of designing, developing and marketing products for emerging computer related markets.

On September 17, 1999, the Company merged with Empire Resources, Inc. (“Empire”), a distributor of value added, semi-finished aluminum products. Since the merger, the Company has continued the business of Empire under the name of Empire Resources, Inc.

In conjunction with the merger, Empire Resources Pacific Ltd. (“Empire-Pacific”), then an affiliate of Empire operating in Australia, became a wholly owned subsidiary of the Company. Empire-Pacific acts as our sales agent in Australia and New Zealand.

Our Belgian subsidiary, Imbali Metals BVBA, was incorporated in 2005 and began operations in that year.

Available Information

We maintain a website at www.empireresources.com. We make copies of our Annual Report and quarterly reports available on our website. Additionally, our code of business conduct and ethics is also available on our website.

RISK FACTORS

We are highly dependent on a few suppliers.

Our two largest suppliers in 2011 were PT. Alumindo Light Metal Industry and Hulamin Ltd., from whom we purchased approximately 47% of our products. Our two largest suppliers in 2010 were PT. Alumindo Light Metal Industry and Elval Hellenic Aluminium Industry S. A., from whom we purchased approximately 39% of our products. Accordingly, the termination or limitation by one or more of our largest suppliers of their relationships with us could limit our ability to fulfill customer orders or cause us to purchase products at a loss, which could have a material adverse effect on our business and results of operations. In addition, our loss of any one of our other suppliers (or material default by any supplier in its obligations to us) for any reason, including but not limited to bankruptcy, financial difficulties, expropriation, social unrest, destruction, sabotage, strikes, acquisition by a person or entity unwilling to provide products to us, or for any other reason, could limit our ability to fulfill customer orders or cause us to purchase products at a loss, which could have a material adverse effect on our business.

An interruption in the sources of our metal supply could have a material adverse effect on our results of operations.

We rely on our suppliers to fulfill contractual obligations. The failure of any one of our suppliers to fulfill their obligations to us may expose us to serious losses by requiring us to purchase material at a loss in the open market and/or absorb losses for hedges applied to the defaulting supplier’s transaction. Our primary suppliers could curtail or discontinue their delivery of metals to us in the quantities we need with little or no notice. If our suppliers experience production problems, lack of capacity or transportation disruptions, we may be unable to obtain sufficient amounts of metal on a timely basis, or we may not be able to obtain metal from alternate sources at competitive prices to meet our delivery schedules.

In addition, in recent years, the metal producing supply base has experienced significant consolidation, with a few domestic producers accounting for a majority of the domestic metal market. The number of available suppliers could be reduced in the future by factors such as further industry consolidation or bankruptcies affecting metal suppliers. Although we have in the past successfully replaced suppliers lost as a result of industry consolidations, there can be no assurance that we would be able to replace the volume of production or the type of products supplied by any of our current vendors if they were acquired or their operations terminated or were interrupted.

The occurrence of any of these events could have a material adverse effect on our business, financial condition, results of operations and cash flows.

We are highly dependent on a few significant customers.

Our sales are highly concentrated among a few customers. During the years ended December 31, 2011 and 2010, 45% and 44%, respectively, of our revenues were derived from sales to ten customers. Two major customers, Ryerson Inc. and Samuel Son & Co., Ltd., accounted for approximately 24% and 21% of our consolidated net sales for the years ended December 31, 2011 and 2010, respectively. Over the last several years, there have been consolidations in the industries we serve that may increase our sales concentration and the related risks. Any material reduction in sales to any of these customers could have a material adverse effect on our business. Our sales contracts tend to be short term in nature. We typically sell our products on monthly or quarterly customer commitments. As a result, the relationship, as well as particular orders, can generally be terminated with relatively little advance notice. The loss of any one of our major customers or decrease in demand by those customers or credit constraints placed on them could have a material adverse effect on our business, financial condition and results of operations.

The counterparties to our commodity derivative instruments may not be able to perform their obligations to us, which could materially affect our cash flows and results of operations.

In order to minimize risk associated with fluctuations in commodity prices and foreign currency, we use derivative instruments to hedge metal pricing and foreign currency risk as we deem appropriate for a majority of our purchase and sales contracts. We are exposed to the risk of a counterparty default in fulfilling these derivative instruments. Should there be a counterparty default, we could be exposed to losses on the original derivative instrument or be unable to recover anticipated gains from the transactions, which could result in decreased gross margins, profitability and/or outright losses.

Although we expect to finance our future and in-process growth initiatives through borrowings under our credit facility, we may have to find additional sources of funding, which could be difficult. Additionally, increased leverage could adversely impact our business and results of operations.

We expect to finance our future and in-process growth initiatives through borrowings under our \$200 million secured, asset-based credit facility, which matures on June 30, 2014. However, our credit facility may not be sufficient or available to finance our growth initiatives, and we may have to find additional sources of financing. It may be difficult for us in the future to obtain the necessary funds and liquidity to run and expand our business.

Additionally, if we incur substantial additional debt, including under our credit facility, to finance future growth, our leverage could increase as could the risks associated with such leverage. A high degree of leverage could have important consequences to us. For example, it could:

- increase our vulnerability to adverse economic and industry conditions;
- require us to dedicate a substantial portion of cash from operations to the payment of debt service, thereby reducing the availability of cash to fund working capital, capital expenditures, dividends and other general corporate purposes;
- limit our ability to obtain additional financing for working capital, capital expenditures, general corporate purposes or acquisitions;
- place us at a disadvantage compared to our competitors that are less leveraged; and
- limit our flexibility in planning for, or reacting to, changes in our business.

We may not be able to generate sufficient cash flow to meet our existing debt service obligations.

Our annual debt service obligations until June 30, 2014, when our senior credit facility is scheduled to mature, will be primarily limited to interest and principal payments on our 10% Convertible Senior Subordinated Notes Due June 1, 2016, with an aggregate principal amount of \$12 million, and borrowings under our \$200 million credit facility with outstanding borrowings of \$146 million as of December 31, 2011. Our ability to generate sufficient cash flow from operations to make scheduled payments on our debt obligations will depend on our future financial performance, which will be affected by a range of economic, competitive and business factors, many of which are outside of our control. If we do not generate sufficient cash flow from operations to satisfy our debt obligations, we may be required to undertake alternative financing plans, such as refinancing or restructuring our debt, selling assets, reducing or delaying capital investments or seeking to raise additional capital. We may not be able to consummate any such transaction at all or on a timely basis or on terms, and for proceeds, that are acceptable to us, and these transactions may not be permitted under the terms of our various debt instruments then in effect. Our inability to generate sufficient cash flow to satisfy our debt obligations or to timely refinance our obligations on acceptable terms could adversely affect our ability to serve our customers and could cause us to reduce or discontinue our planned operations.

We service industries that are highly cyclical, and any downturn in our customers' demand could reduce our sales, margins and profitability.

Many of our products are sold to customers in industries that experience significant fluctuations in demand based on economic conditions, energy prices, consumer demand, availability of adequate credit and financing, customer inventory levels, changes in governmental policies (including those that would limit or reduce defense spending) and other factors beyond our control. When one or more of our customers' industries experiences a decline, we may have difficulty increasing or maintaining our level of sales or profitability if we are not able to divert sales of our products to customers in other industries.

We are vulnerable to interest rate fluctuations on our indebtedness, which could hurt our operating results.

We are exposed to various interest rate risks as a result of our indebtedness under our credit facility. Market risk arises from changes in variable interest rates of our borrowings, which are primarily short-term LIBOR or money market based loans, which are subject to change. If interest rates significantly increase, we could be unable to service our debt which could have a material adverse effect on our operating results.

We are dependent on our executive officers and key employees.

We are highly dependent on the management and leadership skills of our executive officers and other key employees, including Nathan Kahn, our chief executive officer, president and a director, Sandra Kahn, our vice president, chief financial officer and a director, and Harvey Wrubel, our vice president of sales/director of marketing and a director. There can be no assurance that these individuals will continue to provide services to us. The loss of any of our executive officers or other key employees or the failure to attract and retain additional qualified personnel could prevent us from implementing our business strategy and continuing to grow our business at a rate necessary to maintain future profitability.

Failure of the supplier to honor the terms of our supply and pre-payment advance agreements could have a material adverse effect on us.

We are a party to a supply agreement and a pre-payment advance agreement with one of our largest suppliers, which provide for the sale to us of certain aluminum products and our advance of \$10 million to finance the expansion of the supplier's production capacity. We are exposed to the risk of failure of our supplier to honor its obligations under these agreements. The supplier's failure to provide the supply of materials as contemplated could negatively impact our results of operations. The supplier's failure to repay any or the entire advance could result in a material loss to us.

Many of our suppliers and customers are located in international markets, which expose us to a number of risks.

We generally purchase metal products from foreign suppliers, and our customers are principally located throughout the Americas, Australia, New Zealand and Europe. Thus, our operations could be materially and adversely affected by changes in economic, political and social conditions in the countries where we currently purchase or sell or may in the future purchase or sell such products, including the potential for adverse change in the local political or social climate or in government policies, laws and regulations, restrictions on imports and exports or sources of supply, and change in duties and taxes.

In addition, an act of war or terrorism or major pandemic event could disrupt international shipping schedules, cause additional delays in importing our products into the U.S. or increase the costs required to do so. Acts of crime or violence in these international markets could also adversely affect our operating results. Fluctuations in the value of the U.S. dollar versus foreign currencies could reduce the value of these assets as reported in our financial statements, which could reduce our stockholders' equity. Our failure to adequately anticipate and respond to these risks and the other risks inherent in international operations could have a material adverse effect on our operating results.

Our future operating results could be impacted by the volatility of the prices of metals, which could cause our results to be adversely affected.

The metal industry is highly cyclical and pricing can be volatile. The prices we pay for metals and the prices we charge our customers may fluctuate depending on many factors, including general economic conditions (both domestic and international), competition, production levels, import duties and other trade restrictions and currency fluctuations. We rely on long-term relationships with our suppliers but generally have no long-term, fixed-price purchase contracts. Instead we purchase at prevailing market prices at the time orders are placed, typically with discounts for quantity purchases. To the extent metals prices decline, we would generally expect lower sales and possibly lower net income, depending on the timing of the price changes. To the extent we are not able to pass on to our customers any increases in our raw materials prices, our operating results may be adversely affected. In addition, because we maintain substantial inventories of metals in order to meet short lead-times and the just-in-time delivery requirements of our customers, a reduction in our selling prices could result in lower profitability or, in some cases, losses, either of which could adversely impact our ability to remain in compliance with certain financial covenants in our loan facilities, as well as result in us incurring impairment charges.

If suppliers fail to provide products of sufficient quality, customer relationships and prices could be negatively affected.

Our relationships with our customers depend, in part, on our ability to deliver products of the quality specified by those customers. We rely on certifications from our suppliers that attest to the quality of the metals received from those suppliers for resale and generally, consistent with industry practice, do not undertake independent testing of such metals. In the event that metal purchased from suppliers is deemed defective material or deemed to not meet quality specifications as set forth in the certifications or customer specifications, we may be forced to buy products of the specified quality from another source to fulfill the customer's order. While we would then be left with a claim against the supplier for any loss sustained by us, we may not be able to bring these claims successfully, particularly in foreign jurisdictions. In addition, we could suffer damage to our reputation that may arise from sub-standard products and possible loss of customers.

We are exposed to credit risk from our customers.

We do not require collateral for customer receivables. We have significant balances owing from customers that operate in cyclical industries and under leveraged conditions, which may impair our collection of these receivables. We carry credit insurance with a 10% deductible covering the majority of our customers, and we have set specific limits on each customer's receivables. However, we sometimes elect to exceed these specific credit limits, and in selected instances the co-pay may be increased. Our failure to collect a significant portion of the amount due on our receivables directly from customers or through insurance claims (or other material default by customers) could have a material adverse effect on our financial condition and results of operations.

We are subject to the risk of default by our customers.

We rely on our customers to fulfill contractual obligations. The failure of our customers to do so may expose us to serious losses and may force us to sell material at a loss in the open market and/or absorb losses for metal hedges applied to the defaulting customer's transaction. A default by a single customer could have a material adverse effect on our financial condition and results of operations.

We could be held liable for any product failures related to the products we manufactured at our extrusion facility.

As a result of the production that took place at our extrusion facility prior to September 2009, when we ceased production at the facility, we may be exposed to potentially serious risks such as product failure following distribution in the market. While we are not aware of any defects in our aluminum extrusion products, defects in the products that we manufactured may result in serious and potentially fatal accidents which may in turn result in substantial losses to us.

Significant changes to international trade regulations could adversely affect our results of operations.

During 2011 and 2010 approximately 54% and 42%, respectively, of our purchases of aluminum products were from countries that were considered developing countries whose exports were eligible for preferential tariff treatment for import into the U.S. under the generalized system of preferences or duty free. There can be no assurance that any of our suppliers will continue to be eligible for such preferential tariff treatment or that the generalized system of preference will be renewed after its expiration on June 30, 2013. If the preferential tariff treatment of any of our suppliers that are currently eligible for such treatment becomes unavailable, then imports from such supplier may be subjected to a tariff, instead of the duty-free treatment those imports now enjoy. To the extent these increased costs could not be passed on to our customers, our profit margins could be negatively affected. This could result in higher costs to us and have a material adverse effect on our business, financial condition and results of operations.

Antidumping and other duties could be imposed on us, our suppliers and our products.

The imposition of an antidumping or other increased duty on any products that we import could have a material adverse effect on our financial condition. For example, under U.S. law, an antidumping duty may be imposed on any imports if two conditions are met. First, the Department of Commerce must decide that the imports are being sold in the U.S. at less than fair value. Second, the International Trade Commission must determine that the U.S. industry is materially injured or threatened with material injury by reason of the imports. The International Trade Commission's determination of injury involves a two-prong inquiry: first, whether the industry is materially injured, and second, whether the dumping, not other factors, caused the injury. The International Trade Commission is required to analyze the volume of imports, the effect of imports on U.S. prices for like merchandise, and the effects the imports have on U.S. producers of like products, taking into account many factors, including lost sales, market share, profits, productivity, return on investment, and utilization of production capacity.

General global economic, credit and capital market conditions have had and could continue to have an adverse impact on our business, operating results and financial condition.

We are susceptible to macroeconomic downturns in the U.S. and abroad which have had, and in the future may continue to have, an adverse effect on demand for our products and consequently our operating results, financial condition and cash flows. Future negative economic conditions, as well as a slow recovery period from the current economic downturn, could lead to reduced demand for our products, increased price competition, reduced gross margins, increased risk of obsolete inventories and higher operating costs as a percentage of revenue.

Disruption of the capital and credit markets may negatively impact our business, including our ability to access additional financing at a time when we would like, or need, to access those markets to run or expand our business. These events may also make it more costly for us to raise capital through the issuance of our equity securities and could reduce our net income by increasing our interest expense and other costs of capital. The diminished availability of credit and other capital could also affect the industries we serve and could result in reduction in sales volumes and increased credit and collection risks.

Our industry is highly competitive, which may force us to lower our prices and may have an adverse effect on our operating results.

The principal markets that we serve are highly competitive. Competition is based principally on price, service, quality, processing capabilities, inventory availability and timely delivery. Many of our competitors are significantly larger than us, and many have captive sources of supply and significantly greater access to capital and other resources. Increased competition could lower our margins or reduce our market share and have a material adverse effect on our financial performance. Additionally, if our sources of supply were interrupted, our competitors could be in a position to capture our customers.

Increases in energy prices would increase our operating costs, and we may be unable to pass all these increases on to our customers in the form of higher prices.

If our energy costs increase disproportionately to our revenues, our earnings could be reduced. We use energy to process and transport our products. Our operating costs increase if energy costs, including electricity, diesel fuel and natural gas, rise. During periods of higher energy costs, we may not be able to recover our operating cost increases through price increases without reducing demand for our products. In addition, we generally do not hedge our exposure to higher energy prices. Increases in energy prices will increase our operating costs and may reduce our profitability if we are unable to pass all of the increases on to our customers.

Rising freight rate costs and lack of adequate cargo space may affect our operations.

Substantially all of the products we distribute require transportation, either via ocean vessels, rail or trucks. Increasing freight rates may materially adversely affect our profit margin and lack of cargo space may affect our ability to deliver products in a timely manner.

The failure of our key computer-based systems could have a material adverse effect on our business.

We currently maintain computer-based systems in the operation of our business and we depend on these systems to a significant degree for all areas of business operations. These systems are vulnerable to, among other things, damage or interruption from fire, flood, tornado, and other natural disasters, power loss, computer system and network failures, operator negligence, physical and electronic loss of data or security breaches and computer viruses. The destruction or failure of any one of our computer-based systems for any significant period of time could materially adversely affect our business, financial condition, results of operations and cash flows.

We may face risks associated with current or future litigation and claims.

Although we do not believe that we currently face any material litigation or claims, there can be no guarantee that we will not, in the future, be involved in one or more lawsuits, claims or other proceedings. These suits could concern issues including contract disputes, employment actions, employee benefits, taxes, environmental, health and safety, personal injury and product liability matters. Due to the uncertainties of litigation, we can give no assurance that we will prevail on any claims made against us in any such lawsuit. While it is not feasible to predict the outcome of any pending lawsuits and claims, we do not believe that the disposition of any such pending matters is likely to have an adverse effect on our financial condition or liquidity, although the resolution in any reporting period of one or more of these matters could have an adverse effect on our operating results for that period. Also, we can give no assurance that any other lawsuits or claims brought in the future will not have an adverse effect on our financial condition, liquidity or operating results.

The interests of our controlling stockholders may not coincide with others.

As of March 8, 2012, Nathan Kahn, our chief executive officer, president and a director, and Sandra Kahn, our vice president, chief financial officer and a director, beneficially owned approximately 42.3% of our outstanding common stock (40.2% excluding the 10% Convertible Senior Subordinated Notes Due June 1, 2016, which only have voting rights once they are converted to common stock) and Harvey Wrubel, our vice president of sales/director of marketing and a director, beneficially owns approximately 5.8% (4.7% excluding the 10% Convertible Senior Subordinated Notes Due June 1, 2016). In addition, through ownership of our 10% Convertible Senior Subordinated Notes Due June 1, 2016, Leon G. Cooperman and his affiliates beneficially own (*i.e.*, have the right acquire) 16.1% of our outstanding common stock. As a result, our controlling stockholders control substantially all matters requiring stockholder approval, including the election of directors and approval of significant corporate transactions. In addition, this concentration of ownership may delay or prevent a change in control of our company and make some future transactions more difficult or impossible without the support of our controlling stockholders. The interests of our controlling stockholders may not coincide with our interests or the interests of other stockholders.

Our common stock may be affected by limited trading volume and price fluctuations, each of which could adversely impact the value of our common stock.

There is relatively limited trading in our common stock and there can be no assurance that an active trading market in our common stock will either develop or be maintained. In addition, our common stock currently trades on the OTCQX, which generally lacks the liquidity, research coverage and institutional investor following of a national stock exchange like the NYSE Amex Equities, the New York Stock Exchange or the Nasdaq Stock Market. Our common stock has experienced, and is likely to experience in the future, significant price and volume fluctuations, which could adversely affect the market price of our common stock without regard to our operating performance. In addition, we believe that factors such as quarterly fluctuations in our financial results and changes in the overall economy or the condition of the financial markets could cause the price of our common stock to fluctuate substantially. These fluctuations may also cause short sellers to enter the market from time to time in the belief that we will have poor results in the future. We cannot predict the actions of market participants and, therefore, can offer no assurances that the market for our stock will be stable or appreciate over time.

Our stock price may be volatile, which could result in substantial losses for investors.

The market price of our common stock is highly volatile and could fluctuate widely in response to various factors, many of which are beyond our control, including the following:

- additions or departures of key personnel;
- sales of our common stock, including management shares;
- our ability to execute our business plan;
- operating results that fall below expectations;
- loss of any strategic relationship;
- industry developments; and
- general domestic or international economic, market and political conditions.

In addition, the securities markets have from time to time experienced significant price and volume fluctuations that are unrelated to the operating performance of particular companies. These market fluctuations may also significantly affect the market price of our common stock.

A significant number of our shares will be eligible for sale and their sale or potential sale may depress the market price of our common stock.

Sales of a significant number of shares of our common stock in the public market could harm the market price of our common stock.

In addition, 416,000 shares are issuable upon exercise of options. If any options are exercised, the shares issued upon exercise will also be restricted, but may be sold under Rule 144 after the applicable holding period has been satisfied. Sales under Rule 144 may be subject to volume limitations and other conditions.

In addition to the possibility that actual sales of significant amounts of our common stock in the public market could harm our common stock price, the fact that our stockholders have the ability to make such sales could create a circumstance commonly referred to as an “overhang,” in anticipation of which the market price of our common stock could fall. The existence of an overhang, whether or not sales have occurred or are occurring, could also make it more difficult for us to raise additional financing through the sale of equity or equity-related securities in the future at a time and price that we deem reasonable or appropriate.

Although we have paid dividends in prior periods, there can be no assurance that we will pay dividends in the future. As a result, any return on investment may be limited to the value of our common stock.

Although we have paid dividends in prior periods, there can be no assurance that we will pay dividends in the future. The payment of dividends on our common stock will depend on our earnings, financial condition and other business and economic factors as our board of directors may consider relevant. If we do not pay dividends, our common stock may be less valuable.

If securities or industry analysts do not publish research or publish inaccurate or unfavorable research about our business, our stock price and trading volume could decline.

The trading market for our common stock will depend in part on the research and reports that securities or industry analysts publish about us or our business. If we obtain securities or industry analyst coverage and if one or more of the analysts who covers us downgrades our stock or publishes inaccurate or unfavorable research about our business, our stock price would likely decline. If one or more of these analysts ceases coverage of us or fails to publish reports on us regularly, demand for our stock could decrease, which could cause our stock price and trading volume to decline.

We will incur increased costs as a result of being a public reporting company.

We will face increased legal, accounting, administrative and other costs and expenses as a public reporting company that we do not currently incur. The Sarbanes-Oxley Act of 2002, including the requirements of Section 404, as well as new rules and regulations subsequently implemented by the Securities and Exchange Commission and the Public Company Accounting Oversight Board impose additional reporting and other obligations on public reporting companies. We expect that compliance with these public company requirements will increase our costs and make some activities more time-consuming. A number of those requirements will require us to carry out activities we have not done previously. For example, we will adopt new internal controls and disclosure controls and procedures. In addition, we will incur additional expenses associated with our Securities and Exchange Commission reporting requirements. For example, under Section 404 of the Sarbanes-Oxley Act, we will need to document and test our internal control procedures and our management will need to assess and report on our internal control over financial reporting. Furthermore, if we identify any issues in complying with those requirements (for example, if we or our accountants identify a material weakness or significant deficiency in our internal control over financial reporting), we could incur additional costs rectifying those issues, and the existence of those issues could adversely affect us, our reputation or investor perceptions of us. It also could become more difficult and expensive to maintain director and officer liability insurance, and we may be required to accept reduced policy limits and coverage or incur substantially higher costs. As a result, it may be more difficult for us to attract and retain qualified persons to serve on our board of directors or as executive officers. We expect that the additional reporting and other obligations imposed on us by these rules and regulations will increase our legal and financial compliance costs and the costs of our related legal, accounting and administrative activities significantly. These increased costs will require us to divert money that we could otherwise use to expand our business and achieve our strategic objectives.

PROPERTIES

Our corporate headquarters are located in Fort Lee, New Jersey, where we lease office space pursuant to a lease expiring in March 2015. The lease provides for a minimum annual rental payment of \$284,000, plus escalations.

We own a distribution and warehouse facility at 6900 Quad Avenue, Baltimore, Maryland.

We believe that our facilities are adequate to meet our current and proposed needs.

SHARE STRUCTURE

The Company has approximately 2,650 beneficial shareholders as of year-end.

CUSIP: 29206E100

Common Stock

Par Value \$0.01 per share

20 million shares authorized

11,749,651 shares issued

9,238,406 shares outstanding

LEGAL PROCEEDINGS

We were previously engaged in a dispute, A.W. Financial Services, S.A. v. Empire Resources, Inc., et al., involving a former shareholder and our stock transfer agent. All parties have since reached an agreement to resolve the matter and the action was dismissed with prejudice on January 13, 2012. On February 10, 2012, a settlement agreement was finalized pursuant to which the defendants agreed to make a contribution to this resolution of \$250,000.

Dividends

During 2011, our Board of Directors declared quarterly dividends on our common stock. The Board of Directors determined that we were able to return some of our cash to stockholders without impacting future revenue and earnings growth or restricting strategic opportunities. The Board of Directors declared a regular cash dividend of \$0.025 per share on March 24, 2011, June 22, 2011, September 22, 2011 and December 14, 2011. The Board of Directors intends to review our dividend policy on a quarterly basis and make a determination with respect to a dividend distribution, subject to profitability, free cash flow and the other requirements of the business. There can be no assurance that dividends will be paid in the future.

Share Repurchase

In July 2008, the Board of Directors authorized the repurchase of up to 2 million shares of our common stock. As of December 31, 2011, we repurchased a total of 597,778 shares with an aggregate cost of \$1,280,732.

Equity Compensation Plan Information

The following table provides information as of December 31, 2011 regarding the only compensation plan, our 2006 Stock Option Plan (the “2006 Plan”), under which our common stock is authorized for issuance.

<u>Plan category</u>	<u>Equity Compensation Plan Information</u>		
	<u>Number of securities to be issued upon exercise of outstanding options</u> (a)	<u>Weighted Average exercise price of outstanding options</u> (b)	<u>Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))</u> (c)
Equity compensation plans approved by security holders	416,000	\$1.53	409,000
Equity compensation plans not approved by security holders	-	-	-
Total	416,000	\$1.53	409,000

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

Overview

Introduction

All statements except historical statements contained herein constitute "forward-looking statements," which include information relating to future events, future financial performance, strategies, expectations, competitive environment and regulation. Words such as "may," "should," "could," "would," "predict," "potential," "continue," "expect," "anticipate," "future," "intend," "plan," "believe," "estimate," and similar expressions, as well as statements in future tense, identify forward-looking statements. Forward-looking statements should not be read as a guarantee of future performance or results and may not be accurate indications of when such performance or results will be achieved. Forward-looking statements are based on information we have when those statements are made or our management's good faith belief as of that time with respect to future events, and are subject to risks and uncertainties that could cause actual performance or results to differ materially from those expressed in or suggested by the forward-looking statements. We undertake no obligation to update or revise publicly any forward-looking statements, whether as a result of new information, future events or otherwise.

Our Business

We are engaged in the purchase, sale and distribution of principally semi-finished aluminum and steel products to a diverse customer base located throughout the Americas, Europe, Australia and New Zealand. We sell our products through our own marketing and sales personnel as well as through independent sales agents who are located in North America and Europe and who receive commissions on sales. We purchase products from suppliers located throughout the world. Our two largest suppliers furnished approximately 47% of our products during 2011 as compared to 39% of our products during 2010. While in general we place orders with our suppliers based upon orders that we have received from our customers, we also purchase material for our own stock, which typically we use for shorter term deliveries to our customers. The industry in which we operate is the sale and distribution of semi-finished aluminum and steel products. These products are manufactured worldwide by rolling and extrusion facilities, many of which are owned by large integrated companies and others by independent producers. The products we purchase are in turn sold to varied metal working industries including automotive, housing, packaging, as well as distributors.

We typically place orders for aluminum with suppliers based upon orders that we have received from our customers and also purchase material for stock. Inherent in our business is the risk of matching the timing of our contracts. We buy and sell aluminum products which are based on a constantly moving terminal market price determined by the London Metal Exchange ("LME"). Were we not to hedge such exposures we could be exposed to significant losses due to the continually changing aluminum prices.

We use aluminum futures contracts to manage our exposure to this commodity price risk inherent in our activities. It is generally our policy to hedge such risks to the extent practicable. We enter into hedges to limit our exposure to volatile price fluctuations that we believe would impact our gross margins on firm purchase and sales commitments. As an example, if we enter into fixed price contracts with our suppliers and variable priced sales contracts with our customers, we will generally enter into a futures contract to sell the aluminum for future delivery in the month when the aluminum is to be priced and delivered to the customer and repurchase this position once the pricing has been fixed with our customer. If the underlying metal price increases, we suffer a hedging loss and have a derivative liability, but the sales price to the customer is based on a higher market price and offsets the loss. Conversely, if the metal price decreases, we have a hedging gain and recognize a derivative asset, but the sales price to the customer is based on the lower market price and offsets the gain.

We also enter into foreign exchange forward contracts to hedge our exposure related to commitments to purchase or sell metals denominated in some international currencies. In such cases, we will purchase or sell the foreign currency through a bank for an approximate date when we anticipate making a payment to a supplier or receiving payment from the foreign customer.

In accordance with Generally Accepted Accounting Principles, we designate these derivative contracts as fair value hedges and recognize them on our balance sheet at fair value. We also recognize offsetting changes in the fair value of the related firm purchase and sales commitment to which the hedge is attributable in earnings upon revenue recognition, which occurs at the time of delivery to our customers.

As further described under "Risk Factors," the potential for losses related to our hedging activities, given our hedging methodology, arises from counterparty defaults with banks for our foreign exchange hedging, the London Metal Exchange for our aluminum hedges, or customer defaults. In the event of a customer default, we might be forced to sell the material in the open market and absorb losses for metal or foreign exchange hedges that were applied to the defaulting customers' transactions. Our results of operations could be materially impacted by any counterparty or customer default, as we might not be able to collect money owed to us and/or our hedge might effectively be cancelled.

We use hedges for no purpose other than to avoid exposure to changes in aluminum prices and foreign currency rates between when we buy a shipment of aluminum from a supplier and when we deliver it to a customer. Our derivatives are not for purposes of trading in the futures market. We earn our gross profit margin through our business operations and not from the movement of aluminum prices.

As part of our business we also engage in the purchase, sale and distribution of steel products. If we do not have a matching sales contract related to such products, (for example, any steel products that are unsold in our inventory), we have price risk that we currently do not or are unable to hedge. As such, any decline in pricing for such products may adversely impact our profitability.

Critical Accounting Policies and Estimates

The following discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with generally accepted accounting principles in the U.S. The preparation of financial statements in accordance with generally accepted accounting principles in the U.S. requires us to make estimates and assumptions that affect the amounts reported in our financial statements. The financial statements include estimates based on currently available information and our judgment as to the outcome of future conditions and circumstances. Significant estimates in these financial statements include allowance for doubtful accounts and accruals for inventory claims. Changes in the status of certain facts or circumstances could result in material changes to the estimates used in the preparation of the financial statements and actual results could differ from the estimates and assumptions.

Among the significant judgments made by management in the preparation of our financial statements are the following:

Allowance for Doubtful Accounts (in thousands)

As of December 31, 2011, we had \$56,504 in trade receivables including an allowance for doubtful accounts of \$527. We report accounts receivable, net of an allowance for doubtful accounts, to represent our estimate of the amount that ultimately will be realized in cash. We review the adequacy of our allowance for doubtful accounts on an ongoing basis, using historical collection trends, aging of receivables, as well as review of specific accounts, and make adjustments in the allowance as we believe necessary. We maintain a credit insurance policy on the majority of our customers. In general, this policy has a 10% co-insurance; however there are some instances where the co-insurance may vary and instances where we may exceed the insured values. Changes in economic conditions could have an impact on the collection of existing receivable balances or future allowance considerations. In addition, changes in the credit insurance environment could affect the availability of credit insurance and our ability to secure the same.

Accruals for Inventory Claims

Generally, our exposure on claims for defective material is relatively minimal as we generally refer all claims on defects back to the mill supplying the material. If we do not believe the mill will honor a claim, we will record an allowance for inventory adjustments.

Results of Operations

Comparison of Fiscal Years Ended December 31, 2011 and 2010 (in thousands)

During 2011, net sales increased by \$49,620 from \$465,013 to \$514,633 or an increase of 11% from the same period in 2010. This increase was primarily due to higher metal prices. Generally, increases in metal prices have historically caused corresponding increases in net sales that were not offset by decreased sales volume. We believe that sales volumes did not decrease as our prices rose due to our position as an alternative supplier and the fact that our prices are generally lower than those of our competitors. More specifically, our customers generally purchase semi-finished aluminum and steel products from several sources besides us, and our products generally comprise only a minority of the aluminum and steel products purchased by our customers. In addition, we offer customers visibility into the general wholesale metals marketplace that our larger competitors do not, since most of these competitors are vertically integrated, selling metal products they may have mined and manufactured, and do not provide the types of customer services we provide. We also believe that our customers have continued to purchase products from us in consistent volumes regardless of market pricing because we offer our customers products from independent sources, which allows our customers to lessen their dependence on an increasingly concentrated domestic supply chain. While we are not aware of any trends related to metal prices or otherwise that we expect to have a material impact on our net sales in the future, there can be no guaranty that the trends described above will continue as metal prices can be extremely volatile. See Risk Factors "Our future operating results could be impacted by the volatility of the prices of metals, which could cause our results to be adversely affected" on page 12.

We are engaged in the purchase, sale and distribution of semi-finished aluminum and steel products which we purchase from producing mills around the world. The market price of materials we purchase, as well as the market price of materials we sell, fluctuate constantly in world markets. Our cost of sales is composed of metal content, which is determined on world metal exchanges, plus a unique fabrication premium charged by each producer to convert the raw metal to a semi-finished product. In turn, we sell to our customers based on metal content plus a premium which includes supplier fabrication mark up, and costs of importation, warehousing, and delivery of material to customers. Since metal content costs are the largest component of cost of sales and selling price, our sales pricing trends and cost of sales trends generally track consistently. However, during 2011, in order to maintain market share in a highly competitive and difficult economic environment, we reduced our premiums over metal prices. Accordingly, our cost of sales increased from 94 % in 2010 to 95% of sales as of December 31, 2011.

Gross profit decreased by \$5,697 from \$30,228 to \$24,531 for the twelve month period, or a 19% decline, as compared to the twelve months of 2010. As discussed above, our margins were under pressure in a highly competitive landscape in difficult economic conditions and our customers typically solicited many offers for their business, resulting in lower margins for successful bidders.

Selling, general and administrative expenses increased by \$1,305, from \$12,031 during 2010 to \$13,336 in 2011 primarily as a result of increases in legal expenses incurred for the settlement costs of outstanding litigation. Increases in travel costs to visit our customers and suppliers also increased during 2011.

During 2011, interest expense increased by \$42 from \$3,997 to \$4,039 for the same period in 2010. Under our new credit agreement, the premium charged by our banks increased from 1.5% to 2.5% resulting in increased interest paid during 2011. This was offset by the expiration of our interest rate swaps which expired in August 2010. Additionally, during 2011 our interest expense increased by \$1,000 as a result of the subordinated debt interest expense as well as the amortization on the debt discount.

Net income decreased from \$9,145 in 2010 to \$4,961 for 2011, which was attributable to the competitive pressures of maintaining market share, leading to lower gross profit margins. Net income for the 2011 included a non-cash, non-operating gain of \$896 resulting from the mark to market of the derivative element of our 10% Convertible Senior Subordinated Notes Due June 1, 2016.

Liquidity and Capital Resources (in thousands)

Operating Activities

Net cash used in operating activities was \$55,788 in 2011 compared to \$44,579 in 2010. Our working capital, primarily accounts receivable and inventories, increased as a result of increases in inventory levels to support our just in time deliveries to customers and depot sales to our customers as well as higher mill prices. We were able to fund these increases primarily with our borrowings on our credit facility. Our receivables and inventories increased by \$15,584 and \$52,368, respectively, from December 31, 2010 levels, offset with increases in our accounts payable and accrued expenses of approximately \$12,118.

We focus on our days' sales outstanding and our inventory turnover rate to manage working capital, because receivables and inventory are the two most significant elements of our working capital. As of December 31, 2011 our days' sales outstanding rate was approximately 40 days, as compared to 32 days as of December 31, 2010. During 2011 one of our significant customers, Ryerson, Inc. no longer consistently utilized a discount offered for early payment and returned to standard net 30 days terms. Furthermore, some of our customers stretched their standard terms as they navigated through difficult business conditions. In addition, our average monthly sales for last quarter of 2011 was \$46 million as against \$35 million for the comparable period in 2010. This higher rate of sales accounts for \$11 million of the \$15.6 million increase in accounts receivable noted above even if customers had continued paying at the same rate.

During 2011, our inventory turn rate was about 2.8 times (or 4.3 months on hand), compared to our 2010 rate of about 3.5 times (or 3.4 months on hand). Our turns were impacted by the increased customer expectations of just in time delivery as well as a growth in inventories in anticipation of more robust sales of our depot business.

Financing Activities

The increase in our working capital during 2011 was largely funded by our cash from borrowings of \$54,395 on our credit facility. In addition, we had proceeds from the subordinated convertible notes of \$12,000 during 2011 of which \$10,000 was allocated to fund our advance related to the supply agreement. We paid dividends to our shareholders of \$694 in 2011.

We were a party to an amended and restated credit agreement with JPMorgan Chase Bank, N.A. for itself and as the agent for Rabobank International, New York branch, Citicorp USA, Inc., Brown Brothers Harriman & Co., and Fortis Capital Corp., which provided for a \$175 million revolving line of credit, including a commitment to issue letters of credit and a swing-line loan sub facility, with a maturity date of June 30, 2011. The credit agreement provided that amounts under the facility could be borrowed and repaid, and re-borrowed, subject to a borrowing base test, until the maturity date of June 30, 2011. Amounts borrowed by us bore interest of LIBOR, Eurodollar, money market, or base rates, at our option, plus an applicable margin. The applicable margin was determined by our leverage ratios. Borrowings under the credit agreement were collateralized by security interests in substantially all of our assets. The credit agreement contained financial and other covenants including but not limited to, covenants requiring maintenance of minimum tangible net worth and compliance with leverage ratios, as well as an ownership minimum and limitations on other indebtedness, liens, and investments and dispositions of assets.

On April 28, 2011 we entered into a new working capital credit agreement with Rabobank International, for itself and as lead arranger and agent, JPMorgan Chase, for itself and as syndication agent, and ABN AMRO, BNP Paribas, RBS Citizens, Société Générale, and Brown Brothers Harriman. The \$200 million secured, asset-based credit facility matures on June 30, 2014 and refinanced our \$175 million credit agreement. The agreement also allows additional increases in the line of credit of up to \$50 million, subject to certain restrictions. Amounts borrowed bear interest of Eurodollar, money market or base rates, at our option, plus an applicable margin. Our borrowings under this line of credit are secured by substantially all of our assets. The credit agreement contains financial and other covenants including but not limited to, covenants requiring maintenance of minimum tangible net worth of \$25 million plus an aggregate amount equal to 25% of our positive net earnings and compliance with a leverage ratio of not more than 6.00 to 1, as well as an ownership minimum and limitations on other indebtedness, liens, and investments and dispositions of assets. The credit agreement provides that amounts under the facility may be borrowed and repaid, and re-borrowed, subject to a borrowing base test, until the maturity

date of June 30, 2014. As of December 31, 2011, we had borrowings of \$146,000 outstanding under the credit agreement, bearing interest at 2.7% and we were in compliance with all financial covenants.

Our wholly owned Belgian subsidiary, Imbali Metals BVBA, operates under a line of credit with ING Belgium S.A./N.V., with a EUR 8,000 commitment for loans and documentary letters of credit. Loan advances are limited to a percentage of Imbali's pledged accounts receivables and inventory. This secured credit arrangement is unconditionally guaranteed by us. As of December 31, 2011, we had borrowings of EUR 6,500 (\$8,424) under this line of credit, bearing interest at EURIBOR plus 1.75%, and we were in compliance with all financial covenants. As of December 31, 2010, we had borrowings of EUR 3,800 (\$5,047) outstanding under this line of credit, and we were in compliance with all financial covenants.

In addition, we are a party to a mortgage and an interest rate swap that we entered into in 2004 in connection with the purchase of our Baltimore warehouse. The mortgage loan, which had an outstanding balance of \$1.6 million at December 31, 2011 and \$1.8 million at December 31, 2010, requires monthly payments of approximately \$21,600, including interest at LIBOR plus 1.75%, and matures in December 2014. Under the related interest rate swap, which has been designated as a cash flow hedge and remains effective through the maturity of the mortgage loan, we will pay a monthly fixed interest rate of 6.37% to the counterparty bank on a notional principal equal to the outstanding principal balance of the mortgage. In return, the bank will pay us a floating rate, namely, LIBOR, to reset monthly, plus 1.75% on the same notional principal amount.

We have commitments in the form of letters of credit to some of our suppliers.

On June 3, 2011, we sold \$12,000 principal amount of 10% Convertible Senior Subordinated Notes Due June 1, 2016 in a private placement to selected accredited investors. The notes are currently convertible at the option of the holders into shares of common stock at a conversion price of 219.05 shares of common stock per \$1,000 principal amount of notes, subject to adjustment for cash and stock dividends, stock splits and similar transactions, at any time before maturity. The current conversion price reflects three adjustments for dividends. In addition, if the last reported sale price of the common stock for 30 consecutive trading days is equal to or greater than \$7.00, and a registration statement is effective covering the resale of the shares of common stock issuable upon conversion of the notes, we have the right, in our sole discretion, to require the holders to convert all or part of their notes at the then applicable conversion rate. Interest on the notes is payable in arrears on the first day of June and December every year the notes are outstanding.

Management believes that cash from operations, together with funds available under our credit facility and proposed new credit facility, will be sufficient to fund the cash requirements relating to our existing operations for the next twelve months. We will require additional debt or equity financing in connection with the future expansion of our operations.

Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements as of December 31, 2011.



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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Stockholders
Empire Resources, Inc.
Fort Lee, New Jersey

We have audited the accompanying consolidated balance sheets of Empire Resources, Inc. (the "Company") and subsidiaries as of December 31, 2011 and 2010, and the related consolidated statements of operations, changes in stockholders' equity 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 generally accepted auditing standards as established by the Auditing Standards Board (United States) and in accordance with the auditing standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included 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 also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 consolidated financial position of Empire Resources, Inc. and subsidiaries as of December 31, 2011 and 2010, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

EisnerAmper LLP

New York, New York
March 29, 2012

EMPIRE RESOURCES, INC. AND SUBSIDIARIES

Consolidated Balance Sheets

(In thousands except share amounts)

	December 31, 2011	December 31, 2010
ASSETS		
Current assets:		
Cash	\$ 4,274	\$ 1,270
Trade accounts receivable (less allowance for doubtful accounts of \$527 and \$331)	56,504	41,174
Inventories	184,113	132,196
Deferred tax assets	3,384	2,611
Other current assets	11,053	8,795
Total current assets	259,328	186,046
Advance to supplier, net of imputed interest of \$521	4,479	0
Preferential supply agreement	521	0
Long-term financing costs, net of amortization	1,360	0
Property and equipment, net	4,040	4,078
Total assets	\$ 269,728	\$ 190,124
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Notes payable - banks	\$ 154,424	\$ 100,447
Current maturities of mortgage payable	160	151
Trade accounts payable	50,054	31,482
Income taxes payable	4,060	6,143
Accrued expenses and derivative liabilities	4,089	10,537
Dividends payable	231	0
Total current liabilities	213,018	148,760
Mortgage payable, net of current maturities	1,461	1,621
Subordinated convertible debt net of unamortized discount of \$2,499	9,501	0
Derivative liability for embedded conversion option	1,934	0
Deferred taxes payable	212	0
Commitments and Contingencies (Note Q)		
Stockholders' equity:		
Common stock \$.01 par value, 20,000,000 shares authorized and 11,749,651 shares issued at December 31, 2011 and December 31, 2010	117	117
Additional paid-in capital	11,937	11,937
Retained earnings	35,271	31,235
Accumulated other comprehensive loss	(214)	(96)
Treasury stock 2,511,245 and 2,490,745 shares at December 31, 2011 and December 31, 2010	(3,509)	(3,450)
Total stockholders' equity	43,602	39,743
Total liabilities and stockholders' equity	\$ 269,728	\$ 190,124
See notes to consolidated financial statements		

EMPIRE RESOURCES, INC. AND SUBSIDIARIES

Consolidated Statements of Operations

(In thousands except per share amounts)

	Year Ended December 31,	
	2011	2010
Net sales	\$ 514,633	\$ 465,013
Cost of goods sold	490,102	434,785
Gross profit	24,531	30,228
Selling, general and administrative expenses	13,336	12,031
Operating income before impairment recovery	11,195	18,197
Impairment recovery	0	346
Operating income	11,195	18,543
Other income/(expense)		
Change in value of derivative liability	896	0
Interest expense, including amortization of debt discount	(4,039)	(3,997)
Income before income taxes	8,052	14,546
Income taxes	3,091	5,401
Net income	\$ 4,961	\$ 9,145
Weighted average shares outstanding:		
Basic	9,255	9,260
Diluted	10,987	9,435
Earnings per share:		
Basic	\$0.54	\$0.99
Diluted	\$0.46	\$0.97
See notes to consolidated financial statements		

EMPIRE RESOURCES, INC. AND SUBSIDIARIES

Consolidated Statements of Changes in Stockholders' Equity

(In thousands except per share amounts)

	Common Stock Number of Shares	Common Stock Amount	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total Stockholders' Equity	Total Comprehensive Income
Balance at December 31, 2009	11,750	\$ 117	\$ 11,919	\$ 23,942	\$ (1,275)	\$ (3,378)	\$ 31,325	
Treasury stock acquired						(83)	(83)	
Stock options exercised			7			11	18	
Tax benefit applicable to exercise of stock options			11				11	
Net change in cumulative translation adjustment					(120)		(120)	(120)
Decrease in value of interest rate swap liability, net of deferred tax of \$782					1,303		1,303	1,303
Decrease in value of marketable securities net of deferred tax of (\$2)					(4)		(4)	(4)
Dividends (\$0.20 per share)				(1,852)			(1,852)	
Net income				9,145			9,145	9,145
								\$10,324
Balance at December 31, 2010	11,750	117	11,937	31,235	(96)	(3,450)	39,743	
Treasury stock acquired						(59)	(59)	
Net change in cumulative translation adjustment					(127)		(127)	(127)
Decrease in value of interest rate swap liability, net of deferred tax of \$5					9		9	9
Dividends (\$0.10 per share)				(925)			(925)	
Net income				4,961			4,961	4,961
								\$4,843
Balance at December 31, 2011	11,750	\$ 117	\$ 11,937	\$ 35,271	\$ (214)	\$ (3,509)	\$ 43,602	

See notes to consolidated financial statements

EMPIRE RESOURCES, INC. AND SUBSIDIARIES
Consolidated Statements of Cash Flows
(In thousands)

	Year Ended December 31,	
	2011	2010
Cash flows from operating activities:		
Net income	\$ 4,961	\$ 9,145
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	434	374
Change in value of derivative liability	(896)	0
Amortization of convertible note discount	330	0
Impairment recovery	0	(346)
Provision for doubtful accounts	207	0
Deferred income taxes	(564)	(32)
Foreign exchange loss, and other	(11)	155
Changes in:		
Restricted cash	0	2,149
Trade accounts receivable	(15,584)	(13,245)
Inventories	(52,368)	(17,564)
Other current assets	(2,332)	(6,240)
Trade accounts payable	18,569	(1,542)
Income taxes payable	(2,083)	4,440
Accrued expenses and derivative liabilities	(6,451)	(21,873)
Net cash used in operating activities	<u>(55,788)</u>	<u>(44,579)</u>
Cash flows used in investing activities:		
Advance related to supply agreement	(5,000)	0
Net proceeds from sale of property and equipment	0	346
Purchases of property and equipment	(84)	(27)
Net cash (used in)/provided by investing activities	<u>(5,084)</u>	<u>319</u>
Cash flows provided by financing activities:		
Proceeds from subordinated convertible debt	12,000	0
Proceeds from notes payable – banks	54,395	46,691
Repayments - mortgage payable	(151)	(141)
Dividends paid	(694)	(2,085)
Deferred financing costs	(1,596)	0
Treasury stock purchased	(59)	(83)
Stock options exercised	0	18
Tax benefit from stock options exercised	0	11
Net cash provided by financing activities	<u>63,895</u>	<u>44,411</u>
Net increase in cash	3,023	151
Effect of exchange rate	(19)	(23)
Cash at beginning of year	1,270	1,142
Cash at end of the year	<u>\$ 4,274</u>	<u>\$ 1,270</u>
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Interest	\$ 3,787	\$ 4,037
Income taxes	\$ 2,931	\$ 5,718
Non cash financing activities:		
Dividend declared but not yet paid	\$ 231	\$ 0

See notes to consolidated financial statements

EMPIRE RESOURCES, INC. AND SUBSIDIARIES

Note A - BUSINESS

Empire Resources, Inc. (“the Company”) is engaged principally in the purchase, sale and distribution of value added semi-finished aluminum and steel products to a diverse customer base located throughout the Americas, Australia, Europe and New Zealand. The Company sells its products through its own marketing and sales personnel and through its independent sales agents located in the U.S. and Europe who receive commissions on sales. The Company purchases from several suppliers located throughout the world (see Note B [14]).

Note B - Summary of Significant Accounting Policies

[1] Principles of consolidation:

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All intercompany balances and transactions have been eliminated on consolidation.

[2] Revenue recognition:

Revenue on product sales is recognized at the point in time when the product has been shipped, title and risk of loss has been transferred to the customer, and the following conditions are met: persuasive evidence of an arrangement exists, the price is fixed and determinable, and collectability of the resulting receivable is reasonably assured.

[3] Accounts receivable and allowance policy:

Accounts receivable are stated as the outstanding balance due from customers, net of an allowance for doubtful accounts. The Company maintains a credit insurance policy with a 10% co-pay provision for most accounts receivable. The Company will provide an allowance for doubtful accounts in the event that it determines there may be probable losses beyond the credit insurance coverage.

[4] Inventories:

Inventories which consist of purchased semi-finished metal products are stated at the lower of cost or market. Cost is determined by the specific-identification method. Inventory has generally been purchased for specific customer orders. The carrying amount of inventory which is hedged by futures contracts designated as fair value hedges is adjusted to fair value.

[5] Property and equipment:

Property and equipment are stated at cost and depreciated by the straight-line method over their estimated useful lives. Impaired assets are written down to their net realizable value.

[6] Derivatives:

The Company recognizes all derivatives in the balance sheet at fair value. Derivatives that are not hedges are adjusted to fair value through earnings. If the derivative is a hedge, depending upon the nature of the hedge, changes in the fair value of the derivative are either offset against the change in fair value of the hedged assets, liabilities or firm commitments through earnings (fair value hedge), or recognized in other comprehensive income until the hedged item is recognized in earnings (cash flow hedge). The ineffective portion of a derivative’s change in fair value, if any, is immediately recognized in earnings. When a hedged item in a fair value hedge is sold, the adjustment in the carrying amount of the hedged item is recognized in earnings (see Note E).

[7] Foreign currency translation:

The functional currency of Empire Resources Pacific Ltd., a wholly-owned domestic subsidiary which acts as a sales agent in Australia and New Zealand, is the Australian dollar. The Company also has a wholly owned foreign subsidiary incorporated in Belgium which sells semi-finished aluminum products in Europe. The functional currency of this subsidiary is the Euro. Cumulative translation adjustments, which are charged or credited to accumulated other comprehensive income, arise from translation of functional currency amounts into U.S. dollars.

[8] Income taxes:

The Company follows the asset and liability approach for deferred income taxes. This method provides that deferred tax assets and liabilities are recorded, using currently enacted tax rates, based upon the difference between the tax bases of assets and liabilities and their carrying amounts for financial statement purposes.

Deferred tax asset valuation allowances are recorded when management does not believe that it is more likely than not that the related deferred tax assets will be realized.

[9] Per share data:

Basic earnings / (loss) per share is computed by dividing net income / (loss) by the weighted average number of common shares outstanding during the year. Diluted earnings per share give effect to all dilutive outstanding stock options, using the treasury stock method and assumed conversion of subordinated debt, weighted for the period the debt was outstanding (see Note O).

[10] Stock - based compensation:

Stock-based compensation expense for an award of equity instruments, including stock options, is recognized over the vesting period based on the fair value of the award at the grant date.

[11] Newly Issued Accounting Pronouncements

In January 2010, the Financial Accounting Standard Board "FASB" issued amended accounting guidance on the disclosure requirements for fair value measurements. Specifically, the changes require a reporting entity to disclose separately the amounts of significant transfers in and out of Level 1 and Level 2 fair value measurements and describe the reasons for the transfers. Additionally, the guidance requires a roll-forward of activities with respect to assets and liabilities measured using significant unobservable inputs (Level 3 fair value measurements). The changes also clarify existing disclosure requirements related to how assets and liabilities should be grouped by class and valuation techniques used for recurring and nonrecurring fair value measurements. The Company adopted this guidance on January 1, 2010, except for the disclosure on roll-forward activities for Level 3 fair value measurements which became effective and was adopted on January 1, 2011. The adoption did not have any effect on the Company's consolidated financial statements.

In May 2011, the FASB issued new guidance which amends fair value disclosures for fiscal years beginning after December 15, 2011. Such amendments include a consistent definition of fair value, enhanced disclosure requirements for Level 3 fair value adjustments and other changes to required disclosures. The Company will comply with the disclosure enhancements of this amendment when the amendment is effective.

In June 2011, the FASB issued authoritative guidance that amends the presentation of comprehensive income in the financial statements by requiring an entity to present the total comprehensive income, the components of net income and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. The update also eliminates the option to present the components of other comprehensive income as part of the statement of changes in stockholders' equity. The guidance is effective for interim and annual reporting periods

beginning on or after December 15, 2011, with early adoption permitted. The Company will adopt this guidance effective January 1, 2012.

[12] Fair Value

Authoritative guidance defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value hierarchy consists of three broad levels, as described below:

The three levels of the fair value hierarchy are described below:

- Level 1 - Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.
- Level 2 - Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 - Inputs that are both significant to the fair value measurement and unobservable.

Derivative contracts consisting of aluminum contracts, foreign currency contracts, and interest rate swaps are valued using quoted market prices and significant other observable inputs. These financial instruments are typically exchange-traded and are generally classified within Level 1 or Level 2 of the fair value hierarchy depending on whether the exchange is deemed to be an active market or not. The conversion option embedded in convertible subordinated notes issued in 2011 was valued using Level 3 inputs.

Major categories of assets and liabilities measured at fair value at December 31, 2011 and 2010 are classified as follows (in thousands):

	December 31, 2011			December 31, 2010	
	Level 1	Level 2	Level 3	Level 1	Level 2
Assets:					
Inventories	\$ 172,068			\$ 120,702	
Aluminum futures contracts	4,915			40	
Advance to supplier		\$ 4,479			
Liabilities:					
Foreign currency futures contracts	\$ 315			2,037	
Interest rate swap contracts		\$ 161			\$ 176
Aluminum futures contracts				3,532	
Embedded conversion option			\$ 1,934		

[13] Use of estimates:

The preparation of financial statements in accordance with generally accepted accounting principles ("GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the reporting period. Actual results could differ from these estimates.

[14] Significant customers and concentration of suppliers:

During 2011, two customers accounted for sales of 12.3% and 11.6% as compared to 10.7% and 10.4% in 2010.

The Company's purchase of metal products is from a limited number of suppliers located throughout the world. Two suppliers, PT. Alumindo and Hulamin Ltd, accounted for 47% of total purchases for the year ended December 31, 2011. Two suppliers, Elval Hellenic Aluminium and PT. Alumindo Light Metal Industries accounted for 39% of total purchases during the year ended December 31, 2010 The Company's

loss of any of its largest suppliers or a material default by any such supplier in its obligations to the Company would have at least a short-term material adverse effect on the Company's business.

Note C – Fair Value of Financial Instruments

The carrying amounts of variable rate notes payable to the banks and the variable rate mortgage payable approximate fair value as of December 31, 2011 and 2010 because these notes reflect market changes to interest rates. The fair value of the subordinated convertible debt approximates its principal amount of \$12 million at December 31, 2011, which exceeds its carrying amount as a result of the unamortized discount related to the bifurcation of the embedded conversion option. Derivative financial instruments are carried at fair value (see Note B [12]).

Note D – Property and Equipment

Property and equipment are summarized as follows: (in thousands)

	December 31,		
	2011	2010	Estimated Useful Life
Cost:			
Land	\$1,180	\$1,180	
Buildings and improvements	3,165	3,165	40 and 10 years
Other equipment	1,296	1,212	3 to 5 years
	5,641	5,557	
Less: Accumulated depreciation	1,601	1,479	
Net Book Value	<u>\$4,040</u>	<u>\$4,078</u>	

Depreciation expense was \$122,000 and \$140,000 for the years ended December 31, 2011 and 2010, respectively.

In 2010, the Company sold an extrusion press for net proceeds of \$346,000 which has been reflected as income from an impairment recovery in the consolidated statement of operations. For 2009, the Company recognized an impairment charge equivalent to the carrying value of the press and related equipment.

Note E – Derivative Financial Instruments and Risk Management

The Company uses derivative financial instruments designated as fair value hedges to manage its exposure to commodity price risk and foreign currency exchange risk inherent in its operations. It is the Company's policy to hedge such risks to the extent practicable. The Company enters into high-grade aluminum futures contracts to limit its gross margin exposure by hedging the metal content element of firmly committed purchase and sales commitments. The Company also enters into foreign exchange forward contracts to hedge its exposure related to commitments to buy and sell non-ferrous metals denominated in international currencies.

The Company's unrealized assets and liabilities in respect of its fair value hedges measured at fair value at December 31, 2011 and 2010 are as follows (in thousands):

Derivatives designated as fair value hedges	Balance Sheet Location	December 31,	
		2011	2010
Asset derivatives:			
Aluminum futures contracts	Other current assets	4,915	\$ 40
Total		\$ 4,915	\$ 40
Liability derivatives:			
Foreign currency futures contracts	Accrued expenses and derivative liabilities	\$ 315	\$ 2,037
Aluminum futures contracts	Accrued expenses and derivative liabilities	0	3,532
Total		\$ 315	\$ 5,569

For the years ended December 31, 2011, and 2010, hedge ineffectiveness associated with derivatives designated as fair value hedges was insignificant, and no fair value hedges were derecognized.

On October 31, 2011 MF Global UK Limited ("MFG"), one the Company's London Metal Exchange ("LME") clearing brokers, went into special administration under The Investment Bank Special Administration Regulations 2011 in the UK. As of this date the Company had no cash balances with MFG. The majority of the positions traded through MFG were transferred to another LME broker, however, for the contracts not transferred, the Company has a claim of approximately \$800,000 against MFG, representing the fair value of the contracts on such date. Of such amount, unsettled contracts valued at \$536,000, which hedged inventory which was sold prior to December 31, 2011, has been written off to cost of goods sold based on the uncertainty of recoverability from MFG.

An active market is developing in the trade of these claims and the Company is in discussions to explore the sale of its claim against MFG.

As discussed in Notes G and H, the Company has entered into interest rate swaps to convert a mortgage and a portion of the revolving credit facility from a variable rate to a fixed rate obligation. These swaps have been designated as cash flow hedges and the Company's unrealized liabilities relating to them measured at fair value at December 31, 2011 and 2010 are as follows (in thousands):

Derivatives designated as cash flow hedges	Balance Sheet Location	December 31,	
		2011	2010
Liability derivatives:			
Interest rate swap contracts	Accrued expenses and derivative liabilities	\$ 161	\$ 176

A corresponding debit, net of deferred taxes, is reflected in accumulated other comprehensive loss in the accompanying balance sheet (see Note L).

The table below summarizes the realized gain or (loss) on the Company's derivative instruments and their location in the income statement (in thousands):

Derivatives in hedging relationships	Location of Gain or (Loss) Recognized	Year Ended December 31	
		2011	2010
Foreign currency futures (a)	Cost of Goods Sold	\$ 1,731	\$ 543
Interest rate swaps (b)	Interest Expense	(74)	(2,383)
Aluminum futures (c)	Cost of Goods Sold	6,352	(4,304)
Total		\$ 8,009	\$ (6,144)

(a) Fair value hedge: the related hedged item is accounts receivable and an offsetting loss in 2011 and 2010 in the same respective amounts are included in cost of goods sold.

(b) Cash flow hedge: recognized loss reclassified from accumulated other comprehensive loss.

(c) Fair value hedge: the related hedged item is inventory and an offsetting loss in 2011 and gain in 2010 in the same respective amounts is included in cost of goods sold. Also included is a loss of approximately \$536,000 related to the write off of unsettled contracts referred to above.

Note F – Accrued expenses and derivative liabilities

Accrued expenses and derivative liabilities consist of the following:
(in thousands):

	December 31,	
	2011	2010
Accrued expenses	\$ 3,613	\$ 4,792
Derivative liabilities	476	5,745
	\$ 4,089	\$ 10,537

Note G – Mortgage Payable

In December 2004, the Company entered into a mortgage in connection with the purchase of a warehouse. The mortgage, which requires monthly payments of approximately \$21,600 including interest, bears interest at LIBOR + 1.75% and matures in December 2014.

In connection with the mortgage, the Company entered into an interest rate swap with a bank which has been designated as a cash flow hedge. Effective 2004 through December 29, 2014, each month the Company will pay a fixed interest rate of 6.37% to the bank on a notional principal equal to the outstanding principal balance of the mortgage. In return, the bank will pay to the Company a floating rate, namely, LIBOR, to reset monthly plus 1.75% on the same notional principal amount.

The following are the future maturities of the mortgage at December 31, 2011 (in thousands):

Year ending December 31,	
2012	161
2013	171
2014	1,289
	\$ 1,621

Note H - Notes Payable

The Company was a party to an amended and restated credit agreement with JPMorgan Chase Bank, N.A. for itself and as the agent for Rabobank International, New York branch, Citicorp USA, Inc., Brown Brothers Harriman & Co., and Fortis Capital Corp., which provided for a \$175 million revolving line of credit, including a commitment to issue letters of credit and a swing-line loan sub facility, with a maturity date of June 30, 2011. The credit agreement provided that amounts under the facility could be borrowed and repaid, and re-borrowed, subject to a borrowing base test, until the maturity date of June 30, 2011. Amounts borrowed by the Company bore interest of LIBOR, Eurodollar, money market, or base rates, at the Company's option, plus an applicable margin. The applicable margin was determined by the Company's leverage ratios. Borrowings under the credit agreement were collateralized by security interests in substantially all of the Company's assets. The credit agreement contained financial and other covenants including but not limited to, covenants requiring maintenance of minimum tangible net worth and compliance with leverage ratios, as well as an ownership minimum and limitations on other indebtedness, liens, and investments and dispositions of assets. As of December 31, 2010, the credit utilized under the agreement amounted to \$137.3 million, including \$41.9 million outstanding letters of credit.

In connection with the revolving line of credit, the Company entered into interest rate swaps with a total notional amount of \$70 million which terminated in August 2010. These swaps were designated as cash flow hedges of the variable interest on that portion of the credit agreement up to the notional amount. During the term of the swaps, the Company paid a weighted average fixed rate of 5.14% plus a spread to the bank, and in return the bank paid the Company a floating LIBOR rate plus a spread. This floating rate reset monthly.

On April 28, 2011 the Company entered into a new working capital credit agreement with Rabobank International, for itself and as lead arranger and agent, JPMorgan Chase, for itself and as syndication agent, and ABN AMRO, BNP Paribas, RBS Citizens, Société Générale, and Brown Brothers Harriman. The \$200 million secured, asset-based credit facility matures on June 30, 2014 and refinanced the Company's \$175 million credit agreement. The agreement includes a commitment to issue letters of credit and also allows additional increases in the line of credit of up to \$50 million, subject to certain restrictions. Amounts borrowed bear interest of Eurodollar, money market or base rates, at the Company's option, plus an applicable margin. The Company's borrowings under this line of credit are secured by substantially all of the Company's assets. The credit agreement contains financial and other covenants including but not limited to, covenants requiring maintenance of minimum tangible net worth of \$25 million plus an aggregate amount equal to 25% of the Company's positive net earnings after December 31, 2011 and compliance with a leverage ratio of not more than 6.00 to 1, as well as an ownership minimum and limitations on other indebtedness, liens, and investments and dispositions of assets. The credit agreement provides that amounts under the facility may be borrowed and repaid, and re-borrowed, subject to a borrowing base test, until the maturity date of June 30, 2014. As of December 31, 2011, the Company had borrowings of \$146 million outstanding under the credit agreement, bearing interest at 2.7%, and the Company was in compliance with all financial covenants. In addition, the credit utilized under the agreement included \$34 million outstanding letters of credit.

The Company's wholly owned Belgian subsidiary, Imbali Metals BVBA, operates under a line of credit with ING Belgium S.A./N.V., with a EUR 8 million commitment for loans and documentary letters of credit. Loan advances are limited to a percentage of Imbali's pledged accounts receivables and inventory. This secured credit arrangement is unconditionally guaranteed by us. As of December 31, 2011, we had borrowings of EUR6.5 million (\$8.4 million) under this line of credit, bearing interest at EURIBOR plus 1.75%, and we were in compliance with all financial covenants. As of December 31, 2010, we had borrowings of EUR 3.8 million (\$5.0 million) outstanding under this line of credit, and we were in compliance with all financial covenants.

Note I – Convertible Subordinated Debt

On June 3, 2011, the Company sold \$12,000,000 principal amount of 10% Convertible Senior Subordinated Notes Due June 1, 2016 in a private placement to selected accredited investors. As of December 31, 2011, the notes are convertible at the option of the holders into shares of common stock at a conversion price of 219.05 shares of common stock per \$1,000 principal amount of notes (equivalent to a conversion price of \$4.57 per share of common stock), subject to dilutive adjustment for cash and stock dividends, stock splits and similar transactions, at any time before maturity. The current conversion price reflects three adjustments for dividends declared on common stock subsequent to the issuance of the notes through such date. In addition, if the last reported sale price of the Company's common stock for 30 consecutive trading days is equal to or greater than \$7.00, and a registration statement is effective covering the resale of the shares of common stock issuable upon conversion of the notes, the Company has the right, in its sole discretion, to require the holders to convert all or part of their notes at the then applicable conversion rate. Interest on the notes is payable in arrears on the first day of June and December every year the notes are outstanding. The note contains covenants, including restrictions on the Company's ability to incur certain indebtedness and create certain liens. Officers and directors of the Company and certain affiliated entities purchased \$4 million principal amount of the notes.

The majority of proceeds of the convertible subordinated debt is earmarked for a long term advance in connection with a supply agreement with the Indonesian company PT. Alumindo Light Metal Industry Tbk, (PT. Alumindo) a leading producer of high quality semi-finished aluminum products, and its affiliates, as described below. The agreement calls for the Company to provide a \$10 million non-interest bearing loan to an affiliate of PT. Alumindo to enable the expansion of capacity within that group of companies' production network. As of December 31, 2011, the Company had advanced \$5 million to an affiliate of PT. Alumindo. The agreements also provide for a long term, multi-year substantial and preferential supply position from PT. Alumindo's premier aluminum rolling mill located in Surabaya, Indonesia. The loan is to be repaid to the Company beginning on January 1, 2013 in monthly installments of \$277,777. If the Company and PT. Alumindo are unable to agree on a product price under the supply agreement for any given quarter, the monthly re-payment obligation will increase to \$555,555 and the outstanding balance will accrue interest, at the one month U.S. dollar LIBOR rate plus 3.5% per annum, per month. The entire remaining balance, if any, must be repaid on January 1, 2016. The specific parties to the agreement, PT. Alumindo, Southern Aluminum Industry and Fung Lam Trading Company, are related parties controlled by the Maspion Group - Indonesia. The Fung Lam Trading Company Ltd, which is wholly owned by the Maspion Group, is a holding company for the group's investments in China, including 70% ownership of Southern Aluminum Industry. The loan was made to Fung Lam Trading Company Ltd at the request of Maspion Group - Indonesia. The purpose of the loan was to allow the Maspion Group - Indonesia to increase their overall production capacity, specifically for regional markets and for distribution in China. As consideration for this loan the Maspion Group - Indonesia agreed to make available a committed and significant tonnage of production to the Company on a guaranteed and long-term basis, which will help the Company lessen the risk of an interruption in the sources of its metal supply, from PT. Alumindo's mill in Surabaya, Indonesia, with which the Company has had substantial experience. The supply agreement calls for increased supply and minimum tonnages.

Interest at the rate of 3.69%, based on the interest rate chargeable in the agreement in the event the supplier does not meet its supply commitments, has been imputed on the non-interest bearing advance and the resulting discount which amounted to \$521,000 has been ascribed to the preferential supply agreement. Imputed interest will be recorded in income over the term of the advance by use of the interest method. The preferential supply agreement will be amortized by the straight line method over three years starting from January 1, 2013, the date that the increased supply is due to begin.

As a result of transactions which cause adjustments to the conversion rate, the embedded conversion option has been bifurcated and recorded as a separate derivative liability at a fair value at issuance of the notes of \$2,829,000, with a corresponding discount recorded on the notes. The derivative liability is carried at fair value with changes therein recorded in income. The quarterly mark to market of the derivative liability will result in non-operating, non-cash gains or losses based on decreases or increases in the Company's stock market price, respectively, among other factors. The non-cash discount is being amortized as additional interest expense over the term of the notes by use of the interest method. During the period ended December 31, 2011, the change in the fair value of the derivative liability resulted in a gain of \$896,000 and amortization of the discount amounted to \$330,000.

The derivative liability was valued using a lattice model using Level 3 inputs. This technique was selected because it embodies all of the types of inputs that the Company expects market participants would consider in determining the fair value of equity linked derivatives embedded in hybrid debt agreements.

The following table summarizes the significant inputs resulting from the calculations at issuance and year end:

	2011	
	December 31,	June 3,
Equity value (<i>in thousands</i>)	\$ 25,897	\$ 36,811
Volatility	70%	70%
Risk free return	0.83%	1.6%
Dividend Yield	3.57%	2.51%
Strike Price	\$ 4.57	\$ 4.65

NOTE J - STOCK OPTIONS

The Company's 2006 Stock Option Plan (the "2006 Plan"), as amended, provides for the granting of options to purchase not more than an aggregate of 559,000 shares of common stock. Under the 2006 Plan, all canceled or terminated options are available for grants. All officers, directors and employees of the Company and other persons who perform services for the Company are eligible to participate in the 2006 Plan. Some or all of the options may be "incentive stock options" within the meaning of the Internal Revenue Code of 1986, as amended.

The 2006 Plan provides that it is to be administered by the Board of Directors, or by a committee appointed by the Board, which will be responsible for determining, subject to the provisions of the 2006 Plan, to whom the options are granted, the number of shares of common stock subject to an option, whether an option shall be incentive or non-qualified, the exercise price of each option (which, other than in the case of incentive stock options, may be less than the fair market value of the shares on the date of grant), the period during which each option may be exercised and the other terms and conditions of each option. No options may be granted under the 2006 Plan after June 26, 2016.

The following is a summary of stock option activity for the years ended December 31, 2011 and 2010:

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining contractual term (years)	Aggregate Intrinsic Value
Options outstanding and exercisable at December 31, 2009	443,000	\$ 1.54	\$ 9.23	\$ 25,470
Options exercised	(10,000)	\$ 1.76		
Options canceled	(15,000)	\$ 1.35		
Options outstanding and exercisable at December 31, 2010	418,000	\$ 1.54	8.48	\$ 1,530,500
Options canceled	(2,000)	\$ 0.98		
Options outstanding and exercisable at December 31, 2011	<u>416,000</u>	\$ 1.53	7.48	\$ 532,060
Options available for grant under 2006 Plan at December 31, 2011	<u>409,000</u>			

During 2011 and 2010, there were no stock option grants. As of December 31, 2011 and 2010, there was no unrecognized compensation expense, as all options had vested by December 31, 2009. Treasury shares were issued for the 10,000 options exercised in 2010. The intrinsic value of options exercised during 2010 was \$29,764.

NOTE K - TREASURY STOCK

On July 22, 2008, the Board of Directors authorized the Company to repurchase up to 2,000,000 shares of its common stock. As of December 31, 2011, the Company repurchased a total of 597,778 shares under the repurchase program for an aggregate cost of \$1,280,732 of which 20,500 shares were purchased in 2011 and 53,544 shares were purchased in 2010.

NOTE L – ACCUMULATED OTHER COMPREHENSIVE LOSS

Components of accumulated other comprehensive loss included in the accompanying consolidated balance sheets are as follows (in thousands):

	December 31,	
	2011	2010
Foreign currency translation adjustment	\$ (97)	\$ 30
Unrealized (loss) on interest-rate swap derivative contract, net of tax (\$61) and (\$66), respectively	(101)	(110)
Unrealized (loss) on investment in marketable securities, net of tax (\$10) and (\$9), respectively	(a) (16)	(a) (16)
	<u>\$ (214)</u>	<u>\$ (96)</u>

(a) Relates to marketable securities classified as available for sale, carried at market value of \$12 and \$12 at December 31, 2011 and 2010, respectively, and is included in other current assets.

NOTE M - INCOME TAXES

The components of income/(loss) before income taxes were as follows (in thousands):

	Year Ended December 31,	
	2011	2010
U.S.	\$ 7,030	\$ 13,216
Foreign	1,022	1,330
	<u>\$ 8,052</u>	<u>\$ 14,546</u>

Income tax expense (benefit) consists of the following (in thousands):

	Year Ended December 31,	
	2011	2010
Current		
U.S. Federal	\$ 2,763	\$ 4,459
State and local	635	974
Foreign	256	0
	<u>3,654</u>	<u>5,433</u>
Deferred		
U.S. Federal	(470)	(13)
State and local	(93)	(19)
Foreign	0	0
	<u>(563)</u>	<u>(32)</u>
	<u>\$ 3,091</u>	<u>\$ 5,401</u>

The U.S. statutory rate can be reconciled to the effective tax rate as follows (in thousands):

	Year Ended December 31,	
	2011	2010
Provision for taxes at statutory rate	\$ 2,738	\$ 4,991
State and local taxes, net of federal tax effect	335	596
Permanent differences and other current year adjustments	37	(91)
Other	(19)	(95)
	<u>\$ 3,091</u>	<u>\$ 5,401</u>

Deferred tax assets and liabilities are composed of the following (in thousands):

	December 31,	
	2011	2010
Deferred current tax assets		
Allowance for doubtful accounts	\$ 184	\$ 126
Accrued expenses	273	302
Inventories	2,810	2,068
Marketable Securities	10	9
Stock Options	80	79
Derivative contracts	61	66
	<u>3,418</u>	<u>2,650</u>
Deferred current tax liabilities		
Property and Equipment	(34)	(39)
	<u>(34)</u>	<u>(39)</u>
Net deferred current tax assets	<u>3,384</u>	<u>2,611</u>
Deferred long-term tax assets		
Derivative liability for embedded conversion option	725	0
Advance to supplier	199	0
	<u>924</u>	<u>0</u>
Deferred long-term tax liabilities		
Unamortized debt discount	(937)	0
Preferential supplier agreement	(199)	0
	<u>(1,136)</u>	<u>0</u>
Net deferred long-term tax liabilities	<u>(212)</u>	<u>0</u>
Net deferred tax assets	<u>\$ 3,172</u>	<u>\$ 2,611</u>

Income from foreign subsidiaries and related foreign income taxes primarily relate to Imbali, the Company's Belgian subsidiary. For US income tax purposes, the Company has elected to treat Imbali as a disregarded entity and include its taxable income in the Company's consolidated federal income tax return and separate state income tax returns. Federal income taxes attributable to Imbali's taxable income are offset by tax credits for foreign taxes paid by Imbali. Undistributed earnings of Imbali amounted to approximately \$3.2 million at December 31, 2011. Upon distribution of the earnings in the form of dividends, the Company would be required to pay Belgian withholding tax at the rate of 5%. As the Company intends to indefinitely reinvest such earnings, no provision for such withholding tax has been provided. For federal income tax purposes, foreign tax credits would be available to the Company for the withholding tax, subject to limitations.

The Company recognizes a tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of

the position. The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than fifty percent likelihood of being realized upon ultimate settlement.

A reconciliation of the beginning and ending amounts of unrecognized tax benefits for the years ended December 31, 2011 and 2010 is as follows (in thousands).

	December 31,	
	2011	2010
Balance at January 1	\$ 386	\$ 329
Additions for tax positions of prior years	(43)	57
Balance at December 31	<u>\$ 343</u>	<u>\$ 386</u>

The total amount of unrecognized tax benefits at December 31, 2011 and 2010 would impact the Company's effective tax rate, if recognized. The Company recognizes interest accrued related to unrecognized tax benefits in interest expense and penalties in operating expenses. The Company recognized approximately \$26,000 and \$46,000 of interest expense related to unrecognized tax benefits during the years ended December 31, 2011 and 2010, respectively. Interest related to unrecognized tax benefits accrued in the Company's balance sheet at December 31, 2011 and 2010 amounted to approximately \$216,000 and \$190,000, respectively.

The Company's federal and certain other income tax returns remain open to examination by the tax authorities for the tax years 2008 through 2010 and certain other returns remain open to examination by the tax authorities for the years 2007 through 2010.

Note N - Employee Retirement Benefits

The Company has implemented a salary reduction employee benefit plan, under Section 401 (k) of the Internal Revenue Code. Employees may contribute up to the maximum amount allowable by law and the Company will provide a matching contribution of 50% of employee contributions, limited to 2% of employee compensation. The plan covers all employees who have attained age 18, and most of the eligible employees have elected to participate.

Each employee's pre-tax contributions are immediately vested upon participation in the plan. The employees' vesting of the Company's matching contribution is based upon length of service as follows:

<u>Years of service</u>	<u>Vested</u>
1	25%
2	50%
3	75%
4	100%

Employees who terminate prior to 100% vesting forfeit their non-vested portion of the Company's matching contribution, and those funds are used to reduce future matching contributions. Employees in active service on the effective date of the plan were granted retroactive service credit for the purpose of determining their vested percentage. Company matching contributions amounted to \$79,000 in 2011 and \$73,000 in 2010.

Note O – Per Share Data

The following is the reconciliation of the numerators and denominators of the basic and diluted earnings/(loss) per share:

	Year Ended December 31,	
	2011	2010
Numerator:		
Net Income	\$ 4,961	\$ 9,145
Add back of interest on convertible subordinated debt, net of taxes	431	0
Add back amortization of discount on convertible subordinated debt, net of taxes	203	0
Less change in value of convertible note derivative, net of taxes	(552)	0
Numerator for diluted earnings per share	<u>\$ 5,043</u>	<u>\$ 9,145</u>
Denominator:		
Weighted average shares outstanding – basic	9,255	9,260
Dilutive effect of stock options	240	175
Dilutive effect of convertible subordinated debt	1,492	
Weighted average shares outstanding – diluted	<u>10,987</u>	<u>9,435</u>
Basic Earnings per Share	<u>\$ 0.54</u>	<u>\$ 0.99</u>
Diluted Earnings per Share	<u>\$ 0.46</u>	<u>\$ 0.97</u>

NOTE P – BUSINESS SEGMENT AND GEOGRAPHIC AREA INFORMATION

The Company's only business segment is the sale and distribution of non-ferrous and ferrous metals. Sales are attributed to countries based on location of customer. Sales to domestic and foreign customers were as follows (in thousands):

	Year Ended December 31,	
	2011	2010
United States	\$ 357,474	\$ 276,802
Canada	57,619	53,251
Europe	28,015	28,907
Brazil	29,210	61,300
Australia & New Zealand	42,315	44,753
	<u>\$ 514,633</u>	<u>\$ 465,013</u>

Note Q - Commitments and Contingencies

[1] Lease:

The Company leases office facilities under a lease expiring in 2015. The minimum non-cancelable scheduled rentals under such lease are as follows (in thousands):

Year Ending December 31,	
2012	284
2013	284
2014	284
2015	74
	\$ 926

Rent expense for corporate headquarters for the years ended December 31, 2011 and 2010 was \$303,000 and \$299,000 respectively.

[2] Letters of credit:

Outstanding letters of credit at December 31, 2011 amounted to approximately \$34 million all of which expire prior to March 31, 2012.

[3] Litigation:

The Company was previously engaged in a dispute involving a former shareholder and the Company's stock transfer agent. All parties have since reached an agreement to resolve the matter and the action was dismissed with prejudice on January 13, 2012. On February 10, 2012, a settlement agreement was finalized pursuant to which the Company agreed to make a contribution to the resolution of \$250,000. This amount was accrued as of December 31, 2011.

Note R – Subsequent Events

Subsequent events were evaluated through March 29, 2012, the date the financial statements were available to be issued.

I, Nathan Kahn, certify that:

1. I have reviewed this annual disclosure statement of Empire Resources, Inc.
2. Based on my knowledge, this disclosure statement does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements made, not misleading with respect to the period covered by this disclosure statement; and
3. Based on my knowledge, the financial statements, and other financial information included or incorporated by reference in this disclosure statement, fairly present in all material aspects the financial condition, results of operations and cash flows of Empire Resources, Inc. as of, and for the periods presented in this disclosure statement.

Date: March 30, 2012 By: /s/ Nathan Kahn
Nathan Kahn
Chief Executive Officer

I, Sandra Kahn, certify that:

1. I have reviewed this annual disclosure statement of Empire Resources, Inc.
2. Based on my knowledge, this disclosure statement does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements made, not misleading with respect to the period covered by this disclosure statement; and
3. Based on my knowledge, the financial statements, and other financial information included or incorporated by reference in this disclosure statement, fairly present in all material aspects the financial condition, results of operations and cash flows of Empire Resources, Inc. as of, and for the periods presented in this disclosure statement.

Date: March 30, 2012 By: /s/ Sandra Kahn
Sandra Kahn
Chief Financial Officer