Real Industry, Inc.
Form 10-Q
May 10, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

þ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Quarterly Period Ended March 31, 2016

or

¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to

Commission File Number 001-08007

REAL INDUSTRY, INC.

(Exact Name of Registrant as Specified in its Charter)

Delaware (State or Other Jurisdiction of Incorporation or Organization)	46-3783818 (I.R.S. Employer Identification Number)
15301 Ventura Boulevard, Suite 400	
Sherman Oaks, California 91403 (Address of Principal Executive Offices)(Zip Code)	(805) 435-1255 (Registrant’s Telephone Number, including Area Code)

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. þ Yes ¨ No

Indicate by check mark whether the Registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the Registrant was required to submit and post such files). þ Yes ¨ No

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Securities Exchange Act of 1934.

Large Accelerated Filer	¨	Accelerated Filer	þ
Non-Accelerated Filer	¨(Do not check if a smaller reporting company)	Smaller Reporting Company	¨

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Securities Exchange Act of 1934). ¨ Yes þ No

As of May 2, 2016, there were 29,253,422 shares of the Registrant’s common stock outstanding.

REAL INDUSTRY, INC.

QUARTERLY REPORT ON FORM 10-Q

For the Period Ended March 31, 2016

TABLE OF CONTENTS

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements.
REAL INDUSTRY, INC.

UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS

(In millions, except share and per share amounts)	March 31, 2016	December 31, 2015
ASSETS		
Current assets:		
Cash and cash equivalents	$37.0	$ 35.7
Trade accounts receivable, net	89.1	77.2
Financing receivable	35.3	32.7
Inventories	94.9	101.2
Prepaid expenses, supplies, and other current assets	23.5	24.7
Current assets of discontinued operations	0.1	0.3
Total current assets	279.9	271.8
Property, plant and equipment, net	296.2	301.5
Intangible assets, net	14.5	15.1
Goodwill	105.0	104.3
Other noncurrent assets	8.1	8.2
TOTAL ASSETS	$703.7	$ 700.9
LIABILITIES, REDEEMABLE PREFERRED STOCK AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Trade payables	$102.4	$ 100.9
Accrued liabilities	43.8	51.8
Long-term debt due within one year	2.4	2.3
Current liabilities of discontinued operations	0.1	0.1
Total current liabilities	148.7	155.1
Accrued pension benefits	39.7	38.0
Environmental liabilities	11.7	11.7
Long-term debt, net	326.3	312.1
Common stock warrant liability	7.5	6.9
Deferred income taxes	5.7	6.7
Other noncurrent liabilities	6.0	5.4
Noncurrent liabilities of discontinued operations	0.7	0.7
TOTAL LIABILITIES	546.3	536.6
Redeemable Preferred Stock, Series B; $1,000 liquidation preference per share; 100,000 shares designated; 26,966 and 26,502 shares issued and outstanding as of March 31, 2016 and December 31, 2015, respectively	22.6	21.9
Stockholders' equity:		
Preferred stock, Series A Junior Participating; $0.001 par value; 665,000 shares authorized; none issued or outstanding	—	—

Common stock; $0.001 par value; 66,500,000 shares authorized; 29,245,870 and 28,901,464 shares issued; and 29,245,870 and 28,891,766 shares outstanding as of March 31, 2016 and December 31, 2015, respectively	—	—
Additional paid-in capital	545.8	546.0
Accumulated deficit	(413.5)	(403.3)
Treasury stock, at cost; zero and 9,698 shares as of March 31, 2016 and December 31, 2015, respectively	—	(0.1)
Accumulated other comprehensive income (loss)	1.6	(1.0)
Total stockholders' equity—Real Industry, Inc.	133.9	141.6
Noncontrolling interest	0.9	0.8
TOTAL STOCKHOLDERS' EQUITY	134.8	142.4
TOTAL LIABILITIES, REDEEMABLE PREFERRED STOCK AND STOCKHOLDERS' EQUITY	$703.7	$ 700.9

1

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

REAL INDUSTRY, INC.

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

	Three Months Ended March 31,	
(In millions, except per share amounts)	2016	2015
Revenues	$309.4	$137.8
Cost of sales	292.8	133.0
Gross profit	16.6	4.8
Selling, general and administrative expenses	15.4	7.4
Losses (gains) on derivative financial instruments	1.2	(0.2)
Amortization of intangibles	0.6	0.1
Other operating expense, net	1.5	0.3
Operating loss	(2.1)	(2.8)
Nonoperating expense (income):		
Interest expense, net	9.2	8.1
Change in fair value of common stock warrant liability	0.6	(0.7)
Acquisition-related costs and expenses	—	14.4
Foreign exchange gains on intercompany loans	(2.6)	—
Other, net	—	0.3
Total nonoperating expense	7.2	22.1
Loss from continuing operations before income taxes	(9.3)	(24.9)
Income tax expense (benefit)	0.7	(7.4)
Loss from continuing operations	(10.0)	(17.5)
Earnings (loss) from discontinued operations, net of income taxes	—	24.3
Net earnings (loss)	(10.0)	6.8
Earnings (loss) from continuing operations attributable to noncontrolling interest	0.1	0.1
Net earnings (loss) attributable to Real Industry, Inc.	$(10.1)	$6.7
EARNINGS (LOSS) PER SHARE		
Net earnings (loss) attributable to Real Industry, Inc.	$(10.1)	$6.7
Dividends and accretion on Redeemable Preferred Stock	(0.7)	(0.2)
Net earnings (loss) available to common stockholders	$(10.8)	$6.5
Basic and diluted earnings (loss) per share:		
Continuing operations	$(0.38)	$(0.82)
Discontinued operations	—	1.12
Basic and diluted earnings (loss) per share	$(0.38)	$0.30

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

REAL INDUSTRY, INC.

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

	Three Months Ended March 31,	
(In millions)	2016	2015
Net earnings (loss)	$(10.0)	$6.8
Other comprehensive income (loss):		
Currency translation adjustments	2.7	0.3
Amortization of net actuarial gains, net of tax	(0.1)	—
Comprehensive income (loss)	(7.4)	7.1
Comprehensive income (loss) attributable to noncontrolling interest	0.1	0.1
Comprehensive income (loss) attributable to Real Industry, Inc.	$(7.5)	$7.0

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

4

REAL INDUSTRY, INC.

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Three Months Ended March 31,	
(In millions)	2016	2015
Cash flows from operating activities:		
Net earnings (loss)	$(10.0)	$6.8
Adjustments to reconcile net earnings (loss) to net cash provided by (used in) operating activities:		
Loss (earnings) from discontinued operations, net of income taxes	—	(24.3)
Depreciation and amortization	14.7	3.7
Deferred income taxes	(1.1)	(7.4)
Change in fair value of common stock warrant liability	0.6	(0.7)
Share-based compensation expense included in Corporate and Other	0.5	0.3
Amortization of debt issuance costs	1.2	1.1
Unrealized losses (gains) on derivative financial instruments	0.4	(0.1)
Foreign currency exchange gains on intercompany loans	(2.6)	—
Amortization of purchase accounting adjustments	0.6	3.7
Other	0.4	0.1
Changes in operating assets and liabilities	(15.0)	41.8
Net cash used in operating activities of discontinued operations	0.2	(0.8)
Net cash provided by (used in) operating activities	(10.1)	24.2
Cash flows from investing activities:		
Acquisition of business, net of cash	—	(491.0)
Proceeds from sale of NABCO	3.9	74.1
Purchases of property and equipment	(5.3)	(2.6)
Net cash used in investing activities	(1.4)	(419.5)
Cash flows from financing activities:		
Payment of NABCO outstanding debt	—	(14.3)
Proceeds from Asset-Based Facility, net of issuance costs	28.0	57.1
Repayments on capital leases and the Asset-Based Facility	(16.0)	(24.0)
Proceeds from issuance of Senior Secured Notes, net of debt issuance costs	—	290.1
Proceeds from exercise of common stock options and Warrants	—	1.1
Proceeds from issuance of common stock, net of issuance costs	—	51.2
Other	0.6	(0.1)
Net cash provided by financing activities	12.6	361.1
Effect of exchange rate changes on cash and cash equivalents	0.2	(0.1)
Increase (decrease) in cash and cash equivalents	1.3	(34.3)
Cash and cash equivalents, beginning of period	35.8	63.0
Cash and cash equivalents, end of period	$37.1	$28.7
Cash and cash equivalents, end of period—continuing operations	$37.0	$28.6

Cash and cash equivalents, end of period—discontinued operations	0.1	0.1
Cash and cash equivalents, end of period	$37.1	$28.7

The accompanying notes are an integral part of these unaudited consolidated financial statements.

REAL INDUSTRY, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1—BUSINESS AND OPERATIONS

Real Industry, Inc. (“Real Industry,” the “Company,” “we,” “us” or “our”), formerly known as Signature Group Holding, Inc., a Delaware holding company that operates through its operating subsidiaries. Management expects to grow the Company through acquisitions, as well as through organic efforts within existing operations described below. Our current business strategy seeks to leverage our public company status, considerable United States (“U.S.”) federal net operating tax loss carryforwards (“NOLs”) and the experience of our executive management team to acquire operating businesses at prices and on terms that are aligned with our growth plans.

During the first quarter of 2015, the Company underwent a considerable transformation. On January 9, 2015, we completed the sale of North American Breaker Co., LLC (“NABCO”), previously our primary operating business. On February 27, 2015, we acquired the global recycling and specification alloys business (the “Real Alloy Business”) of Aleris Corporation (“Aleris”) (the “Real Alloy Acquisition”). The Real Alloy Business, operating under Real Alloy Intermediate Holding, LLC (“Real Alloy Parent”) through its wholly owned subsidiary Real Alloy Holding, Inc. (“Real Alloy”), is a global leader in third-party aluminum recycling, which includes the processing of scrap aluminum and by-products, and the manufacturing of wrought, cast and specification or foundry alloys. Real Alloy offers a broad range of products and services to wrought alloy processors, automotive original equipment manufacturers, and foundries and casters. Real Alloy’s customers include companies that participate in or sell to the automotive, consumer packaging, steel and durable goods, aerospace, and building and construction industries. Real Alloy processes scrap aluminum and by-products and delivers recycled metal in liquid or solid form according to customer specifications. Real Alloy’s facilities are capable of processing industrial (new) scrap, post-consumer (old/obsolete) scrap, and various aluminum by-products, providing a great degree of flexibility in reclaiming high-quality recycled aluminum. Real Alloy currently operates twenty-four facilities strategically located throughout North America and Europe and, as of March 31, 2016, had approximately 1,700 employees.

Other significant milestones achieved in 2015 included: on April 21, 2015, our common stock began trading on the Nasdaq Stock Market (“NASDAQ”) under the symbol “RELY” as part of the NASDAQ Global Select Market; on May 28, 2015, our stockholders approved an amendment to our charter to change our name to Real Industry, Inc.; and in June 2015, Real Industry became a member of the Russell Global®, Russell 2000® and Russell Microcap® indexes.

As a result of the transformative nature of the acquisition and divestiture activities described above, our operations in the first quarter of 2015, which included the results of operations of Real Alloy for 33 days, are not comparable to the first quarter of 2016, in which Real Alloy is reporting results for the full quarter in this Quarterly Report on Form 10-Q (the “Report”). See Note 11—Segment Information for additional information about our reportable segments.

The assets and liabilities and results of operations of NABCO, prior to its divestiture, are included in discontinued operations for all periods presented as a result of its sale in the first quarter of 2015. Discontinued operations also includes certain assets and liabilities related to the former businesses of our subsidiary SGGH, LLC (“SGGH”), then known as Fremont General Corporation (“Fremont”) and its primary operating subsidiary, Fremont Investment & Loan (“FIL”). See Note 12—Discontinued Operations for additional information about our discontinued operations.

NOTE 2—FINANCIAL STATEMENT PRESENTATION AND RECENT ACCOUNTING UPDATES

The accompanying unaudited condensed consolidated financial statements comprise the accounts of Real Industry and its wholly owned and majority-owned subsidiaries, and have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments, consisting of normal recurring adjustments considered necessary for a fair presentation, have been included. The Company evaluates subsequent events through the date of filing with the Securities and Exchange Commission (“SEC”). Operating results for the three months ended March 31, 2016 may not necessarily be indicative of the results that may be expected for the full year ending December 31, 2016. These interim period unaudited condensed consolidated financial statements should be read in conjunction with the Company’s audited consolidated financial statements as of and for the year ended December 31, 2015, which are included in the Company’s Annual Report on Form 10-K, as filed with the SEC on March 14, 2016 (the “Annual Report”).

During the quarter, the Company identified an error in the depreciation expense reported in the December 31, 2015 consolidated financial statements, which resulted in the overstatement of property, plant and equipment, net, by $3.8 million, overstated deferred tax liability by $1.1 million and overstated net earnings by $2.7 million. The error occurred in the quarter ended December 31, 2015, and was corrected during the first quarter of 2016 in order to properly report the balance of property, plant and equipment, net and total equity as of March 31, 2016. As a result of the correction, cost of sales; gross profit; selling, general and administrative (“SG&A”) expenses; operating loss; loss from continuing operations and net loss are each impacted by the correction, with $3.7 million of the adjustment classified in cost of sales and $0.1 million in SG&A expenses during the three months ended March 31, 2016. Management has concluded that the error reflected in the December 31, 2015 consolidated financial statements was not material and that the error correction in the first quarter is expected not to be material to the full year results of operations in 2016.

Recent accounting updates

In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2014-09, Revenue from Contracts with Customers (Topic 606) (“ASU 2014-09”), which was the result of a joint project by the FASB and the International Accounting Standards Board to clarify the principles for recognizing revenue and to develop a common revenue standard for GAAP and International Financial Reporting Standards. The issuance of a comprehensive and converged standard on revenue recognition is expected to enable financial statement users to better understand and consistently analyze an entity’s revenue across industries, transactions and geographies. The standard will require additional disclosures to help financial statement users better understand the nature, amount, timing, and potential uncertainty of the revenue that is recognized. ASU 2014-09 will be effective for the Company on January 1, 2018, and will require either retrospective application to each prior reporting period presented or retrospective application with the cumulative effect of initially applying the standard recognized at the date of adoption. The adoption and implementation of the accounting and disclosure requirements of ASU 2014-09 will have a substantial impact on the financial statement disclosures.

In April 2016, the FASB issued ASU 2016-10, Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing (“ASU 2016-10”), which clarifies two aspects of Topic 606, identifying performance obligations and the licensing implementation guidance, while retaining the related principles for those areas. Before an entity can identify its performance obligations in a contract with a customer, the entity first identifies the promised goods or services in the contract. ASU 2016-10 is intended to clarify the operability and understandability of the licensing implementation guidance. ASU 2016-10 will be effective for the Company in conjunction with the effective date of ASU 2014-09. The Company is currently evaluating the impact of the adoption of this guidance in connection with ASU 2014-09.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842) (“ASU 2016-02”), which generally requires companies to recognize operating and financing lease liabilities and corresponding right-of-use assets on the balance sheet. This guidance will be effective for the Company in fiscal years beginning after December 31, 2018 on a modified retrospective basis and early adoption is permitted. The Company is currently evaluating the effect this guidance will have on our consolidated financial statements and related disclosures.

In March 2016, the FASB issued ASU 2016-06, Derivatives and Hedging (Topic 815) (“ASU 2016-06”), which clarifies what steps are required when assessing whether the economic characteristics and risks of call or put options are clearly and closely related to the economic characteristics and risks of their debt hosts, which is one of the criteria for bifurcating an embedded derivative. Consequently, when a option is contingently exercisable, an entity does not have to assess whether the event that triggers the ability to exercise the option is related to interest rates or credit risks. ASU 2016-06 is effective for fiscal years beginning after December 15, 2017, and interim periods within fiscal years beginning after December 15, 2018. The Company is currently evaluating the effect this guidance will have on our consolidated financial statements and related disclosures.

In March 2016, the FASB issued ASU 2016-09, Compensation—Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting ("ASU 2016-09"), which simplifies the accounting for share-based payment transactions, including the income tax consequences, an option to recognize gross share-based compensation expense with actual forfeitures recognized as they occur, as well as certain classifications in the statement of cash flows. This guidance will be effective for fiscal years beginning after December 15, 2016, and early adoption is permitted. The Company is currently evaluating the effect this guidance will have on our consolidated financial statements and related disclosures.

NOTE 3—INVENTORIES

The following table presents the components of inventories as of March 31, 2016 and December 31, 2015:

(In millions)	March 31, 2016	December 31, 2015
Real Alloy:		
Finished goods	$30.6	$ 32.2
Raw materials and work in process	63.3	68.1
Total Real Alloy inventories	93.9	100.3
Cosmedicine - finished goods	1.0	0.9
Total inventories	$94.9	$ 101.2

NOTE 4—DEBT AND REDEEMABLE PREFERRED STOCK

The following table presents the Company's long-term debt as of March 31, 2016 and December 31, 2015:

(In millions)	March 31, 2016	December 31, 2015
Senior Secured Notes:		
Principal amount outstanding	$305.0	$ 305.0
Unamortized original issue discount and issuance costs	(13.3)	(14.3)
Senior Secured Notes, net	291.7	290.7
Asset-Based Facility:		
Principal amount outstanding	34.5	22.0
Unamortized debt issuance costs	(2.1)	(2.4)
Asset-Based Facility, net	32.4	19.6
Capital leases	4.6	4.1
Current portion of long-term debt	(2.4)	(2.3)
Total long-term debt, net	$326.3	$ 312.1

Long-term debt

Senior Secured Notes

The Senior Secured Notes mature on January 15, 2019 and interest is payable on January 15 and July 15 of each year through the date of maturity. For the three months ended March 31, 2016 and 2015, interest expense associated with the Senior Secured Notes was $8.6 million and $7.9 million, respectively, including $1.0 million and $1.1 million of noncash expense related to the amortization of the original issue discount and debt issuance costs, respectively. As of March 31, 2016, the borrowers were in compliance with all applicable covenants under the Indenture of the Senior Secured Notes.

Asset-Based Facility

For the three months ended March 31, 2016 and 2015, interest expense associated with the Asset-Based Facility was $0.4 million and $0.1 million, respectively, including $0.2 million and zero related to the amortization of debt issuance costs, respectively. As of March 31, 2016, the borrowers were in compliance with all applicable covenants under the Asset-Based Facility.

Capital Leases

In the normal course of operations, Real Alloy enters into capital leases to finance office and other equipment for its operations. As of March 31, 2016, $2.4 million of the $4.6 million in capital lease obligations are due within the next twelve months.

Redeemable Preferred Stock

The Redeemable Preferred Stock was issued to Aleris on February 27, 2015 as a portion of the purchase price for the Real Alloy Acquisition and has a liquidation preference of $27.0 million, as of March 31, 2016. The Redeemable Preferred Stock pays quarterly dividends at a rate of 7% for the first eighteen months after the date of issuance, 8% for the next twelve months, and 9% thereafter.

Dividends may be paid in kind for the first two years, and thereafter will be paid in cash. All accrued and accumulated dividends on the Redeemable Preferred Stock will be prior and in preference to any dividend on any of the Company's common stock or other junior securities.

The Company may generally redeem the shares of Redeemable Preferred Stock at any time at the liquidation preference, and the holders may require the Company to redeem their shares of Redeemable Preferred Stock at the liquidation preference upon a change of control as defined in the Indenture of the Senior Secured Notes (or any debt facility that replaces or redeems the Senior Secured Notes) to the extent that the change of control does not provide for such redemption at the liquidation preference. A holder of Redeemable Preferred Stock may require the Company to redeem all, but not less than all, of such holder's Redeemable Preferred Stock sixty-six months after the issuance date. In addition, the Company shall redeem shares of Redeemable Preferred Stock to the extent Aleris is required to indemnify the Company under the Real Alloy Purchase Agreement for the Real Alloy Acquisition. The Redeemable Preferred Stock is not transferrable (other than to another subsidiary of Aleris) for eighteen months following issuance (or such longer period in connection with any ongoing indemnity claims under the Real Alloy Purchase Agreement).

The carrying value of Redeemable Preferred Stock is based on the estimated fair value of the instrument as of the issuance date plus dividends paid in-kind and accretion. The difference between the liquidation preference and the estimated fair value as of the issuance date is being accreted over the period preceding the holder's right to redeem the instrument, or sixty-six months.

The following table presents the activity related to the carrying value of Redeemable Preferred Stock during the three months ended March 31, 2016:

(In millions)	
Balance, December 31, 2015	$21.9
Dividends and accretion	0.7
Balance, March 31, 2016	$22.6

NOTE 5—STOCKHOLDERS' EQUITY AND NONCONTROLLING INTEREST

The following table summarizes the activity within stockholders' equity attributable to Real Industry and noncontrolling interest for the three months ended March 31, 2016:

(In millions)	Equity Attributable to Real Industry, Inc.	Noncontrolling Interest	Total Equity
Balance, beginning of period	$ 141.6	$ 0.8	$ 142.4
Net earnings (loss)	(10.1)	0.1	(10.0)
Dividends and accretion on Redeemable Preferred Stock	(0.7)	—	(0.7)
Share-based compensation expense	0.5	—	0.5
Change in accumulated other comprehensive income (loss)	2.6	—	2.6
Balance, end of period	$ 133.9	$ 0.9	$ 134.8

The following table reflects changes in the number of outstanding shares of common stock during the three months ended March 31, 2016:

	Shares of Common Stock Outstanding
Balance, beginning of the period	28,891,766
Restricted common stock awards granted	354,104
Balance, end of the period	29,245,870

NOTE 6—ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

The following table summarizes the activity within accumulated other comprehensive income (loss) for the three months ended March 31, 2016:

(In millions)	Currency Translation Adjustments	Pension Benefit Adjustments	Accumulated Other Comprehensive Income (Loss)
Balance, beginning of period	$ (6.0)	$ 5.0	$ (1.0)
Current period currency translation adjustments	2.5	0.2	2.7
Amortization of net actuarial gains, net of tax	—	(0.1)	(0.1)
Balance, end of period	$ (3.5)	$ 5.1	$ 1.6

Included in current period currency translation adjustments are $0.5 million of currency translation adjustment gains associated with intercompany loans considered long-term in nature.

See Note 8—Employee Benefit Plans for additional information about the Company’s periodic benefit expense.

NOTE 7—INCOME TAXES

At the end of each reporting period, Real Industry makes an estimate of its annual effective income tax rate. The estimate used for the three months ended March 31, 2016 may change in subsequent periods. The effective tax rate for the three months ended March 31, 2016 differed from the federal statutory rate applied to earnings and losses before income taxes primarily as a result of the mix of earnings and losses and tax rates between tax jurisdictions and changes in valuation allowances. The income tax expense for the three months ended March 31, 2016 was $0.7 million, compared to a $7.4 million income tax benefit for the three months ended March 31, 2015.

As of December 31, 2015, the Company has estimated U.S. NOLs of $871.8 million and non-U.S. NOLs of $27.6 million. The U.S. NOLs have a 20-year life and begin to expire after the 2027 tax year. Additionally, the Company has state net operating loss tax carryforwards in amounts that are comparable to the U.S. NOLs. Real Industry has valuation allowances recorded to reduce certain deferred tax assets to amounts that are more likely than not to be realized. The valuation allowances relate to the potential inability to realize our deferred tax assets associated with U.S. NOLs and certain other foreign jurisdictions. Real Industry intends to maintain its valuation allowances until sufficient positive evidence exists to support their reversal.

The Company and its subsidiaries file income tax returns in the U.S. federal jurisdiction, various state and local jurisdictions, as well as foreign jurisdictions located in Canada, Mexico, Germany, Norway, and the United Kingdom. With few exceptions, the 2010 through 2015 tax years remain open to examination.

NOTE 8—EMPLOYEE BENEFIT PLANS

The following table presents the components of net periodic benefit expense under the German defined benefit pension plans for the three months ended March 31, 2016 and 2015:

(In millions)	Three Months Ended March 31, 2016	2015
Service cost	$0.2	$0.1
Interest cost	0.2	0.1
Amortization of net actuarial gains	(0.1)	—
Net periodic benefit expense	$0.3	$0.2

NOTE 9—EARNINGS (LOSS) PER SHARE

The Company computes earnings (loss) per share using the two-class method, as unvested restricted common stock and unvested performance shares contain non-forfeitable rights to dividends and meet the criteria of participating securities. Under the two-class method, earnings are allocated between common stock and participating securities. The presentation of basic and diluted earnings per share is required only for each class of common stock and not for participating securities. As such, the Company presents basic and diluted earnings per share for its one class of common stock.

The two-class method includes an earnings allocation formula that determines earnings per share for each class of common stock according to dividends declared and undistributed earnings for the period. The Company's reported net earnings are reduced by the amount allocated to participating securities to arrive at the earnings allocated to common stockholders for purposes of calculating earnings per share.

Basic earnings per share is computed by dividing net earnings attributable to Real Industry, Inc., less dividends and accretion on Redeemable Preferred Stock, by the weighted average number of common shares outstanding for the reporting period. Diluted earnings per share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock. For the calculation of diluted earnings per share, the basic weighted average number of common shares outstanding is increased by the dilutive effect of unvested restricted common stock awards, common stock options, unvested performance shares and the Warrants, determined using the treasury stock method.

The following table sets forth the computation of basic and diluted earnings (loss) per share for the three months ended March 31, 2016 and 2015:

	Three Months Ended March 31,	
(In millions, except share and per share amounts)	2016	2015
Loss from continuing operations	$(10.0)	$(17.5)
Earnings (loss) from discontinued operations, net of income taxes	—	24.3
Net earnings (loss)	(10.0)	6.8
Earnings (loss) from continuing operations attributable to noncontrolling interest	0.1	0.1
Net earnings (loss) attributable to Real Industry, Inc.	(10.1)	6.7
Dividends and accretion on Redeemable Preferred Stock	(0.7)	(0.2)
Numerator for basic and diluted earnings (loss) per share—		
Net earnings (loss) available to common stockholders	$(10.8)	$6.5
Denominator for basic and diluted earnings (loss) per share—		
Weighted average shares outstanding	28,703,587	21,714,016
Basic and diluted earnings (loss) per share:		
Continuing operations	$(0.38)	$(0.82)
Discontinued operations	—	1.12
Basic and diluted earnings (loss) per share	$(0.38)	$0.30

Unvested restricted common stock, common stock options, unvested performance shares and the Warrants are antidilutive and excluded from the computation of diluted earnings per share if the assumed proceeds upon exercise or vesting are greater than the cost to reacquire the same number of shares at the average market price during the period. For the three months ended March 31, 2016 and 2015, the impact of all outstanding unvested shares of restricted common stock, common stock options, unvested performance shares and the Warrants are excluded from diluted earnings (loss) per share as their impact would be antidilutive.

The following tables provide details on the average market price of Real Industry common stock; the outstanding shares of unvested restricted common stock, common stock options, unvested performance shares and Warrants that were potentially dilutive; and summary information about the potentially dilutive common stock equivalents for each of the periods presented:

	Three Months Ended March 31,	
	2016	2015
Average market price of Real Industry common stock	$6.86	$7.22

	March 31,	
	2016	2015
Potentially dilutive common stock equivalents:		
Unvested restricted common stock	491,286	275,852
Common stock options	775,650	865,650
Unvested performance shares	381,823	—
Warrants	1,468,333	1,500,000
Total potentially dilutive common stock equivalents	3,117,092	2,641,502

	Three Months Ended March 31,	
(In millions, except exercise prices)	2016	2015
Average unamortized share-based compensation expense:		
Unvested restricted common stock awards	$2.2	$ 0.9
Unvested performance share awards	1.8	—
Range of exercise prices on common stock options	$3.00 - $10.00	$3.00 - $10.00
Weighted average exercise price of the Warrants	$5.64	$ 5.98

NOTE 10—DERIVATIVE AND OTHER FINANCIAL INSTRUMENTS AND FAIR VALUE MEASUREMENTS

Derivatives

Real Alloy may use forward contracts and options, as well as contractual price escalators, to reduce the risks associated with its metal, natural gas, and certain currency exposures. Generally, Real Alloy enters into master netting arrangements with its counterparties and offsets net derivative positions with the same counterparties against amounts recognized for the right to reclaim cash collateral or the obligation to return cash collateral under those arrangements in our condensed consolidated balance sheets. For classification purposes, Real Alloy records the net fair value of each type of derivative position expected to settle in less than one year (by counterparty) as a net current asset or liability and each type of long-term position as a net long-term asset or liability.

Metal hedging

Primarily in our RAEU segment, London Metal Exchange ("LME") future swaps or forward contracts are sold as metal is purchased to fill fixed-priced customer sales orders. As sales orders are priced, LME future or forward contracts may be purchased, which generally settle within six months. Real Alloy may also buy put option contracts for managing metal price exposures. Option contracts require the payment of a premium, which is recorded as a realized loss upon settlement or expiration of the option contract. Upon settlement of the put option contracts, Real Alloy receives cash and recognizes a related gain if the LME closing price is less than the strike price of the put option. If the put option strike price is less than the LME closing price, no amount is paid and the option expires. As of March 31, 2016, Real Alloy had 27.1 thousand metric tons of metal buy and sell derivative contracts.

Natural gas hedging

To manage the price exposure for natural gas purchases, Real Alloy may fix the future price of a portion of its natural gas requirements by entering into financial hedge agreements. Under these swap agreements, payments are made or received based on the differential between the monthly closing price on the New York Mercantile Exchange ("NYMEX") and the contractual hedge price. Natural gas cost can also be managed through the use of cost escalators included in some long-term supply contracts with customers, which limits exposure to natural gas price risk. As of March 31, 2016, Real Alloy had 1.3 trillion British thermal unit forward buy contracts.

Currency exchange hedging

From time to time, Real Alloy may enter into currency forwards, futures, call options and similar derivative financial instruments to limit its exposure to fluctuations in currency exchange rates. As of March 31, 2016, no currency derivative contracts were outstanding.

Credit risk

Real Alloy is exposed to losses in the event of nonperformance by the counterparties to the derivative financial instruments discussed above; however, management does not anticipate any nonperformance by the counterparties. The counterparties are evaluated for creditworthiness and risk assessment prior to initiating trading activities with the brokers and periodically throughout each year while actively trading. As of March 31, 2016, no cash collateral was posted or held.

The table below presents gross amounts of recognized assets and liabilities, the amounts offset in the unaudited condensed consolidated balance sheets and the net amounts of assets and liabilities presented therein. As of March 31, 2016, there were no amounts subject to an enforceable master netting arrangement or similar agreement that have not been offset in the unaudited condensed consolidated balance sheets.

(In millions)	Fair Value of Derivatives as of March 31, 2016 Asset	Liability	Fair Value of Derivatives as of December 31, 2015 Asset	Liability
Metal	$ —	$ (0.5)	$ 0.2	$ (0.3)
Natural gas	—	(0.6)	—	(0.6)
Total	—	(1.1)	0.2	(0.9)
Effect of counterparty netting arrangements	—	—	(0.2)	0.2
Net derivatives as classified in the consolidated balance sheets	$ —	$ (1.1)	$ —	$ (0.7)

The following table presents details of the fair value of Real Alloy's derivative financial instruments as of March 31, 2016 and December 31, 2015, as recorded in the unaudited condensed consolidated balance sheets:

(In millions)	Balance Sheet Location	March 31, 2016	December 31, 2015
Metal	Accrued liabilities	$ 0.5	$ 0.1
Natural Gas	Accrued liabilities	0.6	0.6

Common stock warrant liability

On June 11, 2010, warrants to purchase an aggregate of 1.5 million shares of Real Industry's common stock were issued (the "Warrants"). The aggregate purchase price for the Warrants was $0.3 million, due in equal installments as the Warrants vested, 20% upon issuance and, thereafter, 20% annually on the anniversary of the issuance date and, as of June 30, 2015, the Warrants are 100% vested. The Warrants expire in June 2020 and had an original exercise price of $10.30 per share. The Warrants were issued without registration in reliance on the exemption set forth in Section 4(a)(2) of the Securities Act of 1933, as amended.

The Warrants include customary terms that provide for certain adjustments of the exercise price and the number of shares of common stock to be issued upon the exercise of the Warrants in the event of stock splits, stock dividends, pro rata distributions and certain other fundamental transactions. Additionally, the Warrants are subject to pricing protection provisions. During the term of the Warrants, the pricing protection provisions provide that certain issuances of new shares of common stock at prices below the current exercise price of the Warrants automatically reduce the exercise price of the Warrants to the lowest per share purchase price of common stock issued. In February 2015, the Company issued shares of common stock in the Rights Offering at $5.64 per share, thereby reducing the exercise price of the Warrants to $5.64 per share as of March 31, 2016, at which time there were 1,468,333 Warrants outstanding.

The common stock warrant liability is a derivative liability related to the anti-dilution and pricing protection provisions of the Warrants. The fair value of the common stock warrant liability is based on a Monte Carlo simulation that utilizes various assumptions, including estimated volatility of 50.8% and an expected term of 4.2 years as of March 31, 2016, and 49.9% volatility and an expected term of 4.4 years as of December 31, 2015, along with a 60% equity raise probability assumption, and a 15% equity raise price discount assumption in the periods following the measurement date. Significant decreases in the expected term or the equity raise probability and related assumptions would result in a decrease in the estimated fair value of the common stock warrant liability, while significant increases in the expected term or the equity raise probability and related assumptions would result in an increase in the estimated fair value of the common stock warrant liability. However, the most significant input in determining the fair value of the common stock warrant liability is the price of our common stock on the measurement date. A 10% increase or decrease in any or all of the unobservable inputs would not have a material impact on the estimated fair value of the common stock warrant liability.

The following table presents changes in the fair value of the common stock warrant liability during the three months ended March 31, 2016 and 2015:

(In millions)	Three Months Ended March 31, 2016	2015
Balance, beginning of period	$6.9	$5.6
Change in fair value of common stock warrant liability	0.6	(0.7)
Balance, end of period	$7.5	$4.9

Fair values

Derivative contracts are recorded at fair value using quoted market prices and significant other observable inputs. Fair value is defined 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 distinguishes between (1) market participant assumptions developed based on market data obtained from independent sources (observable inputs) and (2) an entity's own assumptions about market participant assumptions developed based on the best information available in the circumstances (unobservable inputs). The fair value hierarchy consists of three broad levels, which gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). 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, including quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not active; inputs other than quoted prices that are observable for the asset or liability (e.g., interest rates); and inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3—Inputs that are both significant to the fair value measurement and unobservable.

We endeavor to utilize the best available information in measuring fair value. Where appropriate, valuations are adjusted for various factors such as liquidity, bid/offer spreads, and credit considerations. Such adjustments are generally based on available market evidence and unobservable inputs. Financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The following tables set forth financial assets and liabilities and their level in the fair value hierarchy that are accounted for at fair value on a recurring basis as of March 31, 2016 and December 31, 2015:

		Estimated Fair Value	
(In millions)	Fair Value Hierarchy	March 31, 2016	December 31, 2015
Derivative assets	Level 2	$—	$ 0.2
Derivative liabilities	Level 2	(1.1)	(0.9)
Net derivative liabilities		$(1.1)	$ (0.7)
Common stock warrant liability	Level 3	$(7.5)	$ (6.9)

Both realized and unrealized gains and losses on derivative financial instruments are included within losses on derivative financial instruments in the unaudited condensed consolidated statements of operations. The following table presents realized losses (gains) on derivative financial instruments during the three months ended March 31, 2016 and 2015:

	Three Months Ended March 31,	
(In millions)	2016	2015
Metal	$0.2	$(0.1)
Natural gas	0.6	—
Total	$0.8	$(0.1)

Other Financial Instruments

The following tables present the carrying values and estimated fair values of other financial instruments as of March 31, 2016 and December 31, 2015:

		March 31, 2016	
(In millions)	Fair Value Hierarchy	Carrying Amount	Estimated Fair Value
Assets			
Cash and cash equivalents	Level 1	$37.0	$ 37.0
Financing receivable	Level 2	35.3	35.3
Loans receivable, net (other noncurrent assets)	Level 3	1.1	1.1
Liabilities			
Long-term debt:			
Senior Secured Notes	Level 1	$291.7	$ 305.8
Asset-Based Facility	Level 2	32.4	34.5
Redeemable Preferred Stock	Level 3	$22.6	$ 18.7

		December 31, 2015	
(In millions)	Fair Value Hierarchy	Carrying Amount	Estimated Fair Value
Assets			
Cash and cash equivalents	Level 1	$35.7	$ 35.7
Financing receivable	Level 2	32.7	32.7
Restricted cash held in escrow (other current assets)	Level 1		