SCHMITT INDUSTRIES INC
Form DEF 14A
August 25, 2014

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 14A

(RULE 14a-101)

Proxy Statement Pursuant to Section 14(a) of the

Securities Exchange Act of 1934

(Amendment No.)

Filed by the Registrant x Filed by a Party other than the Registrant ¨

Check the appropriate box:

¨ Preliminary Proxy Statement

¨ **Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**

x Definitive Proxy Statement

¨ Definitive Additional Materials

¨ Soliciting Material Pursuant to §240.14a-12

Schmitt Industries, Inc.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

x No fee required.

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(1) Amount Previously Paid:

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(3) Filing Party:

(4) Date Filed:

SCHMITT INDUSTRIES, INC.

2765 N.W. NICOLAI STREET

PORTLAND, OREGON 97210

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

TO BE HELD ON OCTOBER 3, 2014

TO THE SHAREHOLDERS:

NOTICE IS HEREBY GIVEN that the Annual Meeting of Shareholders (the Annual Meeting) of SCHMITT INDUSTRIES, INC., an Oregon corporation (the Company), will be held on Friday, October 3, 2014 at 3:00 p.m., local time, at the Company s offices located at 2765 N.W. Nicolai Street, Portland, Oregon 97210 for the following purposes:

1. **Election of Directors**. To elect one director nominee named in the attached Proxy Statement to serve a three-year term expiring in 2017;

2. **Approval of Executive Compensation**. To approve, on an advisory basis, the compensation of the Company s Named Executive Officers (as defined in the Proxy Statement accompanying this Notice);

3. **Approval of 2014 Equity Incentive Plan**. To approve the adoption of the Schmitt Industries, Inc. 2014 Equity Incentive Plan; and

4. **Other Business**. To transact such other business as may properly come before the Annual Meeting or any postponement or adjournment thereof.

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

The Board of Directors has fixed the close of business on August 18, 2014 as the record date for the determination of shareholders entitled to notice of, and to vote at, the Annual Meeting and any postponements or adjournments thereof.

By Order of the Board of Directors

Wayne A. Case
Chairman of the Board of Directors

Portland, Oregon

August 26, 2014

IT IS IMPORTANT THAT PROXIES BE RETURNED PROMPTLY. THEREFORE, WHETHER OR NOT YOU EXPECT TO ATTEND THE ANNUAL MEETING, PLEASE COMPLETE, SIGN AND DATE THE ACCOMPANYING PROXY CARD AND RETURN IT IN THE ENCLOSED PREPAID ENVELOPE, OR SUBMIT YOUR VOTING INSTRUCTIONS BY TELEPHONE OR THROUGH THE INTERNET IF THOSE OPTIONS ARE AVAILABLE TO YOU. IF YOU ATTEND THE ANNUAL MEETING, YOU MAY REVOKE YOUR PROXY AND VOTE IN PERSON IF YOU WISH, EVEN IF YOU HAVE PREVIOUSLY RETURNED YOUR PROXY CARD.

YOUR VOTE IS IMPORTANT.

DEPENDING ON HOW YOUR SHARES ARE HELD THERE MAY BE THREE WAYS TO VOTE:

- Sign, date and return your proxy card in the enclosed envelope as soon as possible, or
- By internet, or
- By telephone.

Important Notice Regarding the Availability of Proxy Materials for the Annual Meeting of Shareholders to be held on October 3, 2014: The notice of annual meeting of shareholders, this proxy statement, and our annual report on Form 10-K are available at www.schmitt-ind.com.

SCHMITT INDUSTRIES, INC.

2765 N.W. Nicolai Street

Portland, Oregon 97210

(503) 227-7908

PROXY STATEMENT

for the

ANNUAL MEETING OF SHAREHOLDERS

TO BE HELD ON OCTOBER 3, 2014

INTRODUCTION

General

This Proxy Statement is being furnished to the shareholders of Schmitt Industries, Inc., an Oregon corporation (the Company or Schmitt), as part of the solicitation of proxies by the Company s Board of Directors from holders of the outstanding shares of Schmitt common stock (the Common Stock) for use at the Company s Annual Meeting of Shareholders to be held on October 3, 2014, at 3:00 p.m. local time, at the Company s offices located at 2765 N.W. Nicolai Street, Portland, Oregon 97210, and at any postponements or adjournments thereof (the Annual Meeting). This Proxy Statement and the enclosed proxy card are first being mailed to shareholders of Schmitt entitled to vote at the Annual Meeting on or about August 26, 2014.

Purpose of the Annual Meeting

The purpose of the meeting is to vote on the following matters:

1. **Election of Directors**. To elect one director to serve a three-year term expiring in 2017;

2. **Approval of Executive Compensation**. To approve, on an advisory basis, the compensation of the Company s Named Executive Officers (as defined in the paragraph immediately preceding the Summary Compensation Table below);

3. **Approval of 2014 Equity Incentive Plan**. To approve the adoption of the Schmitt Industries, Inc. 2014 Equity Incentive Plan; and

4. **Other Business**. To transact such other business as may properly come before the Annual Meeting or any postponement or adjournment thereof.

As of the date of this Proxy Statement, the Company is not aware of any business to come before the meeting other than the items noted above.

Solicitation, Voting and Revocability of Proxies

The Board of Directors has fixed the close of business on August 18, 2014 as the record date for the determination of the shareholders entitled to notice of and to vote at the Annual Meeting. Accordingly, only holders of record of shares of Common Stock at the close of business on such date will be entitled to vote at the Annual Meeting, with each such share entitling its owner to one vote on all matters properly presented at the Annual Meeting. On the record date, there were approximately 80 beneficial holders of the 2,995,910 shares of Common Stock then outstanding. The presence, in person or by proxy, of a majority of the total number of outstanding shares of Common Stock entitled to vote at the Annual Meeting is necessary to constitute a quorum at the Annual Meeting. Abstentions and broker non-votes are counted for purposes of determining whether a quorum exists at the Annual Meeting, but are not counted and have no effect on the outcome of any of the proposals to be voted upon.

If the enclosed form of proxy is properly executed and returned in time to be voted at the Annual Meeting, the shares represented thereby will be voted in accordance with the instructions marked thereon. ***Executed but unmarked proxies will be voted (1) FOR the election of the one nominee to the Board of Directors, (2) FOR the approval of the compensation paid to the Company s Named Executive Officers and (3) FOR the approval of the 2014 Equity Incentive Plan.*** The Board of Directors does not know of any matters other than those described in the Notice of Annual Meeting that are to come before the Annual Meeting. If any other matters are properly brought before the Annual Meeting, the persons named in the proxy will vote the shares represented by such proxy upon such matters as determined by a majority of the Board of Directors.

The presence of a shareholder at the Annual Meeting will not automatically revoke such shareholder s proxy. A shareholder may, however, revoke a proxy at any time prior to its exercise by filing a written notice of revocation with, or by delivering a duly executed proxy bearing a later date to, Corporate Secretary, Schmitt Industries, Inc., 2765 N.W. Nicolai Street, Portland, Oregon 97210, or by attending the Annual Meeting and voting in person. However, a shareholder who attends the Annual Meeting need not revoke a previously executed proxy and vote in person unless such shareholder wishes to do so. All valid, unrevoked proxies will be voted at the Annual Meeting.

Important Notice Regarding the Availability of Proxy Materials for the Annual Meeting of Shareholders to be held on October 3, 2014: The notice of annual meeting of shareholders, this proxy statement, and our annual report on Form 10-K are available at www.schmitt-ind.com.

ELECTION OF DIRECTORS

At the Annual Meeting, one Director will be elected for a three-year term expiring in 2017. Unless otherwise specified on the proxy, it is the intention of the persons named in the proxy to vote the shares represented by each properly executed proxy for the election as Director of the person named below as nominee. The Board of Directors believes that the nominee will stand for election and will serve if elected as Director. However, if the person nominated by the Board of Directors fails to stand for election or is unable to accept election, the number of Directors constituting the Board of Directors may be reduced prior to the Annual Meeting or the proxies may be voted for the election of such other person as the Board of Directors may recommend.

Under the Company s Articles of Incorporation and Restated Bylaws, the Directors are divided into three classes. The term of office of only one class of Directors expires in each year, and their successors are elected for terms of three years and until their successors are elected and qualified. There is no cumulative voting for election of Directors.

Information as to Nominee and Continuing Directors

The following table sets forth the name of the Board of Directors nominee for election as a Director and those Directors who will continue to serve after the Annual Meeting. Also set forth is certain other information with respect to each such person s age, principal occupation or employment during the past five years, the periods during which he has served as a Director of Schmitt, the expiration of his term as a Director and the positions currently held with Schmitt.

Nominee:	**Age**	**Director Since**	**Expiration of Current Term**	**Expiration of Term for which Nominated**	**Position Held with Schmitt**
Michael J. Ellsworth	71	2006	2014	2017	Director
Continuing Directors:					
Wayne A. Case	74	1986	2015		Chairman of the Board
Maynard E. Brown	67	1992	2015		Director
James A. Fitzhenry	59	2009	2016		Director, President and Chief Executive Officer
David M. Hudson	62	2006	2016		Director

Nominee

Michael J. Ellsworth was appointed as a director in April 2006. Mr. Ellsworth served as Chief Operating Officer and advisor to the Board for ADE Corporation, Westwood, Massachusetts, from 1993 to 1997. ADE is a semiconductor metrology and instrumentation company. After retirement from active management in 1997, he continued to serve as a Vice President and an advisor to the ADE Board until 2001. Mr. Ellsworth also served as President, CEO and Director of Electro Scientific Industries (NASDAQ: ESIO) from 1987 to 1992. Electro Scientific Industries is a microelectronics and semiconductor capital equipment corporation. He is presently Chairman of Motion Optics Corporation, a privately held semiconductor equipment company, and also works as a consultant to the semiconductor industry through his firm, Kinetic Technologies, Inc. where he serves as the company s President. Mr. Ellsworth brings a variety of skills and attributes to the Board of Directors, including other directorial service and experience in the areas of executive leadership, technology, finance, accounting, risk oversight, strategy and operations. Mr. Ellsworth holds a B.S. degree in Engineering Science from the University of Portland, a M.S. degree in Mechanical Engineering from Northwestern University, and an M.B.A. from the University of Portland.

Continuing Directors

Wayne A. Case has been Chairman of the Board since 1997. He was also the Chief Executive Officer of the Company from 1996 to 2012, President of the Company from 1986 through June 2009 and Managing Director of Schmitt Europe Ltd. from 1995 to 2009. Mr. Case brings a variety of skills and attributes to the Board of Directors, including experience in the areas of executive leadership, technology, finance, accounting, risk oversight, strategy and operations. Mr. Case holds a B.S. degree in Business and Economics from Linfield College and a M.B.A. degree from the University of Portland. He is married to Linda M. Case and is the father of David W. Case.

Maynard E. Brown, a director since 1992, resides in West Vancouver, Canada. He is a retired member of the Law Society of British Columbia. Mr. Brown has more than 25 years of direct experience in advising publicly held corporations in securities and related matters. In addition to his extensive legal experience involving public companies and corporate law matters, Mr. Brown adds considerable directorial service, including audit committee service, and experience in the areas of finance, accounting, risk oversight and strategy. He currently serves as a director and audit committee member for three publicly-traded companies in Canada. Mr. Brown has a Bachelor of Law (LLB) degree from Dalhousie University in Halifax, Canada.

James A. Fitzhenry was appointed as a director in April 2009. He was promoted to Chief Executive Officer of the Company in October 2012 and has served as President of the Company since July 2009. Prior to that, Mr. Fitzhenry had been the Company s Executive Vice President since June 2008. Before joining the Company, Mr. Fitzhenry was President of Capital Strategies Group, a firm specializing in federal government business development and government relations, which he founded in 2007. Prior to that time, Mr. Fitzhenry served for 15 years as a senior executive with FLIR Systems, Inc. (Nasdaq: FLIR). Mr. Fitzhenry brings a variety of skills and attributes to the Board of Directors, including experience in the areas of executive leadership, strategy, business development, risk oversight, finance and operations. Mr. Fitzhenry holds a B.A. degree from the University of Oregon, J.D. and M.B.A. degrees from Willamette University and is an alumnus of the Stanford Executive Institute and the Wharton School of Business Executive MBA Program.

David M. Hudson was appointed as a director in April 2006. He previously served as a director of the Company from 1996 to 2003. Mr. Hudson is a private business consultant and the managing member of Gemini Value Partners LLC. Mr. Hudson was the founder and President of Hudson Capital Management, which through a merger became the Crabbe Huson Group. In 1994, he co-founded Coldstream Capital Management, Inc. Mr. Hudson brings a variety of skills and attributes to the Board of Directors, including other directorial service and experience in the areas of executive leadership, finance, strategy and operations. Mr. Hudson holds a B.S. degree in Mathematics from the University of Oregon.

Recommendation of the Board of Directors

The Board of Directors unanimously recommends that shareholders vote FOR the election of its nominee for Director. If a quorum is present, the Company s Restated Bylaws provide that Directors are elected by a plurality of the votes cast by the shares entitled to vote.

CORPORATE GOVERNANCE AND RELATED MATTERS

Shareholder Communications with the Board of Directors

Any shareholder may contact the Board of Directors in writing by addressing the communication to the Board of Directors of Schmitt Industries, Inc., c/o Corporate Secretary, 2765 N.W. Nicolai Street, Portland, Oregon 97210.

Our Corporate Secretary has undertaken to forward all written shareholder correspondence to the appropriate director(s), except for spam, junk mail, mass mailings, customer complaints or inquiries, job inquiries, surveys, business solicitations or advertisements, or patently offensive or otherwise inappropriate material. Our Corporate Secretary will determine, in her discretion, whether any response is necessary and may forward certain correspondence, such as customer-related inquiries, elsewhere within our company for review and possible response. Comments or questions regarding our accounting, internal controls or auditing matters will be referred to the Audit Committee. Comments or questions regarding the nomination of directors will be referred to the Nominating Committee. Comments or questions regarding executive compensation will be referred to the Compensation Committee. Comments or questions regarding other corporate governance matters will be referred to the appropriate Committee.

Board Leadership Structure and Role in Risk Oversight

Risk is inherent with every business, and how well a business manages risk can ultimately determine its success. The Company faces a number of risks, including credit risk, interest rate risk, liquidity risk, operational risk, strategic risk and reputation risk. Management is responsible for the day-to-day management of risks the Company faces, while the Board of Directors, as a whole and through its committees, has responsibility for the oversight of risk management. In its risk oversight role, the Board of Directors has the responsibility to satisfy itself that the risk management processes designed and implemented by management are adequate and functioning as designed. To do this, the Chairman of the Board meets regularly with management to discuss strategy and the risks facing the Company. Senior management attends the Board of Directors meetings and is available to address any questions or concerns raised by the Board of Directors on risk management and any other matters. The Chairman of the Board and independent members of the Board of Directors work together to provide strong, independent oversight of the Company s management and affairs through its standing committees and, when necessary, special meetings of independent directors.

The Board of Directors does not have a policy on whether or not the roles of Chairman of the Board and Chief Executive Officer should be separate. The Board of Directors believes that it should be free to make a choice from time to time in any manner that is in the best interests of the Company and the shareholders. Currently, the Company separates the roles of Chairman and Chief Executive Officer, with Mr. Case serving as the Chairman of the Board and Mr. Fitzhenry serving as Chief Executive Officer. The Board of Directors believes that this separation is appropriate as it allows the Chief Executive Officer to focus primarily on leading the day-to-day operations of the Company, while the Chairman can focus on leading the Board of Directors in its consideration of strategic issues and monitoring corporate governance and other shareholder issues.

The Board of Directors does not have a lead independent director.

Given our current size and operating history, we believe that the Board s existing leadership structure is appropriate. The Board will continue to evaluate its role and the appropriateness of its structure in the future.

Meetings

During Fiscal 2014, the Company s Board of Directors held four meetings. Each incumbent Director attended 75% or more of the aggregate of the total number of meetings held by the Board of Directors and the total number of meetings held by all committees of the Board on which he served during the period that he served. While the Company does not have a formal policy with regard to Directors attendance at annual meetings, all members of the Company s Board of Directors attended the 2013 Annual Meeting of Shareholders.

Board of Director Committees

The Board of Directors has standing Audit, Compensation and Nominating Committees. The Audit, Compensation and Nominating Committees operate pursuant to written charters. The charters may be viewed online at www.schmitt-ind.com. Each committee may obtain advice and assistance from internal or external legal, accounting and other advisors. The members of the committees, each of whom has been determined to be independent as defined by applicable rules of the Securities and Exchange Commission (the SEC) and the NASDAQ Stock Market, are identified in the following table. Neither Mr. Case nor Mr. Fitzhenry is independent as defined by applicable SEC and NASDAQ Stock Market rules. Mr. Case serves as the Company s Chairman of the Board, and Mr. Fitzhenry serves as its President and Chief Executive Officer.

Name	Audit	Compensation	Nominating
Maynard E. Brown	X	Chair	X
Michael J. Ellsworth	X	X	Chair
David M. Hudson	Chair	X	X

Audit Committee. The Audit Committee currently consists of Messrs. Brown, Ellsworth and Hudson. Mr. Hudson chairs the committee. The Board has determined all current members of the Audit Committee are independent under the rules of the SEC and the NASDAQ Stock Market, and each of them is able to read and understand fundamental financial statements. The Board has determined that Mr. Hudson qualifies as an audit committee financial expert as defined by the rules of the SEC and the NASDAQ Stock Market. The Audit Committee is responsible for, among other things, the engagement, compensation and oversight of the Company s independent certified public accountants, the review of the scope and results of the audit, and the review and evaluation of accounting procedures and internal controls within the Company. The Audit Committee operates pursuant to a written charter which is available on the Company s website (www.schmitt-ind.com). The Audit Committee held five meetings in Fiscal 2014.

Compensation Committee. The Compensation Committee currently consists of Messrs. Brown, Ellsworth and Hudson. Mr. Brown chairs the committee. The Board has determined that all members of the Compensation Committee are independent under the rules of the SEC and the NASDAQ Stock Market. The Compensation Committee reviews executive compensation, establishes executive compensation levels, and administers the Company s stock option plans. The Compensation Committee held one meeting in Fiscal 2014. The Compensation Committee operates pursuant to a written charter which is available on the Company s website (www.schmitt-ind.com).

Nominating Committee. The Nominating Committee currently consists of Messrs. Brown, Hudson and Ellsworth. Mr. Ellsworth chairs the committee. The Board has determined that all members of the Nominating Committee are independent under the rules of the SEC and the NASDAQ Stock Market. The Nominating Committee assists the Board in director selection, identifying and assessing each candidate based upon his or her background, skills and experience and in light of the needs of the Board of Directors at that time. The committee operates pursuant to a written charter which is available on the Company s website (www.schmitt-ind.com). The Nominating Committee held one meeting in Fiscal 2014.

Director Qualifications

There are certain minimum qualifications for Board membership that director candidates should possess, including strong values and discipline, high ethical standards, a commitment to full participation on the Board and its committees, and relevant career experience. The Nominating Committee also evaluates candidates for Board membership based on individual skills, experience and demonstrated abilities that help meet the current needs of the Board, such as experience or expertise in some of the following areas: global business, science and technology, finance and/or economics, competitive positioning, corporate governance, public affairs, and experience as an executive officer. Other factors that are considered include independence of thought, meeting applicable director independence standards (where independence is desired) and absence of conflicts of interest. The Nominating Committee may modify the minimum qualifications and evaluation guidelines from time to time as it deems appropriate. The Nominating Committee does not have a formal policy with respect to diversity; however, the Board of Directors and the Nominating Committee believe that it is essential that Board members represent diverse viewpoints. In the context of the existing composition and needs of the Board and its committees, the Nominating Committee considers various factors, including, but not limited to, independence, age, diversity (which, in this context, means race, ethnicity and gender), integrity, skills, financial and other expertise, breadth of experience and knowledge about our business or industry.

Shareholder Nominations for Director and Related Procedures

The Nominating Committee will consider recommendations by shareholders of individuals to consider as candidates for election to the Board of Directors. Any such recommendations should be submitted to Schmitt Industries, Inc., c/o Corporate Secretary, 2765 N.W. Nicolai Street, Portland, Oregon 97210. Historically, the Company has not had a formal policy concerning shareholder recommendations to the Nominating Committee (or its predecessors) because it believes that the informal consideration process in place to date, based in part on the minimum criteria as described in Director Qualifications above, has been adequate given that the Company has never received any Director recommendations from shareholders. The absence of such a policy does not mean, however, that a recommendation would not have been considered had one been received. The Nominating Committee intends to periodically review whether a more formal policy should be adopted.

The Company s Restated Bylaws permit shareholders to make nominations for the election of directors, if such nominations are made pursuant to timely notice in writing to the Company s Secretary. To be timely, notice must be delivered to, or mailed to and received at, the principal executive offices of the Company not less than 60 days nor more than 90 days prior to the date of the meeting, provided that at least 60 days notice or prior public disclosure of the date of the meeting is given or made to shareholders. If less than 60 days notice or prior public disclosure of the date of the meeting is given or made to shareholders, notice by the shareholder to be timely must be received by the Company not later than the close of business on the tenth business day following the date on which such notice of the meeting was mailed or such public disclosure was made. Public disclosure of the date of the Annual Meeting was made by the issuance of a press release on July 23, 2014. A shareholder s notice of nomination must also set forth certain information specified in Section 2.3.2 of the Company s Restated Bylaws concerning each person the shareholder proposes to nominate for election and the nominating shareholder.

Director Compensation

The Company s general philosophy towards Directors compensation is that Directors should be paid fairly for the work, time and effort required to serve on the Board of Directors, and that Directors compensation should be competitive relative to comparable companies. The Board of Directors believes that it is appropriate for all of the non-employee Directors to receive a monthly retainer, and for the Chairman and members of the Board committees to receive additional compensation on a per meeting basis for their services in those positions. A non-employee Director who does not serve on any committee may receive a monthly retainer that is greater than the monthly retainer for committee members in recognition of efforts made outside of committee and Board meetings.

Under a policy adopted by the Board of Directors, Messrs. Brown, Ellsworth and Hudson are paid a monthly retainer of $500. Each non-employee Director is paid a $1,500 fee for each Board meeting attended either in person or by phone. The chairman and members of the Audit Committee each receive a fee of $3,500 and $2,500 per quarter, respectively; the chairman and members of the Compensation Committee each receive a fee of $1,000 for each meeting attended either in person or by phone; and the chairman and members of the Nominating Committee each receive a fee of $500 for each meeting attended either in person or by phone. Non-employee Directors also receive either monthly compensation of $500 or, at the non-employee Director s option, an annual award of nonstatutory options to purchase 5,000 shares of common stock pursuant to the Company s Stock Option Plan. As of May 31, 2014, all outside directors had elected monthly compensation. Cash fees paid to the non-employee Directors are recommended annually by the Compensation Committee for Board approval and paid quarterly beginning on the date the non-employee Director is elected by shareholders at our annual meeting of shareholders. The Company also reimburses travel and lodging expenses incurred in connection with attending meetings of the Board and its committees.

2014 INDEPENDENT DIRECTORS COMPENSATION TABLE

Name	Fees Earned or Paid in Cash	Total
Maynard E. Brown	$ 29,500	$ 29,500
Michael J. Ellsworth	$ 29,500	$ 29,500
David M. Hudson	$ 33,500	$ 33,500

Corporate Governance

As part of the Schmitt s Code of Ethics and Business Conduct, the Company has adopted a code of ethics that applies to all officers and employees, including the Company s principal executive, financial and accounting officers.

Schmitt maintains a Corporate Governance page on its website that includes key information about its corporate governance initiatives, including Schmitt s Code of Ethics and Business Conduct and charters for the Audit, Compensation and Nominating Committees of the Board of Directors. The Corporate Governance page can be found at www.schmitt-ind.com within the Investor Relations segment of the website.

Schmitt s policies and practices reflect corporate governance initiatives that are compliant with the listing requirements of the NASDAQ Stock Market and the corporate governance requirements of the Sarbanes-Oxley Act of 2002, including: (1) a majority of the Board members are independent of Schmitt and its management; (2) all members of the Board committees the Audit, Compensation and Nominating Committees are independent; (3) Schmitt has a Code of Ethics and Business Conduct that is monitored by its Corporate Secretary, who acts as the Company s ethics officer; and (4) the charters of the Audit, Compensation and Nominating Committees of the Board clearly establish their respective roles and responsibilities.

MANAGEMENT

Executive Officers

The executive officers of the Company are as follows:

Name	Age	Position
Wayne A. Case	74	Chairman of the Board of Directors
James A. Fitzhenry	59	President, Chief Executive Officer and Director
David W. Case	50	Vice President, Operations
Linda M. Case	69	Corporate Secretary
Ann M. Ferguson	45	Chief Financial Officer and Treasurer

Information concerning the principal occupation of Wayne A. Case and James A. Fitzhenry is set forth under Board of Directors. Information concerning the principal occupation during the last five years of the executive officers of the Company who are not also Directors of the Company is set forth below.

David W. Case has been Vice President of Operations of the Company since 1996, and before then was Production Manager. He has been responsible for many of the design features of the SBS Dynamic Balance System. His duties include manufacturing, engineering and quality assurance. Mr. Case holds a B.S. degree in Economics from the University of Oregon. Mr. Case is the son of Wayne A. Case.

Linda M. Case has been Corporate Secretary of the Company since 1993 and before then was Office Manager. Ms. Case holds a B.A. degree in Sociology and Psychology from Linfield College. Ms. Case is married to Wayne A. Case.

Ann M. Ferguson has been Chief Financial Officer and Treasurer of the Company since April 2013. Ms. Ferguson is a certified public accountant (inactive) with over 20 years of experience in public accounting. Beginning in 1991, she served in various roles of increasing responsibility at Deloitte & Touche LLP. Most recently, from 2006 to 2012, Ms. Ferguson served as lead audit partner for two significant manufacturing clients, including one publicly traded company, as well as several other clients in other industries. Ms. Ferguson holds a B.S. degree in Business with an emphasis in accounting from the University of Oregon.

EXECUTIVE COMPENSATION

The Board of Directors has delegated the responsibility for fixing the compensation of the Named Executive Officers (as defined in the paragraph immediately preceding the Summary Compensation Table below) to the Compensation Committee. The Compensation Committee consists entirely of independent, non-employee Directors. No former employees of the Company serve on the Compensation Committee. The Compensation Committee approves all compensation and awards to executive officers, which include the President and Chief Executive Officer, Chief Financial Officer and Treasurer, Vice President for Operations and Corporate Secretary.

The Compensation Committee annually reviews the performance and compensation of the executive officers, or more often if necessary, and establishes their compensation. Wayne A. Case and/or James A. Fitzhenry may participate in certain discussions with the Compensation Committee and the Company s Board of Directors concerning executive officer compensation, but Mr. Case does not participate in the decisions with respect to his own, David W. Case s or Linda M. Case s compensation. Mr. Fitzhenry does not participate in decisions with respect to his own compensation.

The Compensation Committee has not prepared tally sheets for executive officers because the compensation structure for these executive officers has consisted primarily of base salary, cash bonuses, and stock options and has not included many of the hidden costs (such as retirement benefits, perquisites and deferred compensation

plans) that tally sheets are typically designed to reveal. Similarly, because of the overall size of the Company and the small number of executive officers, the Compensation Committee has not deemed it necessary to retain outside compensation consultants or conduct formal internal or external pay equity studies.

The key components of the Company s compensation program are base salary, personal performance bonuses and potential long-term compensation through stock options. These components are administered with the goal of providing total compensation that is competitive in the marketplace, rewards successful financial performance and aligns executive officers interests with those of shareholders. The Company generally does not adhere to rigid formulas or necessarily react to short-term changes in business performance in determining the amount and mix of compensation elements for our executives, although changes in business performance do affect individual performance bonus awards.

The Company s executive compensation programs are designed to attract, retain, motivate and appropriately reward its executive officers, as well as to align the interests of executive officers with those of shareholders of the Company. The objectives of the Company s compensation programs are to:

- provide competitive compensation opportunities that attract and retain top executives;

- inspire the executive team to achieve superior performance in order to deliver results above the Company s business plan and those of its peers; and

- continue to align the interests of executives and shareholders through the use of long-term and short-term incentives, while effectively managing dilution.

Compensation levels should be sufficiently competitive to attract and retain the talent needed

The Company s overall compensation levels are designed to attract and retain the type of talent needed to enable the Company to achieve and maintain a leadership position in the businesses in which it competes.

Compensation should be related to performance

In general, the Company s compensation policy is designed to reward the achievement of individual and company objectives. The Company has followed a practice of linking executive compensation to individual levels of performance, as well as to the performance of the Company as a whole. Cash bonuses are tied to individual performance, as well as to the performance of the Company. In addition, the value of long-term incentive compensation (stock options) is tied to corporate performance over the long term.

Incentive compensation should strike a balance between short-term and long-term performance

The Company s compensation policy is designed to focus management on achieving strong short-term (annual) performance objectives as well as ensuring that the necessary steps are taken to achieve long-term success and profitability. To reward a balanced approach, the Company uses both short-term performance bonuses and long-term incentives in structuring the compensation of its executive officers.

Setting Executive Compensation

The Compensation Committee awarded Fiscal 2014 compensation to the Named Executive Officers based on its review and analysis of their positions, responsibilities and performance as well as their anticipated responsibilities and potential contributions to growth in shareholder value. In establishing the compensation of the Named Executive Officers, the Committee based the amounts primarily on the individual performance of each Named Executive Officer in recent periods, and each Named Executive Officer s level of responsibility for the Company s key objectives and potential for future responsibility and promotion. The Committee also examined the outstanding stock options held by such executive officer for the purpose of considering the retention value of additional equity awards.

Because base compensation, annual cash bonuses, and equity awards are such basic elements of compensation within the Company s industry, as well as the high tech and software industries in general, and are generally expected by employees, the Committee believes that these components must be included in the Company s compensation mix in order for the Company to compete effectively for talented executives.

The Company has historically used stock options as an element of executive compensation for several reasons. First, stock options facilitate retention of executives. Stock options will provide a return to the executive only if he or she remains in the Company s employ. Second, stock options align executive compensation with the interests of the Company s shareholders and thereby focus executives on increasing value for the shareholders. Third, stock options are performance based. Stock options will provide a return to executives only to the extent that the market price of the Company s common stock appreciates over the option term. Fourth, stock options create incentive for increases in shareholder value over a longer term. In determining the number of options to be granted to executives, the Committee takes into account the individual s position, scope of responsibility, ability to affect profits and shareholder value, the individual s historic and recent performance, and the estimated value of stock options at the time of grant.

The Company does not believe there are risks arising from its compensation policies and practices for employees that are reasonably likely to have a material adverse effect on it.

Employment Agreements

The Company does not have employment agreements, written or unwritten, with its Named Executive Officers.

Base Salary

The Fiscal 2014 base salary for each Named Executive Officer was set on the basis of personal performance, skill set and experience, position criticality, the salary levels in effect for comparable positions with other companies in the industry, and internal comparability considerations.

Benefits and Perquisites

Benefits are established based upon an assessment of competitive market factors and a determination of what is needed to attract and retain talent. The primary benefits received by the Company s Named Executive Officers are the same as for all other employees and include participation in the Company s health, dental and vision plans, 401(k) plan and the Company s disability and life insurance plans. Wayne A. Case is also provided with use of an automobile.

Annual Cash Performance Compensation

Our executives performance is reviewed annually in October, and executives may receive annual cash bonuses, generally based upon the Compensation Committee s evaluation of individual performance and the Company s performance generally. These executives are responsible for establishing strategic direction or are responsible for major functional or operating units and have an impact on bottom-line results. During Fiscal 2014, no executive officer was paid a cash bonus.

Stock Options

In Fiscal 2014, our Named Executive Officers received a total of 35,000 stock options grants as follows: James A. Fitzhenry 20,000; Ann M. Ferguson 10,000 and David A. Case 5,000.

The following table has been reviewed and approved by the Compensation Committee and sets forth amounts of cash and certain other compensation paid by the Company to Wayne A. Case, Chairman of the

Board; James A. Fitzhenry, President and Chief Executive Officer; Ann M. Ferguson, Chief Financial Officer and Treasurer; and David W. Case, Vice President of Operations (the Named Executive Officers) during Fiscal 2014. No other executive officer was paid salary and bonus in excess of $100,000 in Fiscal 2014.

2014 SUMMARY COMPENSATION TABLE

Name and Principal Position	Fiscal Year	Salary	Option Awards(1)	All Other Compensation(2)	Total
Wayne A. Case	2014	$ 91,774	$	$ 2,782	$ 94,556
Chairman	2013	118,742		2,598	121,340
James A. Fitzhenry	2014	200,001	26,964		226,965
Director, President &	2013	190,974			190,974
Chief Executive Officer					
Ann M. Ferguson	2014	160,005	13,482		173,487
Chief Financial Officer and Treasurer(3)	2013	22,214	37,243		59,457
David W. Case	2014	166,170	6,741	2,100	175,011
Vice President of Operations	2013	161,172		2,100	163,272

(1) The amounts shown reflect the fair value of the entire option award in the year awarded as calculated using the assumptions for financial reporting purposes in accordance with ASC Topic 718. Assumptions made in the calculation of these amounts are included in Note 7 to the Company s Consolidated Financial Statements for the fiscal year ended May 31, 2014 included on Form 10-K filed with the SEC on August 8, 2014.

(2) Amounts include the Company s match to the Company s 401(k) Profit Sharing Plan & Trust made on the same basis as provided to all Company employees. For Fiscal Year 2014, amount paid to Wayne A. Case includes reimbursement of insurance expenses in the amount of $2,782.

(3) Ms. Ferguson assumed the role of Chief Financial Officer and Treasurer for the Company effective April 15, 2013.

STOCK OPTION PLANS AND OPTION GRANTS IN FISCAL 2014

The Board of Directors adopted the 2004 Stock Option Plan (2004 Plan) in August 2004 and the 1995 Stock Option Plan (1995 Plan) in December 1995, which was amended in August 1996 and restated in August 1998. An option granted under the 2004 Plan and/or 1995 Plan (the Plans) might be either an incentive stock option (ISO), or a nonstatutory stock option (NSO). ISOs may be granted only to employees and members of the Board of Directors of the Company and are subject to certain limitations, in addition to restrictions applicable to all stock options under the Plan. Options not meeting these limitations will be treated as NSOs. The purchase price of ISOs is fair market value on the date of grant; the purchase price of NSOs may vary from fair market value. Vesting is at the discretion of the Compensation Committee of the Board of Directors, but generally is either 50% at grant date and 16.7% on each anniversary thereafter; 25% at grant date and 25% on each anniversary thereafter or 0% at grant date and 33% on each anniversary thereafter. The Company initially reserved 400,000 shares for issuance under the 1995 Plan and 300,000 shares for issuance under the 2004 Plan. The 1995 Plan expired in December 2005, and no additional options may be issued under the 1995 Plan, although expiration of the 1995 Plan did not affect the rights of persons who received stock grants under the 1995 Plan. The 2004 Plan expired on August 10, 2014, and no additional options may be issued under the 2004 Plan, although expiration of the 2004 Plan did not affect the rights of persons who received stock grants under the 2004 Plan. Stock-based compensation recognized in the Company s Consolidated Financial Statements for the year ended May 31, 2014 includes compensation cost for stock-based awards granted.

2014 OUTSTANDING EQUITY AWARDS

The following table sets forth, as to the Named Executive Officers, certain information concerning the number of shares subject to both exercisable and unexercisable stock options as of the end of Fiscal 2014.

Name and Principal Position	Number of Shares Underlying Unexercised Options (#) Exercisable	Number of Shares Underlying Unexercised Options (#) Unexercisable	Option Exercise Price ($)	Option Expiration Date
Wayne A. Case Chairman of the Board of Directors	30,000		3.65	5/31/2021
James A. Fitzhenry		20,000	2.53	10/4/2023
Director, President and Chief Executive Officer	30,000		3.65	5/31/2021
	50,000		6.25	6/1/2018
Ann M. Ferguson		10,000	2.53	10/4/2023
Chief Financial Officer and Treasurer	8,334	16,666	2.90	4/8/2023
David W. Case		5,000	2.53	10/4/2023
Vice President of Operations	25,000		2.30	6/9/2014
	25,000		3.65	5/31/2021

STOCK OWNED BY MANAGEMENT AND PRINCIPAL SHAREHOLDERS

The following table sets forth certain information regarding beneficial ownership of the Company s Common Stock as of August 18, 2014 by (i) each person who is known to the Company to own beneficially more than 5% of the Company s outstanding Common Stock, (ii) each of the Company s Directors, (iii) the Company s Named Executive Officers and (iv) all Directors and executive officers as a group. The information in this table is based solely on statements in filings with the SEC or other reliable information, and assumes that 2,995,910 shares were issued and outstanding on August 18, 2014.

	Shares Beneficially Owned(1)	
Directors and Executive Officers(2)	**Number**	**Percent**
James A. Fitzhenry(3)	221,000	7.2%
Wayne A. Case(4)	165,244	5.4%
David W. Case(5)	104,596	3.5%
Maynard E. Brown(6)	10,694	*
David M. Hudson(7)	10,693	*
Michael J. Ellsworth(8)	18,900	*
Ann M. Ferguson(9)	8,334	*
All directors and executive officers as a group (eight persons)(10)	539,461	16.9%
5% Shareholders		
Walter Brown Pistor, 2415 Kalama River Road, Kalama, WA 98625(11)	509,331	17.0%
Monongahela Capital Management, 800 Cranberry Woods Drive, Ste 200, Cranberry Township, PA 16066(12)	358,466	12.0%

* Less than 1%.

(1) For the purpose of this table, beneficial ownership includes securities that can be acquired by a person within 60 days from August 18, 2014 upon the exercise of options. Accordingly, each person s percentage of beneficial ownership is determined by assuming that options held by such person (but not those held by any other person) and that are exercisable within 60 days from August 18, 2014 have been exercised. Unless otherwise noted, the Company believes that all persons named in the table have sole voting and investment power with respect to all shares of Common Stock beneficially owned by them.

(2) The address of each person is care of Schmitt Industries, Inc., 2765 N.W. Nicolai Street, Portland, Oregon 97210.

(3) Includes 141,000 shares held as of August 18, 2014 and 80,000 shares subject to options that are exercisable within 60 days of August 18, 2014.

(4) Includes 14,138 shares held by Mr. Case in an individual retirement account and includes 76,119 shares owned by the Linda M. Case Family Trust. Ms. Case has primary, and Mr. Case secondary and contingent, voting and investment power with respect to the shares in the Linda M. Case Family Trust. Also includes (i) 30,000 shares subject to options held by Mr. Case that are exercisable within 60 days of August 18, 2014 and (ii) 15,000 shares subject to options held by Linda M. Case Family Trust that are exercisable within 60 days of August 18, 2014.

(5) Includes 79,596 shares held as of August 18, 2014 and 25,000 shares subject to options that are exercisable within 60 days of August 18, 2014.

(6) Includes 694 shares held as of August 18, 2014 and 10,000 shares subject to options that are exercisable within 60 days of August 18, 2014.

(7) Includes 693 shares held as of August 18, 2014 and 10,000 shares subject to options that are exercisable within 60 days of August 18, 2014.

(8) Includes 8,900 shares held as of August 18, 2014 and 10,000 shares subject to options that are exercisable within 60 days of August 18, 2014.

(9) Includes 8,334 shares subject to options that are exercisable within 60 days of August 18, 2014.

(10) Includes 188,334 shares subject to options that are exercisable within 60 days of August 18, 2014.

(11) Information reported herein is made in reliance on a Schedule 13D filed by Mr. Pistor.

(12) Information reported herein is made in reliance on a Schedule 13GA filed by Monongahela Capital Management.

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Under federal securities laws, the Company s directors, its officers and any persons holding more than 10% of the Company s Common Stock (10% holders) are required to file with the SEC initial reports of beneficial ownership and reports of changes in beneficial ownership of shares of Common Stock and other equity securities of the Company. Specific filing deadlines of these reports have been established and the Company is required to disclose in this Proxy Statement any failure to file by these dates during Fiscal 2014. To the best of the Company s knowledge, all of these filing requirements have been satisfied. In making this statement, the Company has relied solely on written representations of its directors, officers and 10% holders and copies of the reports that they filed with the SEC.

INFORMATION CONCERNING THE INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Appointment of Independent Registered Public Accounting Firm

The Audit Committee of the Board of Directors has appointed Moss-Adams LLP to act as independent auditors for the Company for the fiscal year ending May 31, 2015. Moss-Adams served as the Company s independent auditors for the fiscal year ended May 31, 2014. Representatives of Moss-Adams are expected to attend the 2014 Annual Meeting. They will have the opportunity to make a statement if they so desire, and will be available to respond to appropriate questions from shareholders.

Audit Committee Report[**]

The Audit Committee has reviewed and discussed the audited financial statements with the Company s management and has discussed with Moss-Adams, the Company s independent auditors, the matters required to be discussed by Statement on Auditing Standards No. 61, as amended. The Audit Committee also has received the written disclosures and the letter from Moss-Adams required by applicable requirements of the Public Accounting Oversight Board regarding the independent accountant s communications with the audit committee concerning independence, and has discussed the independence of Moss-Adams with that firm. Based upon the foregoing, the Audit Committee recommended to the Board of Directors, and the Board of Directors approved, that the audited financial statements of the Company for the fiscal year ended May 31, 2014 be included in the Company s Annual Report on Form 10-K for the fiscal year ended May 31, 2014, for filing with the SEC. Each member of the Audit Committee is an independent director as defined by SEC and NASDAQ Stock Market rules, as such section may be modified or supplemented.

AUDIT COMMITTEE

Maynard E. Brown, Michael J. Ellsworth and David M. Hudson

Audit and Related Fees

For the fiscal years ended May 31, 2014 and May 31, 2013, Moss-Adams and their affiliates billed, or have estimated they will bill, a total of $120,500 and $135,380, respectively, for their audits, and fees reasonably related to the performance of the audits of the Company s annual consolidated financial statements for those fiscal years; review of financial statements contained in the Company s Forms 10-Q in those fiscal years; and services that are normally provided by the accountants in connection with statutory and regulatory filings or engagements for those fiscal years.

Tax Fees

In the fiscal years ended May 31, 2014 and May 31, 2013, Moss-Adams and their affiliates billed the Company $2,613 and $1,253, respectively, for tax compliance, tax advice and tax planning.

All Other Fees

In the fiscal years ended May 31, 2014 and May 31, 2013, Moss-Adams billed the Company $3,500 and $3,500, respectively, for services other than those already disclosed above.

[**] The report of the Audit Committee shall not be deemed incorporated by reference by any general statement incorporating by reference this Proxy Statement into any filing under either the Securities Act of 1933, as amended (the Securities Act), or the Securities Exchange Act of 1934, as amended (the Exchange Act), except to the extent that the Company specifically incorporates such report by reference; and further, such report shall not otherwise be deemed filed under the Securities Act or the Exchange Act.

Pre-Approval Policies and Procedures

The Audit Committee pre-approves all audit and non-audit services provided by the independent auditors. These services may include audit services, audit-related services, tax services and other services as allowed by law or regulation. Pre-approval is generally provided for up to one year, and any pre-approval is detailed as to the particular service or category of services and is generally subject to a specifically approved amount. The independent auditors and management are required to periodically report to the Audit Committee regarding the extent of services provided by the independent auditors in accordance with this pre-approval and the fees incurred to date. The Audit Committee, or one of its members to whom authority has been delegated by the Audit Committee, may also pre-approve particular services on a case-by-case basis. The Audit Committee, or one of its members to whom authority had been delegated, pre-approved all of the Company s audit fees, audit-related fees, tax fees, and all other fees for services by the independent auditors during Fiscal 2014 and Fiscal 2013.

ADVISORY VOTE ON THE APPROVAL OF EXECUTIVE COMPENSATION

The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 and Section 14A of the Exchange Act entitle the Company s shareholders to vote to approve, on an advisory basis, the compensation of the Company s Named Executive Officers as disclosed in this Proxy Statement pursuant to the SEC s rules.

The Company s executive compensation programs are designed to (1) attract and retain executive officers, (2) reward the achievement of the Company s short-term and long-term performance goals, (3) establish an appropriate relationship between executive pay and short-term and long-term performance, and (4) align executive officers interests with those of the Company s shareholders. Under these programs, the Company s executive officers are rewarded for the achievement of Company objectives and the realization of increased shareholder value. Please read the section herein entitled Executive Compensation for additional details about the Company s executive compensation, including information about the Fiscal 2014 compensation of the Company s Named Executive Officers.

The Compensation Committee continually reviews the compensation programs for the Company s executive officers to ensure they achieve the desired goals of aligning the Company s executive compensation structure with the interests of the Company s shareholders and current market practices.

The Company is asking shareholders to indicate their support for the Company s Named Executive Officer compensation as disclosed in this Proxy Statement. This proposal, commonly known as a say-on-pay proposal, gives the Company s shareholders the opportunity to express their views on the Company s executive compensation. This vote is not intended to address any specific item of compensation, but rather the overall compensation of the Company s named executive officers and the philosophy, policies and practices described in this Proxy Statement. Accordingly, the Company asks its shareholders to vote FOR the following resolution at the Annual Meeting:

RESOLVED, that the compensation paid to the Company s Named Executive Officers, as disclosed in the Company s Proxy Statement for the 2014 Annual Meeting of Shareholders pursuant to Item 402 of Regulation S-K, including the compensation tables and narrative discussion, is hereby APPROVED.

The say-on-pay vote is advisory, and therefore not binding on the Company. The Company s Board of Directors and Compensation Committee value the opinions of the Company s shareholders and to the extent there is any significant vote against the Named Executive Officer compensation as disclosed in this Proxy Statement, the Company will consider the concerns of the shareholders and the Compensation Committee will evaluate whether any actions are necessary to address those concerns.

Recommendation of the Board of Directors

The Board of Directors unanimously recommends that shareholders vote FOR the approval of the compensation paid to the Company s Named Executive Officers. If a quorum is present, a majority of the votes cast by shares entitled to vote is required to approve this proposal.

APPROVAL AND ADOPTION OF 2014 EQUITY INCENTIVE PLAN

The Board of Directors is requesting that shareholders vote in favor of adopting the Schmitt Industries, Inc. 2014 Equity Incentive Plan (the 2014 Plan). The 2014 Plan provides for the grant of (i) stock options (both nonqualified and incentive stock options), (ii) stock appreciation rights or SARs, (iii) restricted stock, (iv) restricted stock units or RSUs, (v) performance awards, and (vi) other share-based awards. Up to 300,000 shares of our common stock are issuable under the 2014 Plan. The Company s 2004 Stock Option Plan (the 2004 Plan) expired on August 10, 2014. On August 19, 2014, the Board of Directors unanimously approved the 2014 Plan, subject to shareholder approval at the Annual Meeting. The Board of Directors adopted the 2014 Plan because it believes that the 2014 Plan is in the best interest of stockholders and our Company, as equity awards granted under the plan help to attract, motivate and retain talented employees and non-employee directors, align employee and stockholder interests, link employee compensation with company performance and maintain a culture based on employee stock ownership.

A copy of the 2014 Plan is attached to this Proxy as **Appendix A**.

No awards have been granted or promised with respect to the 300,000 shares requested, although it is expected that during Fiscal 2015, the Compensation Committee, in consultation with management when deemed appropriate, may consider making new grants to our executive officers, employees, directors and consultants. Awards under our Plan are made at the discretion of the Plan Administrator, which currently is the Compensation Committee, and are therefore not determinable at this time.

Purpose and Background

Each year, the Compensation Committee of our Board of Directors and our management team review our overall compensation strategy and determine the allocations of cash and equity compensation. The purpose of the 2014 Plan is to provide us with a sufficient reserve of common stock to offer appropriate incentives to our executive officers, employees, directors and consultants. We actively compete for highly qualified people to work on our team, and our equity program is a key component of our strategy to attract and retain key individuals. We continue to believe that equity compensation is an important component to motivate key employees and effectively aligns employee compensation with stockholder interests. Due to the expiration of the 2004 Plan, the 2014 Plan will be the sole available plan for granting equity compensation to our employees. If this Proposal is not approved, and we are unable to grant equity compensation in the future, we may need to consider other compensation alternatives, such as increasing cash compensation.

Description of the 2014 Equity Incentive Plan

The material terms and provisions of the 2014 Plan, as amended, are summarized below. This summary, however, does not purport to be a complete description of the 2014 Plan. The following summary of the 2014 Plan is qualified in its entirety by reference to the complete text of the 2014 Plan, a copy of which is included as Appendix A to this Proxy Statement. Any shareholder that wishes to obtain a paper copy of the plan document may do so by written request to: Corporate Secretary, Schmitt Industries, Inc., 2765 NW Nicolai, Portland, Oregon 97204.

General

The 2014 Plan provides for the grant of incentive stock options, nonstatutory stock options, restricted stock awards, restricted stock units, stock appreciation rights, and other forms of equity compensation (collectively referred to in this Proxy Statement as equity awards). The 2014 Plan also provides the ability to grant performance equity awards and performance cash awards (together referred to in this Proxy Statement as performance awards), which enable our Compensation Committee to use performance criteria in establishing specific targets to be attained as a condition to the vesting of awards.

Incentive stock options granted under the 2014 Plan are intended to qualify as incentive stock options within the meaning of Section 422 of the Internal Revenue Code (referred to in this Proxy Statement as the Code). Nonstatutory stock options granted under the 2014 Plan are not intended to qualify as incentive stock options under the Code. See Federal Income Tax Information for a discussion of the tax treatment of equity awards.

Purpose

The 2014 Plan provides eligible employees, executive officers, directors and consultants with the opportunity to benefit from increases in the value of our common stock as an incentive to such individuals to exert maximum efforts toward our success, thereby aligning their interests with the interests of our stockholders.

Administration

The 2014 Plan provides that our Board of Directors has the authority to construe and interpret the 2014 Plan, to determine the persons to whom and the dates on which equity awards will be granted, the number of shares of common stock to be subject to each equity award, the time or times during the term of each equity award within which all or a portion of the award may be exercised, the exercise, purchase, or strike price of each equity award, the type of consideration permitted to exercise or purchase each equity award and other terms of the equity awards.

Our Board of Directors has the authority to delegate some or all of the administration of the 2014 Plan to a committee or committees composed of members of our Board. A committee may consist solely of two or more non-employee directors within the meaning of Rule 16b-3 under the Exchange Act or solely of two or more outside directors within the meaning of Section 162(m) of the Code. The 2014 Plan also permits delegation of administration of the plan to one or more executive officers with respect to grants to our employees. Under the 2014 Plan, the full powers and administration of the 2014 Plan are delegated to the Compensation Committee (unless and until further action is taken by the Board). The Compensation Committee, as currently constituted, consists of three non-employee directors within the meaning of Section 16b-3 who also are outside directors within the meaning of Section 162(m). As used herein, the term Plan Administrator refers to the Compensation Committee.

Eligibility

General. The Plan provides that our employees, executive officers, directors and consultants are eligble to be granted awards.

Incentive Stock Options. Incentive stock options may be granted under the 2014 Plan only to employees (including executive officers) of the Company. The aggregate maximum number of shares of common stock that may be issued pursuant to the exercise of incentive stock options will be 300,000 shares of common stock. No incentive stock option may be granted under the 2014 Plan to any person who, at the time of the grant, owns (or is deemed to own) stock possessing more than 10% of the total combined voting power of the Company, unless the exercise price of such stock option is at least 110% of the fair market value of the stock subject to the stock

option on the date of grant and the term of the stock option does not exceed five years from the date of grant. In addition, the aggregate fair market value, determined on the date of grant, of the shares of common stock with respect to which incentive stock options are exercisable for the first time by a participant during any calendar year (under the 2014 Plan and any other equity plans of the Company) may not exceed $100,000. Any excess of such amount will be treated as nonstatutory stock options.

Nonstatutory Stock Options, Restricted Stock, Restricted Stock Units and Other Awards. Nonstatutory stock options, restricted stock, restricted stock units and all other types of equity awards and performance awards authorized under the 2014 Plan may be granted to employees (including executive officers), directors and consultants of the Company.

Individual Limit. No person may be granted stock options or stock appreciation rights under the 2014 Plan covering more than 50,000 shares of common stock during any calendar year. Stockholder approval of this proposal will also constitute approval of the 50,000-share limitation for purposes of Section 162(m) of the Code. This limitation allows us to grant stock options or stock appreciation rights under the 2014 Plan that may be exempt from the $1,000,000 limitation on the income tax deductibility of compensation paid to covered executive officers under Section 162(m) of the Code.

Stock Subject to the 2014 Plan

If the 2014 Plan is approved by the shareholders, 300,000 shares will be available for future grants.

The number of shares of common stock available for issuance under the 2014 Plan will be reduced by one share for each share of common stock issued pursuant to a stock option, stock appreciation right, restricted stock awards, restricted stock unit awards or other awards.

If a stock option or stock appreciation right award expires or otherwise terminates without being fully exercised, if shares subject to a restricted stock award or restricted stock unit award are forfeited to or repurchased by us, or if an equity award is settled in cash, the shares not issued under those awards, or the shares forfeited to or repurchased by us, become available for subsequent issuance under the 2014 Plan. Such returning shares will increase the number of shares available for issuance under the 2014 Plan, if amended, by one share per share returned.

If shares subject to an award granted under the 2014 Plan are not delivered to a participant because:

- an equity award is exercised through a reduction in the number of shares subject to the equity award (a net exercise),
- the appreciation distribution upon exercise of a stock appreciation right is paid in shares of common stock, or
- shares are withheld in satisfaction of applicable withholding taxes,

then those shares do not become available for subsequent issuance under the 2014 Plan. If the exercise price of a stock option is satisfied by a participant tendering previously held shares, the tendered shares do not become available for subsequent issuance under the 2014 Plan.

Terms of Stock Options

We may grant stock options under the 2014 Plan pursuant to stock option agreements adopted by our Board of Directors or a duly authorized committee. The following is a description of the permissible terms of stock options under the 2014 Plan. Individual stock option agreements may be more restrictive as to any or all of the permissible terms described below.

Exercise Price. The exercise price of incentive stock options and nonstatutory stock options may not be less than 100% of the fair market value of the stock subject to the stock option on the date of grant and, in some cases (see Eligibility above), may not be less than 110% of such fair market value.

Consideration. The stock option exercise price may, at the discretion of the Plan Administrator, be paid in cash or by check, pursuant to a broker-assisted cashless exercise, by delivery of other shares of Schmitt common stock, pursuant to a net exercise arrangement, or in any other form of legal consideration acceptable to the Plan Administrator.

Vesting. Stock options granted under the 2014 Plan vest, or become exercisable, as determined by the Plan Administrator. Vesting typically occurs during the optionholder s continued service with Schmitt or an affiliate, whether such service is in the capacity of an employee, director or consultant (collectively referred to as service) and regardless of any change in the capacity of the optionee, or upon achievement of quantitative or qualitative goals determined by the Plan Administrator. Shares covered by different stock options may be subject to different vesting terms.

Term. Under the current 2014 Plan, the maximum term of a stock option is ten years, except that in certain cases (see Eligibility above) the maximum term is five years.

Termination of Service. Stock options generally terminate three months after termination of a participant s service unless:

- the stock option agreement by its terms specifically provides otherwise,

- termination is due to the participant s disability, in which case the stock option may be exercised (to the extent the stock option was exercisable at the time of the termination of service) at any time within 12 months of termination,

- the participant dies before the participant s service has terminated, or the participant dies within a specified period after termination of service, in which case the stock option may be exercised (to the extent the stock option was exercisable at the time of the participant s death) within 12 months of the participant s death by the person or persons to whom the rights to such stock option have passed, or

- the participant is terminated for cause (as defined under the 2014 Plan), in which case the stock option terminates immediately and will cease to be exercisable (whether vested or unvested).

The stock option term may be extended in the event that exercise of the stock option following termination of service is prohibited by applicable securities laws. In no event, however, may a stock option be exercised beyond the expiration of its term.

Restrictions on Transfer. A participant generally may not transfer a stock option other than by will, by the laws of descent and distribution, or pursuant to a domestic relations order. During the lifetime of the participant, only the participant may exercise a stock option (except in instances pursuant to a domestic relations order). A participant may also designate a beneficiary who may exercise a stock option following the participant s death.

Terms of Restricted Stock

We may grant restricted stock awards under the 2014 Plan pursuant to restricted stock award agreements adopted by our Board of Directors or a duly authorized committee. Restricted stock awards are shares of our common stock that may be subject to restrictions, such as vesting requirements.

Consideration. The Plan Administrator may grant restricted stock awards in consideration for past or future services rendered to Schmitt or an affiliate, or any other form of legal consideration acceptable to our Board of Directors.

Vesting. Shares of stock acquired under a restricted stock award may, but need not, be subject to a repurchase option in favor of Schmitt or forfeiture to Schmitt in accordance with a vesting schedule as determined by the Plan Administrator.

Termination of Service. Upon termination of a participant s service, Schmitt may repurchase or otherwise reacquire any forfeited shares of stock that have not vested as of such termination under the terms of the applicable restricted stock award.

Terms of Restricted Stock Units

We may grant restricted stock unit awards under the 2014 Plan pursuant to restricted stock unit award agreements adopted by our Board of Directors or a duly authorized committee. Restricted stock units represent the value of a fixed number of shares of Schmitt common stock on the date of grant.

Consideration. The Plan Administrator may grant restricted stock units in consideration for past or future services rendered to Schmitt or an affiliate, or any other form of legal consideration acceptable to the Plan Administrator.

Vesting. Restricted stock units vest at the rate or on the terms specified in the restricted stock unit award agreement as determined by the Plan Administrator.

Settlement. Restricted stock units may be settled by the delivery of shares of Schmitt common stock, cash, or any combination as determined by the Plan Administrator. At the time of grant, the Plan Administrator may impose additional restrictions or conditions that delay the delivery of stock or cash subject to the restricted stock unit award after vesting.

Termination of Service. Except as otherwise provided in the applicable award agreement, restricted stock units that have not vested will be forfeited upon the participant s termination of service.

Terms of Stock Appreciation Rights

We may grant stock appreciation rights under the 2014 Plan pursuant to stock appreciation rights agreements adopted by our Board of Directors or a duly authorized committee. A stock appreciation right is a right to receive the excess value over the strike price of a fixed number of shares. Individual stock appreciation right agreements may be more restrictive as to any or all of the permissible terms described below. Each stock appreciation right is denominated in shares of common stock equivalents but may be settled in cash.

Term. The maximum term of stock appreciation rights is ten years.

Strike Price. The strike price of stock appreciation rights may not be less than 100% of the fair market value of the common stock equivalents subject to the stock appreciation rights on the date of grant.

Exercise. Upon exercise of a stock appreciation right, Schmitt will pay the participant an amount equal to the excess of the aggregate fair market value on the date of exercise of a number of common stock equivalents with respect to which the participant is exercising the stock appreciation right, over the strike price determined by the Plan Administrator on the date of grant. The appreciation distribution upon exercise of a stock appreciation right may be paid in cash, shares of our common stock, or any other form of consideration determined by the Plan Administrator.

Vesting. Stock appreciation rights vest and become exercisable at the rate specified in the stock appreciation right agreement as determined by the Plan Administrator.

Termination of Service. Stock appreciation rights generally terminate three months after termination of a participant s service unless:

- the stock appreciation rights agreement by its terms specifically provides otherwise,
- termination is due to the participant s disability, in which case the stock appreciation right may be exercised (to the extent vested at the time of the termination of service) at any time within 12 months of termination,
- the participant dies before the participant s service has terminated, or within a specified period after termination of service, in which case the stock appreciation right may be exercised (to the extent vested at the time of the participant s death) within 12 months of the participant s death by the person or persons to whom the rights to such stock appreciation right have passed, or
- the participant is terminated for cause (as defined under the 2014 Plan), in which case the stock appreciation right terminates immediately and will cease to be exercisable (whether vested or unvested).

The term of a stock appreciation right may be extended in the event that exercise following termination of service is prohibited by applicable securities laws. In no event may a stock appreciation right be exercised beyond the expiration of its term.

Terms of Other Stock Awards

The Plan Administrator may grant other equity awards based in whole or in part by reference to the value of our common stock. Subject to the provisions of the 2014 Plan, the Plan Administrator has the authority to determine the persons to whom and the dates on which such other equity awards will be granted, the number of shares of common stock (or cash equivalents) to be subject to each award and other terms and conditions of such awards. Such awards may be granted either alone or in addition to other equity awards granted under the 2014 Plan. These awards may not have a term in excess of ten years from the date of grant.

Terms of Performance Awards

General. The Board of Directors may grant performance equity awards and performance cash awards that qualify as performance-based compensation that is not subject to the income tax deductibility limitations imposed by Section 162(m) of the Code, if the award is approved by the Compensation Committee and the grant or vesting of the award is tied solely to the attainment of performance goals during a designated performance period.

Performance Goals. To preserve the possibility that the compensation attributable to awards may qualify as performance-based compensation that will not be subject to the $1,000,000 limitation on the income tax deductibility of the compensation paid per covered executive officer imposed under Section 162(m) of the Code, the Compensation Committee has the authority to structure one or more such awards so that stock or cash will be issued or paid pursuant to the award only upon the achievement of certain pre-established performance goals that are based on criteria that have already been approved by our stockholders. Performance goals for awards granted under the 2014 Plan may be based on any one of, or combination of, the following criteria: (a) net sales; (ii) revenue; (iii) revenue growth or product revenue growth; (iv) operating income (before or after taxes); (v) pre- or after-tax income (before or after allocation of corporate overhead and bonus); earnings per share; net income (before or after taxes); (vi) return on equity; (vii) total shareholder return; (viii) return on assets or net assets; (ix) appreciation in and/or maintenance of the price of the Shares or any other publicly-traded securities of the Company; (x) market share; gross profits; (xi) earnings (including earnings before taxes, earnings before

interest and taxes or earnings before interest, taxes, depreciation and amortization); (xii) economic value-added models or equivalent metrics; (xiii) comparisons with various stock market indices; (xiv) reductions in costs; (xv) cash flow or cash flow per share (before or after dividends); (xvi) return on capital (including return on total capital or return on invested capital); (xvii) cash flow return on investment; (xviii) improvement in or attainment of expense levels or working capital levels; (xiv) operating margins, gross margins or cash margin; (xx) year-end cash; (xxi) debt reduction; (xxii) stockholder equity; (xxiii) financing and other capital raising transactions (including sales of the Company s equity or debt securities); (xxiv) factoring transactions; sales or licenses of the Company s assets, including its intellectual property, whether in a particular jurisdiction or territory or globally; or through partnering transactions; (xxv) implementation, completion or attainment of measurable objectives with respect to research, development, manufacturing, commercialization, products or projects, production volume levels, acquisitions and divestitures and recruiting and maintaining personnel; and (xxvi) any other measures of performance selected by our Board of Directors.

Performance goals may be set on a company-wide basis, with respect to one or more business units, divisions, affiliates, or business segments, and in either absolute terms or relative to generated business plans, the performance of one or more comparable companies or the performance of one or more relevant indices. Adjustments may be made in the method of calculating the attainment of performance goals as follows: (i) to exclude restructuring and/or other nonrecurring charges (including but not limited to the effect of tax or legal settlements); (ii) to exclude exchange rate effects, as applicable, for non-U.S. dollar denominated net sales and operating earnings; (iii) to exclude the effects of changes to generally accepted accounting standards required by the Financial Accounting Standards Board; (iv) to exclude the effects of any statutory adjustments to corporate tax rates; (v) to exclude stock-based compensation expense determined under generally accepted accounting principles; (vi) to exclude any other unusual, non-recurring gain or loss or extraordinary item; (vii) to respond to, or in anticipation of, any unusual or extraordinary corporate item, transaction, event or development; (viii) to respond to, or in anticipation of, changes in applicable laws, regulations, accounting principles, or business conditions; (ix) to exclude the dilutive effects of acquisitions or joint ventures; (x) to assume that any business divested by Schmitt achieved performance objectives at targeted levels during the balance of a performance period following such divestiture; (xi) to exclude the effect of any change in the outstanding shares of our common stock by reason of any stock dividend or split, stock repurchase, reorganization, recapitalization, merger, consolidation, spin-off, combination or exchange of shares or other similar corporate change, or any distributions to common shareholders other than regular cash dividends; (xii) to reflect a corporate transaction, such as a merger, consolidation, separation (including a spinoff or other distribution of stock or property by a corporation), or reorganization (whether or not such reorganization comes within the definition of such term in Section 368 of the Code); (xiii) to reflect any partial or complete corporate liquidation; (xiv) to exclude the effect of in-process research and development expenses; and (xv) to exclude the income tax effect of non-GAAP pre-tax adjustments from the provision for income taxes.

Annual Limitation. The maximum benefit to be received by a participant in any calendar year attributable to performance equity awards may not exceed 50,000 shares of common stock. The maximum benefit to be received by a participant in any calendar year attributable to performance cash awards granted pursuant to the 2014 Plan may not exceed $1,000,000. Stockholder approval of this Plan will also constitute approval of the foregoing limitations for purposes of Section 162(m) of the Code.

Changes to Capital Structure

In the event any change is made to the outstanding shares of our common stock without receipt of consideration (whether through a stock split, reverse stock split or other changes in the capital structure), appropriate adjustments will be made to the class of securities issuable under the 2014 Plan, the maximum number of securities issuable under the 2014 Plan, the incentive stock option limitation, the maximum award that one person may be granted in a calendar year under the 2014 Plan, and the number, class and price per share under outstanding equity awards under the 2014 Plan.

Corporate Transactions; Changes in Control

Unless otherwise provided in a written agreement between Schmitt or an affiliate and a participant, or unless otherwise expressly provided by our Board of Directors or a duly authorized committee at the time of grant of an equity award, in the event of significant corporate transactions, outstanding equity awards under the 2014 Plan may be assumed, continued or substituted by any surviving or acquiring entity (or its parent company). If the surviving or acquiring entity (or its parent company) elects not to assume, continue or substitute such equity awards, then:

- with respect to any such equity awards that are held by individuals then performing services for Schmitt or our affiliates, the vesting and exercisability provisions of such equity awards will be accelerated in full and such awards will be terminated if not exercised prior to the effective date of the corporate transaction and any reacquisition or repurchase rights will lapse (contingent upon the effectiveness of the corporate transaction);

- all other outstanding equity awards will be terminated if not exercised prior to the effective date of the corporate transaction, except that certain equity awards, such as restricted stock awards, may have their reacquisition or repurchase rights assigned to the surviving or acquiring entity (or its parent company) in the corporate transaction, though if such reacquisition or repurchase rights are not assigned, then such equity awards will become fully vested; and

- no vested restricted stock unit award will terminate without being settled by delivery of shares of common stock, their cash equivalent or in any other form of consideration, as determined by the Board of Directors, prior to the effectiveness of the corporate transaction.

A significant corporate transaction will be deemed to occur in the event of:

- a sale of all or substantially all of the consolidated assets of Schmitt and its subsidiaries;

- a sale of at least 90% of the outstanding securities of Schmitt;

- a merger, consolidation or similar transaction in which Schmitt is not the surviving corporation, or

- a merger, consolidation or similar transaction in which Schmitt is the surviving corporation, but shares of Schmitt outstanding common stock are converted into other property by virtue of the corporate transaction.

The 2014 Plan provides, at the discretion of our Board of Directors or a duly authorized committee, that the holder of an outstanding equity award that would otherwise terminate if not exercised prior to the corporate transaction may surrender such equity award in exchange for a payment equal to the excess of the value of the property that the holder would have received upon exercise of the equity award immediately prior to the corporate transaction, over the exercise price otherwise payable in connection with the equity award. Additionally, the 2014 Plan provides our Board of Directors or a duly authorized committee with the discretion to grant individual equity awards that vest as to all or any portion of the shares subject to the equity award in connection with a change of control transaction. No such equity awards have been granted by our Board of Directors or the Compensation Committee.

The acceleration of an equity award in the event of an acquisition or similar corporate event may be viewed as an anti-takeover provision, which may have the effect of discouraging a proposal to acquire or otherwise obtain control of Schmitt.

Duration, Termination and Amendment

Our Board of Directors may suspend or terminate the 2014 Plan without stockholder approval or ratification at any time. Unless sooner terminated, the 2014 Plan will terminate on August 18, 2024. Our Board may amend or modify the 2014 Plan at any time, subject to any required stockholder approval. To the extent required by applicable law or regulation, stockholder approval will be required for any amendment that:

materially increases the number of shares available for issuance under the 2014 Plan;

materially expands the class of individuals eligible to receive awards under the 2014 Plan;

- materially increases the benefits accruing to the participants under the 2014 Plan or materially reduces the price at which shares of common stock may be issued or purchased under the 2014 Plan;
- materially extends the term of the 2014 Plan; or
- expands the types of awards available for issuance under the 2014 Plan.

Our Board of Directors also may submit to stockholders any other amendment to the 2014 Plan, including amendments intended to satisfy the requirements of Section 162(m) of the Code regarding the exclusion of performance-based compensation from the limitation on the deductibility of compensation paid to certain employees.

Federal Income Tax Information

The following is a summary of the principal United States federal income taxation consequences to participants and Schmitt with respect to participation in the 2014 Plan. This summary is not intended to be exhaustive, and does not discuss the income tax laws of any city, state or foreign jurisdiction in which a participant may reside.

Incentive Stock Options. Incentive stock options granted under the 2014 Plan are intended to qualify for the favorable federal income tax treatment accorded incentive stock options under the Code. There generally are no federal ordinary income tax consequences to the participant or Schmitt by reason of the grant or exercise of an incentive stock option. However, the exercise of an incentive stock option may increase the participant s alternative minimum tax liability, if any.

The difference between the exercise price and fair market value of the incentive stock option shares on the date of exercise is an adjustment to income for purposes of the alternative minimum tax. Alternative minimum taxable income is determined by adjusting regular taxable income for certain items, increasing that income by certain tax preference items and reducing this amount by the applicable exemption amount.

If a participant holds stock acquired through exercise of an incentive stock option for more than two years from the date on which the stock option was granted and more than one year after the date the stock option was exercised for those shares, any gain or loss on a disposition of those shares (referred to in this Proxy Statement as a qualifying disposition) will be a long-term capital gain or loss. Upon such a qualifying disposition, Schmitt will not be entitled to any income tax deduction.

Generally, if the participant disposes of the stock before the expiration of either of those holding periods (referred to in this Proxy Statement as a disqualifying disposition), then at the time of disposition the participant will realize taxable ordinary income equal to the lesser of (a) the excess of the stock s fair market value on the date of exercise over the exercise price, or (b) the participant s actual gain, if any, on the purchase and sale. The participant s additional gain or any loss upon the disqualifying disposition will be a capital gain or loss, which will be long-term or short-term depending on whether the stock was held for more than one year after exercise.

To the extent the participant recognizes ordinary income by reason of a disqualifying disposition, generally Schmitt will be entitled (subject to the provisions of Section 162(m) of the Code and the satisfaction of a tax reporting obligation) to a corresponding income tax deduction in the tax year in which the disqualifying disposition occurs.

Nonstatutory Stock Options. No taxable income is recognized by a participant upon the grant of a nonstatutory stock option. Upon exercise of a nonstatutory stock option, the participant will recognize ordinary income equal to the excess, if any, of the fair market value of the purchased shares on the exercise date over the exercise price paid for those shares. Generally, Schmitt will be entitled (subject to the provisions of Section 162(m) of the Code and the satisfaction of a tax reporting obligation) to an income tax deduction in the tax year in which such ordinary income is recognized by the participant. Schmitt will be required to satisfy certain tax withholding requirements applicable to such income.

Upon disposition of the stock, the participant will recognize a capital gain or loss equal to the difference between the selling price and the sum of the amount paid for such stock plus any amount recognized as ordinary income upon acquisition of the stock. Such gain or loss will be long-term or short-term depending on whether the stock was held for more than one year after exercise.

Restricted Stock Awards. Upon receipt of a restricted stock award, the participant will recognize ordinary income equal to the excess, if any, of the fair market value of the shares on the date of issuance over the purchase price, if any, paid for those shares. Schmitt will be entitled (subject to the provisions of Section 162(m) of the Code and the satisfaction of a tax reporting obligation) to a corresponding income tax deduction in the year in which such ordinary income is recognized by the participant.

However, if the shares issued upon the grant of a restricted stock award are unvested and subject to repurchase by Schmitt in the event of the participant s termination of service prior to vesting in those shares, the participant will not recognize any taxable income at the time of issuance, but will have to report as ordinary income, as and when Schmitt s repurchase right lapses, an amount equal to the excess of (a) the fair market value of the shares on the date the repurchase right lapses, over (b) the purchase price, if any, paid for the shares. The participant may, however, elect under Section 83(b) of the Code to include as ordinary income in the year of issuance an amount equal to the excess of (a) the fair market value of the shares on the date of issuance, over (b) the purchase price, if any, paid for such shares. If the Section 83(b) election is made, the participant will not recognize any additional income as and when the repurchase right lapses. The participant and Schmitt will be required to satisfy certain tax withholding requirements applicable to such income. Schmitt will be entitled to an income tax deduction equal to the amount of ordinary income recognized by the participant at the time the shares are issued. In general, the deduction will be allowed for the taxable year in which such ordinary income is recognized by the participant.

Upon disposition of the stock acquired upon the receipt of a restricted stock award, the participant will recognize a capital gain or loss equal to the difference between the selling price and the sum of the amount paid for such stock plus any amount recognized as ordinary income upon issuance (or vesting) of the stock. Such gain or loss will be long-term or short-term depending on whether the stock was held for more than one year.

Restricted Stock Unit Awards. No taxable income is recognized upon receipt of a restricted stock unit award. The participant will generally recognize ordinary income in the year in which the shares subject to that unit are actually vested and issued to the participant in an amount equal to the fair market value of the shares on the date of issuance. The participant and Schmitt will be required to satisfy certain tax withholding requirements applicable to such income. Schmitt will be entitled (subject to the provisions of Section 162(m) of the Code and the satisfaction of a tax reporting obligation) to an income tax deduction equal to the amount of ordinary income recognized by the participant at the time the shares are issued. In general, the deduction will be allowed for the taxable year in which such ordinary income is recognized by the participant.

Stock Appreciation Rights. No taxable income is realized upon the receipt of a stock appreciation right. Upon exercise of the stock appreciation right, the fair market value of the shares (or cash in lieu of shares) received is recognized as ordinary income to the participant in the year of such exercise. Generally, with respect to employees, Schmitt is required to withhold from the payment made on exercise of the stock appreciation right or from regular wages or supplemental wage payments an amount based on the ordinary income recognized. Generally, Schmitt will be entitled (subject to the provisions of Section 162(m) of the Code and the satisfaction of a tax reporting obligation) to an income tax deduction in the year in which such ordinary income is recognized by the participant.

Potential Limitation on Deductions. Section 162(m) of the Code denies a deduction to any publicly held corporation for compensation paid to certain covered employees in a taxable year to the extent that compensation to each covered employee exceeds $1,000,000. It is possible that compensation attributable to

awards, when combined with all other types of compensation received by a covered employee from Schmitt, may cause this limitation to be exceeded in any particular year. However, certain kinds of compensation, including qualified performance-based compensation, are disregarded for purposes of the deduction limitation.

Below is a summary of the material conditions under which certain equity awards qualify as performance-based compensation that is exempt from the $1,000,000 deduction limitation in accordance with Section 162(m) of the Code:

Stock Options and Stock Appreciation Rights. Compensation paid to covered employees that is attributable to stock options and stock appreciation rights will qualify as performance-based compensation if (a) such awards are granted by a compensation committee or committee of our Board of Directors comprised solely of outside directors, (b) the 2014 Plan contains a per-employee limitation on the number of shares for which such awards may be granted during a specified period, (c) the per-employee limitation is approved by our stockholders, and (d) the exercise or strike price of the award is no less than the fair market value of the stock on the date of grant.

Restricted Stock Awards, Restricted Stock Unit Awards, Performance Equity Awards and Performance Cash Awards. Compensation paid to covered employees that is attributable to restricted stock awards, restricted stock unit awards, performance equity awards, and performance cash awards will qualify as performance-based compensation, provided that: (a) the award is granted by a compensation committee comprised solely of outside directors, (b) the award is granted (or vests) only upon the achievement of an objective performance goal established in writing by the compensation committee while the outcome is substantially uncertain, (c) the compensation committee certifies in writing prior to the grant or vesting of the award that the performance goal has been satisfied, and (d) stockholders have approved the material terms of the award (including the class of employees eligible for such award, the business criteria on which the performance goal is based, and the maximum amount, or formula used to calculate the amount, payable upon attainment of the performance goal).

New Plan Benefits

The benefits that will be awarded or paid under the 2014 Plan are not currently determinable. Awards granted under the 2014 Plan are within the discretion of the Plan Administrator. On July 31, 2014, the closing price of a share of Schmitt common stock was $2.70.

Recommendation of the Board of Directors

The Board of Directors unanimously recommends that shareholders vote FOR the approval and adoption of the Schmitt Industries, Inc. 2014 Equity Incentive Plan. If a quorum is present, a majority of the votes cast by shares entitled to vote is required to approve this proposal.

DATE FOR SUBMISSION OF SHAREHOLDER PROPOSALS

Pursuant to Rule 14a-8 under the Securities Exchange Act of 1934, some shareholder proposals may be eligible for inclusion in the Company s 2015 Proxy Statement. Any such proposal must be received by the Company not later than April 24, 2015. Shareholders interested in submitting such a proposal are advised to contact knowledgeable counsel with regard to the detailed requirements of the applicable securities law. The submission of a shareholder proposal does not guarantee that it will be included in the Company s Proxy Statement. Alternatively, under the Company s Restated Bylaws, a proposal or nomination that a shareholder does not seek to include in the Company s Proxy Statement pursuant to Rule 14a-8 may be delivered to the Secretary of the Company not less than 60 days nor more than 90 days prior to the date of an Annual Meeting, unless notice or public disclosure of the date of the Annual Meeting occurs less than 60 days prior to the date of such Annual Meeting, in which event, shareholders may deliver such notice not later than the 10th day following the day on which notice of the date of the Annual Meeting was mailed or public disclosure thereof was made. A

shareholder s submission must include certain specified information concerning the proposal or nominee, as the case may be, and information as to the shareholder s ownership of common stock of the Company. Proposals or nominations not meeting these requirements will not be entertained at the Annual Meeting. If the shareholder does not also comply with the requirements of Rule 14a-4(c)(2) under the Securities Exchange Act of 1934, the Company may exercise discretionary voting authority under proxies it solicits to vote in accordance with its best judgment on any such proposal or nomination submitted by a shareholder.

OTHER MATTERS

As of the date of this Proxy Statement, the Board of Directors does not know of any other matters to be presented for action by the shareholders at the 2014 Annual Meeting. If, however, any other matters not now known are properly brought before the Annual Meeting, the persons named in the accompanying proxy will vote such proxy in accordance with the determination of a majority of the Board of Directors.

COST OF SOLICITATION

The cost of soliciting proxies will be borne by the Company. In addition to use of the mails, proxies may be solicited personally or by telephone by Directors, officers and employees of the Company, who will not be specially compensated for such activities. Also, the Company may retain and compensate an outside firm to assist in obtaining proxies from brokers and nominees of shareholders for the Annual Meeting. Such solicitations may be made personally, or by mail, facsimile, telephone, telegraph or messenger. The Company will also request persons, firms and companies holding shares in their names or in the name of their nominees, which are beneficially owned by others, to send proxy materials to and obtain proxies from such beneficial owners. The Company will reimburse such persons for their reasonable expenses incurred in that connection.

ADDITIONAL INFORMATION

A copy of the Company s Annual Report to Shareholders for Fiscal 2014 accompanies this Proxy Statement. The Company is required to file an Annual Report on Form 10-K for its fiscal year ended May 31, 2014 with the SEC. Shareholders may obtain, free of charge, a copy of the Form 10-K (without exhibits) by writing to Corporate Secretary, Schmitt Industries, Inc., 2765 N.W. Nicolai Street, Portland, Oregon 97210.

By Order of the Board of Directors

Wayne A. Case
Chairman of the Board of Directors

Portland, Oregon

August 26, 2014

Appendix A

SCHMITT INDUSTRIES, INC.

2014 EQUITY INCENTIVE PLAN

1. PURPOSE OF THE PLAN

The purpose of the Plan is to assist Schmitt Industries, Inc. (Schmitt or the Company) in attracting and retaining selected individuals to serve as employees, directors, consultants and/or advisors who are expected to contribute to the Company s success and to achieve long-term objectives that will benefit stockholders of the Company through the additional incentives inherent in the Awards hereunder.

2. DEFINITIONS

2.1. *Affiliate* shall mean (i) any corporation (other than the Company) in an unbroken chain of corporations ending with the Company, provided each corporation in the unbroken chain (other than the Company) owns, at the time of the determination, stock possessing 50% or more of the total combined voting power of all classes of stock in one of the other corporations in such chain, and (ii) any corporation (other than the Company) in an unbroken chain of corporations beginning with the Company, provided each corporation (other than the last corporation) in the unbroken chain owns, at the time of the determination, stock possessing 50% or more of the total combined voting power of all classes of stock in one of the other corporations in such chain. The Board shall have the authority to determine (i) the time or times at which the ownership tests are applied, and (ii) whether Affiliate includes entities other than corporations within the foregoing definition.

2.2. *Award* shall mean any Option, Stock Appreciation Right, Restricted Stock Award, Restricted Stock Unit Award, Other Share-Based Award, Performance Award or any other right, interest or option relating to Shares or other property (including cash) granted pursuant to the provisions of the Plan.

2.3. *Award Agreement* shall mean any agreement, contract or other instrument or document evidencing any Award hereunder, whether in writing or through an electronic medium.

2.4. *Board* shall mean the Board of Directors of the Company.

2.5. *Cause* shall mean with respect to a Participant, the occurrence of any of the following: (i) the Participant commits an act of dishonesty in connection with the Participant s responsibilities as an Employee or Consultant; (ii) the Participant commits a felony or any act of moral turpitude; (iii) the Participant commits any willful or grossly negligent act that constitutes gross misconduct and/or injures, or is reasonably likely to injure, the Company or any Affiliate; or (iv) the Participant willfully and materially violates (A) any written policies or procedures of the Company or any Affiliate, or (B) the Participant s obligations to the Company or any Affiliate. The determination that a termination is for Cause shall be made by the Company in its sole discretion. Any determination by the Company that the Continuous Service of a Participant was terminated with or without Cause for the purposes of outstanding Awards held by such Participant shall have no effect upon any determination of the rights or obligations of the Company or such Participant for any other purpose.

2.6. *Change in Control* means the occurrence, in a single transaction or in a series of related transactions, of any one or more of the following events:

(a) Any Exchange Act Person becomes the Owner, directly or indirectly, of securities of the Company representing more than 50% of the combined voting power of the Company s then outstanding securities other than by virtue of a merger, consolidation or similar transaction. Notwithstanding the foregoing, a Change in Control shall not be deemed to occur (i) on account of the acquisition of securities of the Company by an investor, any affiliate thereof or any other Exchange Act Person from the Company in a transaction or series of related transactions the primary purpose of which is to obtain financing for the Company through the issuance of equity securities or (ii) solely

because the level of ownership held by any Exchange Act Person (the Subject Person) exceeds the designated percentage threshold of the outstanding voting securities as a result of a repurchase or other acquisition of voting securities by the Company reducing the number of shares outstanding, provided that if a Change in Control would occur (but for the operation of this sentence) as a result of the acquisition of voting securities by the Company, and after such share acquisition, the Subject Person becomes the owner of any additional voting securities that, assuming the repurchase or other acquisition had not occurred, increases the percentage of the then outstanding voting securities owned by the Subject Person over the designated percentage threshold, then a Change in Control shall be deemed to occur;

(b) There is consummated a merger, consolidation or similar transaction involving (directly or indirectly) the Company and, immediately after the consummation of such merger, consolidation or similar transaction, the stockholders of the Company immediately prior thereto do not Own, directly or indirectly, either (i) outstanding voting securities representing more than 50% of the combined outstanding voting power of the surviving Entity in such merger, consolidation or similar transaction or (ii) more than 50% of the combined outstanding voting power of the parent of the surviving Entity in such merger, consolidation or similar transaction, in each case in substantially the same proportions as their Ownership of the outstanding voting securities of the Company immediately prior to such transaction;

(c) The stockholders of the Company approve or the Board approves a plan of complete dissolution or liquidation of the Company, or a complete dissolution or liquidation of the Company shall otherwise occur;

(d) There is consummated a sale, lease, exclusive license or other disposition of all or substantially all of the consolidated assets of the Company and its Subsidiaries, other than a sale, lease, license or other disposition of all or substantially all of the consolidated assets of the Company and its Subsidiaries to an entity, more than 50% of the combined voting power of the voting securities of which are owned by stockholders of the Company in substantially the same proportions as their ownership of the outstanding voting securities of the Company immediately prior to such sale, lease, license or other disposition; or

(e) Individuals who, on the date this Plan is adopted by the Board, are members of the Board (the Incumbent Board) cease for any reason to constitute at least a majority of the members of the Board; provided, however, that if the appointment or election (or nomination for election) of any new Board member was approved or recommended by a majority vote of the members of the Incumbent Board then still in office, such new member shall, for purposes of this Plan, be considered as a member of the Incumbent Board.

For avoidance of doubt, the term Change in Control shall not include a sale of assets, merger or other transaction effected exclusively for the purpose of changing the domicile of the Company.

Notwithstanding the foregoing, to the extent that the Company determines that any of the payments or benefits under this Plan that are payable in connection with a Change in Control constitute deferred compensation under Section 409A that may only be paid on a transaction that meets the standard of Treasury Regulation Section 1.409A-3(a)(5), the foregoing definition of Change in Control shall apply only to the extent the transaction also meets the definition used for purposes of Treasury Regulation Section 1.409A-3(a)(5), that is, as defined under Treasury Regulation Section 1.409A-3(i)(5).

Notwithstanding the foregoing or any other provision of this Plan, the definition of Change in Control (or any analogous term) in an individual written agreement between the Company or any Affiliate and the Participant shall supersede the foregoing definition with respect to Awards subject to such agreement; provided, however, that if no definition of Change in Control or any analogous term is set forth in such an individual written agreement, the foregoing definition shall apply.

2.7. *Code* shall mean the Internal Revenue Code of 1986, as amended from time to time.

2.8. *Committee* shall mean a committee consisting of members of the Board to whom authority has been delegated by the Board in accordance with Section 4.2(c). Initially, and until further action by the Board, Committee shall mean the Compensation Committee of the Board or a subcommittee thereof formed by the Compensation Committee to act as the Committee hereunder. The Committee shall consist of no fewer than two Directors, each of whom is (i) a Non-Employee Director within the meaning of Rule 16b-3 under the Exchange Act, (ii) an outside director within the meaning of Section 162(m) of the Code, and (iii) an independent director for purpose of the rules of the applicable stock market or exchange on which the Shares are quoted or traded, to the extent required by such rules. The Board may designate one or more Directors as alternate members of the Committee who may replace any absent or disqualified member at any meeting of the Committee.

2.9. *Consultant* shall mean any consultant or advisor who is a natural person and who provides services to the Company or any Subsidiary, so long as such person (i) renders bona fide services that are not in connection with the offer and sale of the Company s securities in a capital-raising transaction and (ii) does not directly or indirectly promote or maintain a market for the Company s securities.

2.10. *Continuous Service* shall mean that the Participant s service with the Company or an Affiliate, whether as an Employee, Director or Consultant, is not interrupted or terminated. A change in the capacity in which the Participant renders service to the Company or an Affiliate from a Consultant to Employee shall not terminate a Participant s Continuous Service. Furthermore, a change in the entity for which the Participant renders such service, provided that there is no interruption or termination of the Participant s service with the Company or an Affiliate, shall not terminate a Participant s Continuous Service. However, if the corporation for which a Participant is rendering service ceases to qualify as an Affiliate, as determined by the Board in its sole discretion, such Participant s Continuous Service shall be considered to have terminated on the date such corporation ceases to qualify as an Affiliate. A leave of absence shall be treated as Continuous Service for purposes of vesting in an Award to such extent as may be provided in the Company s leave of absence policy or in the written terms of the Participant s leave of absence.

2.11. *Corporate Transaction* shall mean the occurrence, in a single transaction or in a series of related transactions, of any one or more of the following events:

(a) a sale or other disposition of all or substantially all, as determined by the Board in its sole discretion, of the consolidated assets of the Company and its subsidiaries;

(b) a sale or other disposition of at least ninety percent (90%) of the outstanding securities of the Company;

(c) the consummation of a merger, consolidation or similar transaction following which the Company is not the surviving corporation; or

(d) the consummation of a merger, consolidation or similar transaction following which the Company is the surviving corporation but the shares of Common Stock outstanding immediately preceding the merger, consolidation or similar transaction are converted or exchanged by virtue of the merger, consolidation or similar transaction into other property, whether in the form of securities, cash or otherwise.

2.12. *Covered Employee* shall mean an employee of the Company or its Subsidiaries who is a covered employee within the meaning of Section 162(m) of the Code.

2.13. *Director* shall mean a member of the Board.

2.14. *Disability* shall mean with respect to a Participant, the inability of such Participant to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment which can be expected to result in death or which has lasted or can be expected to last for a continuous period of not less than 12 months, as provided in Sections 22(e)(3) and 409A(a)(2)(c)(i) of the Code, and shall be determined by the Board on the basis of such medical evidence as the Board deems warranted under the circumstances.

2.15. *Dividend Equivalents* shall have the meaning set forth in Section 12.4.

2.16. *Employee* shall mean any employee of the Company or any Subsidiary and any prospective employee conditioned upon, and effective not earlier than, such person becoming an employee of the Company or any Subsidiary.

2.17. *Exchange Act* shall mean the Securities Exchange Act of 1934, as amended.

2.18. *Exchange Act Person* shall mean any natural person, entity or group (within the meaning of Section 13(d) or 14(d) of the Exchange Act), except that Exchange Act Person shall not include (i) the Company or any Subsidiary of the Company, (ii) any employee benefit plan of the Company or any Subsidiary of the Company or any trustee or other fiduciary holding securities under an employee benefit plan of the Company or any Subsidiary of the Company, (iii) an underwriter temporarily holding securities pursuant to an offering of such securities, (iv) an entity owned, directly or indirectly, by the stockholders of the Company in substantially the same proportions as their ownership of stock of the Company; or (v) any natural person, entity or group (within the meaning of Section 13(d) or 14(d) of the Exchange Act) that, as of the effective date of the Plan as set forth in Section 13, is the owner, directly or indirectly, of securities of the Company representing more than 50% of the combined voting power of the Company s then outstanding securities.

2.19. *Fair Market Value* shall mean, with respect to Shares as of any date, (i) the closing sale price of the Shares reported as having occurred on the principal U.S. national securities exchange on which the Shares are listed and traded on such date, or, if there is no such sale on that date, then on the last preceding date on which such a sale was reported; (ii) if the Shares are not listed on any U.S. national securities exchange but are quoted in an inter-dealer quotation system on a last sale basis, the final ask price of the Shares reported on such date, or, if there is no such sale on such date, then on the last preceding date on which a sale was reported; or (iii) if the Shares are not listed on a U.S. national securities exchange nor quoted on an inter-dealer quotation system on a last sale basis, the amount determined by the Committee to be the fair market value of the Shares as determined by the Committee in its sole discretion. The Fair Market Value of any property other than Shares shall mean the market value of such property determined by such methods or procedures as shall be established from time to time by the Committee.

2.20. *Incentive Stock Option* shall mean an Option which when granted is intended to qualify as an incentive stock option for purposes of Section 422 of the Code.

2.21. *Non-Employee Director* shall mean a Director who either (i) is not a current employee or officer of the Company or an Affiliate, does not receive compensation, either directly or indirectly, from the Company or an Affiliate for services rendered as a consultant or in any capacity other than as a Director (except for an amount as to which disclosure would not be required under Item 404(a) of Regulation S-K promulgated pursuant to the Securities Act (*Regulation S-K*)), does not possess an interest in any other transaction for which disclosure would be required under Item 404(a) of Regulation S-K, and is not engaged in a business relationship for which disclosure would be required pursuant to Item 404(b) of Regulation S-K; or (ii) is otherwise considered a non-employee director for purposes of Rule 16b-3.

2.22. *Option* shall mean any right granted to a Participant under the Plan allowing such Participant to purchase Shares at such price or prices and during such period or periods as the Board shall determine.

2.23. *Other Share-Based Award* shall have the meaning set forth in Section 8.1.

2.24. *Outside Director* shall mean a Director who either (i) is not a current employee of the Company or an affiliated corporation (within the meaning of Treasury Regulations promulgated under Section 162(m) of the Code), is not a former employee of the Company or an affiliated corporation who receives compensation for prior services (other than benefits under a tax-qualified retirement plan) during the taxable year, has not been an officer of the Company or an affiliated corporation, and does not receive remuneration from the Company or an affiliated corporation, either directly or indirectly, in any capacity other than as a Director, or (ii) is otherwise considered an outside director for purposes of Section 162(m) of the Code.

2.25. *Participant* shall mean an Employee, Director or Consultant who is selected by the Committee to receive an Award under the Plan.

2.26. *Payee* shall have the meaning set forth in Section 13.2.

2.27. *Performance Award* shall mean any Award of Performance Cash, Performance Shares or Performance Units granted pursuant to Article 9.

2.28. *Performance Cash* shall mean any cash incentives granted pursuant to Article 9 payable to the Participant upon the achievement of such performance goals as the Committee shall establish.

2.29. *Performance Criteria* shall mean one or more of the criteria specified in Section 10.2 and selected by the Board for purposes of establishing the Performance Goals for a Performance Period.

2.30. *Performance Goals* shall mean, for a Performance Period, the one or more goals established by the Board for the Performance Period based upon the Performance Criteria. Performance Goals may be set on a Company-wide basis, with respect to one or more business units, divisions, Affiliates, or business segments, and in either absolute terms or relative to internally generated business plans, approved by the Board, the performance of one or more comparable companies or the performance of one or more relevant indices. To the extent consistent with Section 162(m) of the Code and the regulations thereunder, the Board is authorized to make adjustments in the method of calculating the attainment of Performance Goals for a Performance Period as follows: (i) to exclude restructuring and/or other nonrecurring charges (including but not limited to the effect of tax or legal settlements); (ii) to exclude exchange rate effects, as applicable, for non-U.S. dollar denominated net sales and operating earnings; (iii) to exclude the effects of changes to generally accepted accounting standards required by the Financial Accounting Standards Board; (iv) to exclude the effects of any statutory adjustments to corporate tax rates; (v) to exclude stock-based compensation expense determined under generally accepted accounting principles; (vi) to exclude any other unusual, non-recurring gain or loss or extraordinary item; (vii) to respond to, or in anticipation of, any unusual or extraordinary corporate item, transaction, event or development; (viii) to respond to, or in anticipation of, changes in applicable laws, regulations, accounting principles, or business conditions; (ix) to exclude the dilutive effects of acquisitions or joint ventures; (x) to assume that any business divested by the Company achieved performance objectives at targeted levels during the balance of a Performance Period following such divestiture; (xi) to exclude the effect of any change in the outstanding shares of common stock of the Company by reason of any stock dividend or split, stock repurchase, reorganization, recapitalization, merger, consolidation, spin-off, combination or exchange of shares or other similar corporate change, or any distributions to common stockholders other than regular cash dividends; (xii) to reflect a corporate transaction, such as a merger, consolidation, separation (including a spinoff or other distribution of stock or property by a corporation), or reorganization (whether or not such reorganization comes within the definition of such term in Section 368 of the Code); (xiii) to reflect any partial or complete corporate liquidation; (xiv) to exclude the effect of in-process research and development expenses; and (xv) to exclude the income tax effect of non-GAAP pre-tax adjustments from the provision for income taxes. The Board also retains the discretion to reduce or eliminate the compensation or economic benefit due upon attainment of Performance Goals.

2.31. *Performance Period* shall mean the period established by the Committee during which any performance goals specified by the Committee with respect to a Performance Award are to be measured.

2.32. *Performance Share* shall mean any grant pursuant to Article 9 of a unit valued by reference to a designated number of Shares, which value will be paid to the Participant upon achievement of such performance goals as the Committee shall establish.

2.33. *Performance Unit* shall mean any grant pursuant to Article 9 of a unit valued by reference to a designated amount of cash or property other than Shares, which value will be paid to the Participant upon achievement of such performance goals during the Performance Period as the Committee shall establish.

2.34. *Permitted Assignee* shall have the meaning set forth in Section 12.2.

2.35. *Restricted Stock* shall mean any Share issued with the restriction that the holder may not sell, transfer, pledge or assign such Share and with such other restrictions as the Committee, in its sole discretion, may impose, which restrictions may lapse separately or in combination at such time or times, in installments or otherwise, as the Committee may deem appropriate.

2.36. *Restricted Stock Award* shall have the meaning set forth in Section 7.1.

2.37. *Restricted Stock Unit* means an Award that is valued by reference to a Share, which value may be paid to the Participant by delivery of such property as the Board shall determine, which restrictions may lapse separately or in combination at such time or times, in installments or otherwise, as the Board may deem appropriate.

2.38. *Restricted Stock Unit Award* shall have the meaning set forth in Section 7.1

2.39. *Shares* shall mean the shares of common stock of the Company, no par value per share.

2.40. *Stock Appreciation Right* shall mean the right granted to a Participant pursuant to Article 6.

2.41. *Subsidiary* shall mean any corporation (other than the Company) in an unbroken chain of corporations beginning with the Company if, at the relevant time each of the corporations other than the last corporation in the unbroken chain owns stock possessing 50% or more of the total combined voting power of all classes of stock in one of the other corporations in the chain.

2.42. *Substitute Awards* shall mean Awards granted or Shares issued by the Company in assumption of, or in substitution or exchange for, awards previously granted, or the right or obligation to make future awards, in each case by a company acquired by the Company or any Subsidiary or with which the Company or any Subsidiary combines.

2.43. *Vesting Period* shall mean the period of time specified by the Committee during which vesting restrictions for an Award are applicable.

3. SHARES SUBJECT TO THE PLAN

3.1. *Number of Shares*.

(a) Subject to adjustment as provided in Section 11.1, the number of shares of Common Stock issued or transferred and covered by outstanding awards granted under this Plan shall not in the aggregate exceed 300,000 shares of Common Stock, which may be Common Stock of original issuance or Common Stock held in treasury, or a combination thereof. Subject to the provisions of Section 11.1 regarding adjustments in the event of stock splits, reverse stock splits and other recapitalization events, the aggregate maximum number of shares of Common Stock that may be issued pursuant to the exercise of Incentive Stock Options shall be 300,000. The Company shall at all times during the term of the Plan, and while any Stock Awards are outstanding, retain as authorized and unissued Common Stock or as treasury Common Stock, at least the number of shares of Common Stock required under the provisions of this Plan, or otherwise assure itself of its ability to perform its obligations hereunder.

(b) If any Shares subject to an Award are forfeited, an Award expires or otherwise terminates without issuance of Shares, or an Award is settled for cash (in whole or in part) or otherwise does not result in the issuance of all or a portion of the Shares subject to such Award (including on payment in Shares on exercise of a Stock Appreciation Right), such Shares shall, to the extent of such forfeiture, expiration, termination, cash settlement or non-issuance, again be available for issuance under the Plan.

(c) In the event that (i) any Option or other Award granted hereunder is exercised through the tendering of Shares (either actually or by attestation) or by the withholding of Shares by the Company, or (ii) withholding tax liabilities arising from such Option or other Award are satisfied by the tendering of Shares (either actually or by attestation) or by the withholding of Shares by the Company, then the Shares so tendered or withheld shall be available for issuance under the Plan.

(d) Substitute Awards shall not reduce the Shares authorized for grant under the Plan or the applicable limitations for grant to a Participant under Section 10.4, nor shall Shares subject to a Substitute Award again be available for Awards under the Plan to the extent of any forfeiture, expiration or cash settlement as provided in paragraph (b) or (c) above. Additionally, in the event that a company acquired by the Company or any Subsidiary or with which the Company or any Subsidiary combines has shares available under a pre-existing plan approved by stockholders and not adopted in contemplation of such acquisition or combination, the shares available for grant pursuant to the terms of such pre-existing plan (as adjusted, to the extent appropriate, using the exchange ratio or other adjustment or valuation ratio or formula used in such acquisition or combination to determine the consideration payable to the holders of common stock of the entities party to such acquisition or combination) may be used for Awards under the Plan and shall not reduce the Shares authorized for grant under the Plan; provided that Awards using such available shares shall not be made after the date awards or grants could have been made under the terms of the pre-existing plan, absent the acquisition or combination, and shall only be made to individuals who were not Employees or Directors prior to such acquisition or combination.

(e) The Board may grant Incentive Stock Options to any employee of the Company or any present or future Parent or Subsidiary as defined in Sections 424(e) or (f) of the Code, and any other entities the employees of which are eligible to receive Incentive Stock Options under the Code, and shall be subject to and shall be construed consistently with the requirements of Section 422 of the Code. The Company shall have no liability to a Participant, or any other party, if an Option (or any part thereof) that is intended to be an Incentive Stock Option is not an Incentive Stock Option or for any action taken by the Board, including without limitation the conversion of an Incentive Stock Option to a Nonstatutory Stock Option.

3.2. *Source of Shares*. Any Shares issued hereunder may consist, in whole or in part, of authorized and unissued shares, treasury shares or shares purchased in the open market or otherwise.

4. ELIGIBILITY AND ADMINISTRATION

4.1. *Eligibility*. Any Employee, Director or Consultant shall be eligible to be selected as a Participant. The Board may grant Substitute Awards to holders of equity awards issued by a company acquired by the Company or with which the Company combines.

4.2. *Administration.*

(a) The Board shall administer the Plan unless and until the Board delegates administration of the Plan to a Committee, as provided in paragraph (c) below.

(b) The Board or authorized Committee shall have the power, subject to, and within the limitations of, the express provisions of the Plan and subject to such orders or resolutions not inconsistent with the provisions of the Plan as may from time to time be adopted by the Board, to: (i) select the Employees, Directors or Consultants to whom Awards may from time to time be granted hereunder; (ii) determine the type or types of Awards to be granted to each Participant hereunder; (iii) determine the number of Shares to be covered by each Award granted hereunder; (iv) determine the terms and conditions, not inconsistent with the provisions of the Plan, of any Award granted hereunder; (v) determine whether, to what extent and under what circumstances Awards may be settled in cash, Shares or other property; (vi) determine whether, to what extent, and under what circumstances cash, Shares, other property and other amounts payable with respect to an Award made under the Plan shall be deferred either automatically or at the election of the Participant; (vii) determine whether, to what extent and under what circumstances any Award shall be canceled or suspended; (viii) interpret and administer the Plan and any instrument or agreement entered into under or in connection with the Plan, including any Award Agreement; (ix) correct any defect, supply any omission or reconcile any inconsistency in the Plan or any Award in the manner and to the extent that the Committee shall deem desirable to carry it into effect; (x) establish, amend, suspend or waive such rules and regulations and appoint such agents

as it shall deem appropriate for the proper administration of the Plan; (xi) determine whether any Award will have Dividend Equivalents; and (xii) make any other determination and take any other action that the Committee deems necessary or desirable for administration of the Plan.

(c) The Board may delegate all or a portion of the administration of the Plan to a Committee, as follows:

(i) The Board may delegate some or all of the administration of the Plan to a Committee or Committees. If administration is delegated to a Committee, the Committee shall have, in connection with the administration of the Plan, the powers theretofore possessed by the Board that have been delegated to the Committee, including the power to delegate to a subcommittee any of the administrative powers the Committee is authorized to exercise (and references in this Plan to the Board shall thereafter be to the Committee or subcommittee), subject, however, to such resolutions, not inconsistent with the provisions of the Plan, as may be adopted from time to time by the Board or the Committee (as applicable). The Board may retain the authority to concurrently administer the Plan with the Committee and may, at any time, re-vest in the Board some or all of the powers previously delegated.

(ii) In the sole discretion of the Board, the Committee may consist solely of two or more Outside Directors, in accordance with Section 162(m) of the Code, and/or solely of two or more Non-Employee Directors, in accordance with Rule 16b-3 of the Exchange Act. In addition, the Board in its sole discretion, may (1) delegate to a committee of one or more members of the Board who need not be Outside Directors the authority to grant Awards to eligible persons who are either (a) not then Covered Employees and are not expected to be Covered Employees at the time of recognition of income resulting from such Award, or (b) not persons with respect to whom the Company wishes to comply with Section 162(m) of the Code, and/or (2) delegate to a committee of two or more members of the Board who need not be Non-Employee Directors the authority to grant Awards to eligible persons who are not then subject to Section 16 of the Exchange Act.

(iii) Until further action is taken by the Board, the full powers and administration of the Plan are hereby delegated to the Compensation Committee of the Board, which shall be constituted to comply with the membership requirements of Section 16b-3 of the Exchange Act and Section 162(m) of the Code.

(d) The Board or Committee may delegate to one or more officers of the Company the authority to do one or both of the following (i) designate Employees of the Company or any of its Subsidiaries to be recipients of Options, Stock Appreciation Rights and, to the extent permitted by applicable law, other Awards and, to the extent permitted by applicable law, the terms thereof, and (ii) determine the number of shares of Common Stock to be subject to such Awards granted to such Employees; *provided, however*, that the Board resolutions regarding such delegation shall specify the total number of shares of Common Stock that may be subject to the Options granted by such Officer. Any such Stock Awards granted by Officers will be granted on the form of Award Agreement most recently approved for use by the Committee or the Board, unless otherwise provided in the resolutions approving the delegation authority. Notwithstanding anything to the contrary in this Section 4.2(d), the Board may not delegate to an Officer authority to determine the Fair Market Value of the Common Stock pursuant to Section 2.19 above.

(e) All determinations, interpretations and constructions made by the Board in good faith shall not be subject to review by any person and shall be final, binding and conclusive on all persons.

(f) Neither the Board nor any Committee shall have the authority to: (i) reprice any outstanding Awards under the Plan, or (ii) cancel and re-grant any outstanding Awards under the Plan, unless the shareholders of the Company have approved such an action within 12 months prior to such an event, provided, however, that this provision shall not prevent cancellations of Awards upon expiration or termination of such Awards and the return of the underlying shares of Common Stock to the Plan for future issuance pursuant to Section 3.1(b) hereof.

(g) In connection with the Company s desire to comply as broadly as possible with Section 162(m) of the Code, and subject to adjustment in the event of stock splits, reverse stock splits and other events of recapitalization as provided in Section 11.1 hereof, no individual Participant shall be eligible to be granted Awards whose value is determined by reference to an increase over an exercise or strike price of at least 100% of the Fair Market Value of the Common Stock on the date of grant covering more than 500,000 shares of Common Stock in any calendar year.

5. OPTIONS

5.1. *Grant of Options*. Options may be granted hereunder to Participants either alone or in addition to other Awards granted under the Plan. Any Option shall be subject to the terms and conditions of this Article and to such additional terms and conditions, not inconsistent with the provisions of the Plan, as the Board shall deem desirable. Options may be designated as Incentive Stock Options, as determined by the Board.

5.2. *Award Agreements*. All Options shall be evidenced by a written Award Agreement in such form and containing such terms and conditions as the Committee shall determine which are not inconsistent with the provisions of the Plan. The terms of Options need not be the same with respect to each Participant. Granting an Option pursuant to the Plan shall impose no obligation on the recipient to exercise such Option. Any individual who is granted an Option pursuant to this Article may hold more than one Option granted pursuant to the Plan at the same time.

5.3. *Option Price*. Other than in connection with Substitute Awards, the option price per each Share purchasable under any Option granted pursuant to this Article shall not be less than 100% of the Fair Market Value of one Share on the date of grant of such Option; *provided, however*, that in the case of an Incentive Stock Option granted to a Participant who, at the time of the grant, owns stock representing more than 10% of the voting power of all classes of stock of the Company or any Subsidiary, the option price per share Shall be no less than 110% of the Fair Market Value of one Share on the date of grant. Other than pursuant to Section 11.1 and other than in connection with the grant of a Substitute Award, the Committee shall not without the approval of the Company s shareholders (a) lower the option price per Share of an Option after it is granted, (b) cancel an Option when the option price per Share exceeds the Fair Market Value of the underlying Shares in exchange for cash or another Award, and (c) take any other action with respect to an Option that would be treated as a repricing under the rules and regulations of the principal securities exchange on which the Shares are traded, if any.

5.4. *Option Term*. The term of each Option shall be fixed by the Board in its sole discretion; provided that no Option shall be exercisable after the expiration of 10 years from the date the Option is granted, except in the event of death or disability (other than with respect to an Incentive Stock Option); provided, however, that the term of the Option shall not exceed five years from the date the Option is granted in the case of an Incentive Stock Option granted to a Participant who, at the time of the grant, owns stock representing more than 10% of the voting power of all classes of stock of the Company or any Subsidiary.

5.5. *Exercise of Options*.

(a) Vested Options granted under the Plan shall be exercised by the Participant or by a Permitted Assignee (as defined in Section 12.2) thereof (or by the Participant s executors, administrators, guardian or legal representative, as may be provided in an Award Agreement) as to all or part of the Shares covered thereby, by giving notice of exercise to the Company or its designated agent, specifying the number of Shares to be purchased. The notice of exercise shall be in such form, made in such manner, and in compliance with such other requirements consistent with the provisions of the Plan as the Committee may prescribe from time to time

(b) Full payment of the exercise price of an Option shall be made at the time of exercise and shall be made (i) in cash or cash equivalents (including certified check or bank check or wire transfer of immediately available funds), (ii) by tendering previously acquired Shares (either actually or by attestation, valued at their then Fair Market Value), (iii) by delivery of other consideration having a

Fair Market Value on the exercise date equal to the total purchase price, (iv) by withholding Shares otherwise issuable in connection with the exercise of the Option, (v) through any other method specified in an Award Agreement (including same-day sales through a broker), or (vi) any combination of any of the foregoing, as may be provided in the Award Agreement. The notice of exercise, accompanied by such payment, shall be delivered to the Company at its principal business office or such other office as the Committee may from time to time direct, and shall be in such form, containing such further provisions consistent with the provisions of the Plan, as the Committee may from time to time prescribe. In no event may any Option granted hereunder be exercised for a fraction of a Share.

5.6. *Excess Grant over Incentive Stock Option* Limit. To the extent that the aggregate Fair Market Value (determined at the time of grant) of Common Stock with respect to which Incentive Stock Options are exercisable for the first time by any Optionholder during any calendar year (under all plans of the Company and any Affiliates) exceeds $100,000, the Options or portions thereof that exceed such limit (according to the order in which they were granted) shall be treated as Nonstatutory Stock Options, notwithstanding any contrary provision of the applicable Option Agreement(s).

5.7. *Transferability of Options. The* Board may, in its sole discretion, impose such limitations on the transferability of Options as the Board shall determine. In the absence of such a determination by the Board to the contrary, the following restrictions on the transferability of Options shall apply:

(a) An Option shall not be transferable except by will or by the laws of descent and distribution and shall be exercisable during the lifetime of the Optionholder only by the Optionholder.

(b) Notwithstanding the foregoing, an Option may be transferred pursuant to a domestic relations order; *provided, however*, that if an Option is an Incentive Stock Option, such Option may be deemed to be a Nonstatutory Stock Option as a result of such transfer.

(c) Notwithstanding the foregoing, the Optionholder may, by delivering written notice to the Company, in a form provided by or otherwise satisfactory to the Company and any broker designated by the Company to effect Option exercises, designate a third party who, in the event of the death of the Optionholder, shall thereafter be entitled to exercise the Option. In the absence of such a designation, the executor or administrator of the Optionholder s estate shall be entitled to exercise the Option. However, the Company may prohibit designation of a beneficiary at any time, including due to any conclusion by the Company that such designation would be inconsistent with the provisions of applicable laws.

5.8. *Termination of Continuous Service Generally.* In the event that an Optionholder s Continuous Service terminates (other than for Cause or upon the Optionholder s death or Disability), the Optionholder may exercise his or her Option (to the extent that the Optionholder was entitled to exercise such Option as of the date of termination of Continuous Service) but only within such period of time ending on the earlier of (i) the date three months following the termination of the Optionholder s Continuous Service (or such longer or shorter period specified in the Option Agreement), or (ii) the expiration of the term of the Option as set forth in the Option Agreement. If, after termination of Continuous Service, the Optionholder does not exercise his or her Option within the time specified herein or in the Option Agreement (as applicable), the Option shall terminate.

5.9. *Extension of Exercise Period.* An Optionholder s Option Agreement may provide that if the exercise of the Option following the termination of the Optionholder s Continuous Service (other than upon the Optionholder s death or Disability) would be prohibited at any time solely because the issuance of shares of Common Stock would violate the registration requirements under the Securities Act, then the Option shall terminate on the earlier of (i) the expiration of a period of three months after the termination of the Optionholder s Continuous Service (or such longer or shorter period specified in the Option Agreement) during which the exercise of the Option would not be in violation of such registration requirements, or (ii) the expiration of the term of the Option as set forth in the Option Agreement.

5.10. *Termination Due to Disability.* In the event that an Optionholder s Continuous Service terminates as a result of the Optionholder s Disability, the Optionholder may exercise his or her Option (to the extent

that the Optionholder was entitled to exercise such Option as of the date of termination of Continuous Service), but only within such period of time ending on the earlier of (i) the date 12 months following such termination of Continuous Service (or such longer or shorter period specified in the Option Agreement), or (ii) the expiration of the term of the Option as set forth in the Option Agreement. If, after termination of Continuous Service, the Optionholder does not exercise his or her Option within the time specified herein or in the Option Agreement (as applicable), the Option shall terminate.

5.11. *Termination Due to Death. In* the event that (i) an Optionholder s Continuous Service terminates as a result of the Optionholder s death, or (ii) the Optionholder dies within the period (if any) specified in the Option Agreement after the termination of the Optionholder s Continuous Service for a reason other than death, then the Option may be exercised (to the extent the Optionholder was entitled to exercise such Option as of the date of death) by the Optionholder s estate, by a person who acquired the right to exercise the Option by bequest or inheritance or by a person designated to exercise the option upon the Optionholder s death, but only within the period ending on the earlier of (i) the date 12 months following the date of death (or such longer or shorter period specified in the Option Agreement), or (ii) the expiration of the term of such Option as set forth in the Option Agreement. If after the Optionholder s death, the Option is not exercised within the time specified herein or in the Option Agreement (as applicable) the Option shall terminate.

5.12. *Termination for Cause.* In the event that an Optionholder s Continuous Service is terminated for Cause, the Option shall terminate immediately and cease to remain outstanding and the Option shall cease to be exercisable with respect to any shares of Common Stock (whether vested or unvested) at the time of such termination.

6. STOCK APPRECIATION RIGHTS

6.1. *Grant and Exercise*. The Committee may provide Stock Appreciation Rights (a) in tandem with all or part of any Option granted under the Plan or at any subsequent time during the term of such Option, (b) in tandem with all or part of any Award (other than an Option) granted under the Plan or at any subsequent time during the term of such Award, or (c) without regard to any Option or other Award in each case upon such terms and conditions as the Committee may establish in its sole discretion.

6.2. *Terms and Conditions*. Stock Appreciation Rights shall be subject to such terms and conditions, not inconsistent with the provisions of the Plan, as shall be determined from time to time by the Committee, including the following:

(a) Upon the exercise of a Stock Appreciation Right, the holder shall have the right to receive the excess of (i) the Fair Market Value of one Share on the date of exercise (or such amount less than such Fair Market Value as the Committee shall so determine at any time during a specified period before the date of exercise) over (ii) the grant price of the Stock Appreciation Right on the date of grant, which, except in the case of Substitute Awards or in connection with an adjustment provided in Section 11.1, shall not be less than the Fair Market Value of one Share on such date of grant of the Stock Appreciation Right.

(b) The Committee shall determine in its sole discretion whether payment of a Stock Appreciation Right shall be made in cash, in whole Shares or other property, or any combination thereof.

(c) The provisions of Stock Appreciation Rights need not be the same with respect to each recipient.

(d) The Committee may impose such other conditions or restrictions on the terms of exercise and the grant price of any Stock Appreciation Right, as it shall deem appropriate. A Stock Appreciation Right shall have (i) a grant price not less than 100% of the Fair Market Value of one Share on the date of grant (subject to the requirements of Section 409A of the Code with respect to a Stock Appreciation Right granted in tandem with, but subsequent to, an Option), and (ii) a term not greater than 10 years except in the event of death or disability (other than with respect to a Stock Appreciation Right granted in tandem with an Incentive Stock Option).

(e) An Award Agreement may provide that if on the last day of the term of a Stock Appreciation Right the Fair Market Value of one Share exceeds the grant price per Share of the Stock Appreciation Right, the Participant has not exercised the Stock Appreciation Right or the tandem Option (if applicable) and neither the Stock Appreciation Right nor the Option has expired, the Stock Appreciation Right shall be deemed to have been exercised by the Participant on such day. In such event the Company shall make payment to the Participant in accordance with this Section, reduced by the number of Shares (or cash) required for withholding taxes; any fractional Share shall be settled in cash.

(f) Without the approval of the Company s shareholders, other than pursuant to Section 11.1 and other than in connection with the grant of a Substitute Award, the Committee shall not (i) reduce the grant price of any Stock Appreciation Right after the date of grant (ii) cancel any Stock Appreciation Right when the grant price per Share exceeds the Fair Market Value of the underlying Shares in exchange for cash or another Award, and (iii) take any other action with respect to a Stock Appreciation Right that would be treated as a repricing under the rules and regulations of the principal securities exchange on which the Shares are traded.

(g) In the event that a Participant s Continuous Service terminates (other than for Cause or upon the Participant s death or Disability), the Participant may exercise his or her Stock Appreciation Right (to the extent that the Participant was entitled to exercise such Stock Appreciation Right as of the date of termination of Continuous Service) but only within such period of time ending on the earlier of (i) the date three months following the termination of the Participant s Continuous Service (or such longer or shorter period specified in the Stock Appreciation Right Agreement), or (ii) the expiration of the term of the Stock Appreciation Right as set forth in the Stock Appreciation Right Agreement. If, after termination of Continuous Service, the Participant does not exercise his or her Stock Appreciation Right within the time specified herein or in the Stock Appreciation Right Agreement (as applicable), the Stock Appreciation Right shall terminate.

(h) A Participant s Stock Appreciation Right Agreement may provide that if the exercise of the Stock Appreciation Right following the termination of the Participant s Continuous Service (other than upon the Participant s death or Disability) would be prohibited at any time solely because the issuance of shares of Common Stock would violate the registration requirements under the Securities Act, then the Stock Appreciation Right shall terminate on the earlier of (i) the expiration of a period of three months after the termination of the Participant s Continuous Service (or such longer or shorter period specified in the Stock Appreciation Right Agreement) during which the exercise of the Stock Appreciation Right would not be in violation of such registration requirements, or (ii) the expiration of the term of the Stock Appreciation Right as set forth in the Stock Appreciation Right Agreement.

(i) In the event that a Participant s Continuous Service terminates as a result of the Participant s Disability, the Participant may exercise his or her Stock Appreciation Right (to the extent that the Participant was entitled to exercise such Stock Appreciation Right as of the date of termination of Continuous Service), but only within such period of time ending on the earlier of (i) the date 12 months following such termination of Continuous Service (or such longer or shorter period specified in the Stock Appreciation Right Agreement), or (ii) the expiration of the term of the Stock Appreciation Right as set forth in the Stock Appreciation Right Agreement. If, after termination of Continuous Service, the Participant does not exercise his or her Stock Appreciation Right within the time specified herein or in the Stock Appreciation Right Agreement (as applicable), the Stock Appreciation Right shall terminate.

(j) In the event that (i) a Participant s Continuous Service terminates as a result of the Participant s death, or (ii) the Participant dies within the period (if any) specified in the Stock Appreciation Right Agreement after the termination of the Participant s Continuous Service for a reason other than death, then the Stock Appreciation Right may be exercised (to the extent the Participant was entitled to exercise such Stock Appreciation Right as of the date of death) by the Participant s estate, by a person who acquired the right to exercise the Stock Appreciation Right by bequest or inheritance or by a person designated to exercise the Stock Appreciation Right upon the Participant s death, but only

within the period ending on the earlier of (i) the date 12 months following the date of death (or such longer or shorter period specified in the Stock Appreciation Right Agreement), or (ii) the expiration of the term of such Stock Appreciation Right as set forth in the Stock Appreciation Right Agreement. If, after the Participant s death, the Stock Appreciation Right is not exercised within the time specified herein or in the Stock Appreciation Right Agreement (as applicable), the Stock Appreciation Right shall terminate.

(k) In the event that a Participant s Continuous Service is terminated for Cause, the Stock Appreciation Right shall terminate immediately and cease to remain outstanding and the Stock Appreciation Right shall cease to be exercisable with respect to any shares of Common Stock (whether vested or unvested) at the time of such termination.

7. RESTRICTED STOCK AND RESTRICTED STOCK UNITS

7.1. *Grants*. Awards of Restricted Stock and of Restricted Stock Units may be issued hereunder to Participants either alone or in addition to other Awards granted under the Plan (a Restricted Stock Award or Restricted Stock Unit Award respectively), and such Restricted Stock Awards and Restricted Stock Unit Awards shall also be available as a form of payment of Performance Awards and other earned cash-based incentive compensation. The Committee has absolute discretion to determine whether any consideration (other than services) is to be received by the Company or any Subsidiary as a condition precedent to the issuance of Restricted Stock or Restricted Stock Units.

7.2. *Award Agreements*. The terms of any Restricted Stock Award or Restricted Stock Unit Award granted under the Plan shall be set forth in an Award Agreement which shall contain provisions determined by the Committee and not inconsistent with the Plan. The terms of Restricted Stock Awards and Restricted Stock Unit Awards need not be the same with respect to each Participant.

7.3. *Rights of Holders of Restricted Stock and Restricted Stock Units.* Unless otherwise provided in the Award Agreement, beginning on the date of grant of the Restricted Stock Award and subject to execution of the Award Agreement, the Participant shall become a shareholder of the Company with respect to all Shares subject to the Award Agreement and shall have all of the rights of a shareholder, including the right to vote such Shares and the right to receive distributions made with respect to such Shares. A Participant receiving a Restricted Stock Unit Award shall not possess voting rights with respect to such Award. Except as otherwise provided in an Award Agreement any Shares or any other property (other than cash) distributed as a dividend or otherwise with respect to any Restricted Stock Award or Restricted Stock Unit Award as to which the restrictions have not yet lapsed shall be subject to the same restrictions as such Restricted Stock Award or Restricted Stock Unit Award. The Committee may provide in an Award Agreement that an Award of Restricted Stock is conditioned upon the Participant making or refraining from making an election with respect to the Award under Section 83(b) of the Code. If a Participant makes an election pursuant to 83(b) of the Code with respect to an Award of Restricted Stock, the Participant shall be required to file promptly a copy of such election with the Company.

7.4. *Issuance of Shares.* Any Restricted Stock granted under the Plan may be evidenced in such manner as the Board may deem appropriate, including book-entry registration or issuance of a stock certificate or certificates, which certificate or certificates shall be held by the Company. Such certificate or certificates shall be registered in the name of the Participant and shall bear an appropriate legend referring to the restrictions applicable to such Restricted Stock.

7.5. *Transferability.* Rights to acquire shares of Common Stock under the Award Agreement shall be transferable by the Participant only upon such terms and conditions as are set forth in the Award Agreement, as the Board shall determine in its sole discretion, so long as Common Stock awarded under the Award Agreement remains subject to the terms of the Award Agreement.

7.6. *Termination of Continuous Service.* Except as otherwise provided in the applicable Award Agreement, such portion of the Award that has not vested will be forfeited upon the Participant s termination of Continuous Service.

8. OTHER SHARE-BASED AWARDS

8.1. *Grants*. Other Awards of Shares and other Awards that are valued in whole or in part by reference to, or are otherwise based on, Shares or other property (Other Share-Based Awards), including deferred stock units, may be granted hereunder to Participants either alone or in addition to other Awards granted under the Plan. Other Share-Based Awards shall also be available as a form of payment of other Awards granted under the Plan and other earned cash-based compensation.

8.2. *Award Agreements*. The terms of Other Share-Based Award granted under the Plan shall be set forth in an Award Agreement which shall contain provisions determined by the Committee and not inconsistent with the Plan. The terms of such Awards need not be the same with respect to each Participant.

8.3. *Payment.* Except as may be provided in an Award Agreement, Other Share-Based Awards may be paid in cash, Shares, other property, or any combination thereof, in the sole discretion of the Committee. Other Share-Based Awards may be paid in a lump sum or in installments or, in accordance with procedures established by the Committee, on a deferred basis subject to the requirements of Section 409A of the Code.

9. PERFORMANCE AWARDS

9.1. *Grants*. Performance Awards in the form of Performance Cash, Performance Shares or Performance Units, as determined by the Committee in its sole discretion, may be granted hereunder to Participants, for no consideration or for such minimum consideration as may be required by applicable law, either alone or in addition to other Awards granted under the Plan. The performance goals to be achieved for each Performance Period shall be conclusively determined by the Committee and may be based upon the criteria set forth in Section 10.2.

9.2. *Award Agreements.* The terms of any Performance Award granted under the Plan shall be set forth in an Award Agreement which shall contain provisions determined by the Committee and not inconsistent with the Plan, including whether such Awards shall have Dividend Equivalents. The terms of Performance Awards need not be the same with respect to each Participant.

9.3. *Terms and Conditions.* The performance criteria to be achieved during any Performance Period and the length of the Performance Period shall be determined by the Committee upon the grant of each Performance Award. The amount of the Award to be distributed shall be conclusively determined by the Committee.

9.4. *Payment.* Except as provided in Section 11.1 or as may be provided in an Award Agreement, Performance Awards will be distributed only after the end of the relevant Performance Period. Performance Awards may be paid in cash, Shares, other property, or any combination thereof, in the sole discretion of the Committee. Performance Awards may be paid in a lump sum or in installments following the close of the Performance Period or, in accordance with procedures established by the Committee, on a deferred basis subject to the requirements of Section 409A of the Code.

10. CODE SECTION 162(m) PROVISIONS

10.1. *Covered Employees*. Notwithstanding any other provision of the Plan, if the Committee determines at the time a Restricted Stock Award, a Restricted Stock Unit Award, a Performance Award or an Other Share-Based Award is granted to a Participant who is, or is likely to be, as of the end of the tax year in which the Company would claim a tax deduction in connection with such Award, a Covered Employee, then the Committee may provide that this Article 10 is applicable to such Award.

10.2. *Performance Criteria*.

(a) If the Committee determines that a Restricted Stock Award, a Restricted Stock Unit, a Performance Award or an Other Share-Based Award is intended to be subject to this Article 10, the lapsing of restrictions thereon and the distribution of cash, Shares or other property pursuant thereto, as

applicable, shall be subject to the achievement of one or more objective performance goals established by the Committee, which shall be based on the attainment of specified levels of one or any combination of the following, or such other performance criteria as may be later determined by the Committee: (i) net sales; (ii) revenue; (iii) revenue growth or product revenue growth; (iv) operating income (before or after taxes); (v) pre- or after-tax income (before or after allocation of corporate overhead and bonus); earnings per share; net income (before or after taxes); (vi) return on equity; (vii) total shareholder return; (viii) return on assets or net assets; (ix) appreciation in and/or maintenance of the price of the Shares or any other publicly-traded securities of the Company; (x) market share; gross profits; (xi) earnings (including earnings before taxes, earnings before interest and taxes or earnings before interest, taxes, depreciation and amortization); (xii) economic value-added models or equivalent metrics; (xiii) comparisons with various stock market indices; (xiv) reductions in costs; (xv) cash flow or cash flow per share (before or after dividends); (xvi) return on capital (including return on total capital or return on invested capital); (xvii) cash flow return on investment; (xviii) improvement in or attainment of expense levels or working capital levels; (xiv) operating margins, gross margins or cash margin; (xx) year-end cash; (xxi) debt reduction; (xxii) shareholder equity; (xxiii) financing and other capital raising transactions (including sales of the Company s equity or debt securities); (xxiv) factoring transactions; sales or licenses of the Company s assets, including its intellectual property, whether in a particular jurisdiction or territory or globally; or through partnering transactions; and (xxv) implementation, completion or attainment of measurable objectives with respect to research, development, manufacturing, commercialization, products or projects, production volume levels, acquisitions and divestitures and recruiting and maintaining personnel.

(b) Such performance goals also may be based solely by reference to the Company s performance or the performance of a Subsidiary, division, business segment or business unit of the Company, or based upon the relative performance of other companies or upon comparisons of any of the indicators of performance relative to other companies.

(c) The Committee may also exclude charges related to an event or occurrence which the Committee determines should appropriately be excluded, including (i) restructuring and/or other nonrecurring charges (including but not limited to the effect of tax or legal settlements); (ii) exchange rate effects, as applicable, for non-U.S. dollar denominated net sales and operating earnings; (iii) the effects of changes to generally accepted accounting standards required by the Financial Accounting Standards Board; (iv) to exclude the effects of any statutory adjustments to corporate tax rates; (v) stock-based compensation expense determined under generally accepted accounting principles; (vi) any other unusual, non-recurring gain or loss or extraordinary item; (vii) a response to, or in anticipation of, any unusual or extraordinary corporate item, transaction, event or development; (viii) a response to, or in anticipation of, changes in applicable laws, regulations, accounting principles, or business conditions; (ix) the dilutive effects of acquisitions or joint ventures; (x) the assumption that any business divested by Schmitt achieved performance objectives at targeted levels during the balance of a performance period following such divestiture; (xi) the effect of any change in the outstanding shares of our common stock by reason of any stock dividend or split, stock repurchase, reorganization, recapitalization, merger, consolidation, spin-off, combination or exchange of shares or other similar corporate change, or any distributions to common shareholders other than regular cash dividends; (xii) the reflection of a corporate transaction, such as a merger, consolidation, separation (including a spinoff or other distribution of stock or property by a corporation), or reorganization (whether or not such reorganization comes within the definition of such term in Section 368 of the Code); (xiii) the reflection of any partial or complete corporate liquidation; (xiv) the effect of in-process research and development expenses; and (xv) the income tax effect of non-GAAP pre-tax adjustments from the provision for income taxes.

(d) Such performance goals shall be set by the Committee within the time period prescribed by, and shall otherwise comply with the requirements of, Section 162(m) of the Code, and the regulations thereunder.

10.3. *Adjustments*. Notwithstanding any provision of the Plan, with respect to any Restricted Stock Award, Restricted Stock Unit Award, Performance Award or Other Share-Based Award that is subject to this Article 10, the Committee may adjust downwards, but not upwards, the amount payable pursuant to such Award, and the Committee may not waive the achievement of the applicable performance goals, except in the case of the death or disability of the Participant or as otherwise determined by the Committee in special circumstances.

10.4. *Restrictions*. The Committee shall have the power to impose such other restrictions on Awards subject to this Article 10 as it may deem necessary or appropriate to ensure that such Awards satisfy all requirements for performance-based compensation within the meaning of Section 162(m) of the Code. In no event shall the number of Shares that are subject to performance-based vesting conditions and which are granted to any Participant in a single calendar year exceed 500,000 Shares, subject to adjustment in accordance with Section 11.1.

11. ADJUSTMENTS UPON CHANGES IN COMMON STOCK; CORPORATE TRANSACTIONS

11.1. *Capitalization Adjustments***.** If any change is made in, or other events occur with respect to, the Common Stock subject to the Plan or subject to any Stock Award after the effective date of the Plan set forth in Section 13 without the receipt of consideration by the Company (through merger, consolidation, reorganization, recapitalization, reincorporation, stock dividend, dividend in property other than cash, stock split, liquidating dividend, combination of shares, exchange of shares, change in corporate structure or other transaction not involving the receipt of consideration by the Company (each a Capitalization Adjustment)), the Board shall appropriately and proportionately adjust: (i) the class(es) and maximum number of securities subject to the Plan pursuant to Section 3.1(a), (ii) the class(es) and maximum number of securities that may be issued pursuant to the exercise of Incentive Stock Options pursuant to Section 3.1(a), (iii) the class(es) and maximum number of securities that may be awarded to any person pursuant to Sections 4.2(g) and 10.4, and (iv) the class(es) and number of securities and price per share of stock subject to outstanding Awards. The Board shall make such adjustments, and its determination shall be final, binding and conclusive. Notwithstanding the foregoing, the conversion of any convertible securities of the Company shall not be treated as a transaction without receipt of consideration by the Company.

11.2. *Dissolution or Liquidation***.** In the event of a dissolution or liquidation of the Company, all outstanding Awards (other than Awards consisting of vested and outstanding shares of Common Stock not subject to a forfeiture condition or the Company s right of repurchase) shall terminate immediately prior to the completion of such dissolution or liquidation, and the shares of Common Stock subject to the Company s repurchase option or subject to the forfeiture condition may be repurchased or reacquired by the Company notwithstanding the fact that the holder of such Award is providing Continuous Service, *provided, however*, that the Board may, in its sole discretion, cause some or all Awards to become fully vested, exercisable and/or no longer subject to repurchase or forfeiture (to the extent such Awards have not previously expired or terminated) before the dissolution or liquidation is completed but contingent on its completion.

11.3. *Corporate Transaction***.** The following provisions shall apply to Awards in the event of a Corporate Transaction unless otherwise provided in a written agreement between the Company or any Affiliate and the holder of the Award or unless otherwise expressly provided by the Board at the time of grant of an Award:

(a) In the event of a Corporate Transaction, any surviving corporation or acquiring corporation (or the surviving or acquiring corporation s parent company) may assume or continue any or all Awards outstanding under the Plan or may substitute similar stock awards for Awards outstanding under the Plan (including, but not limited to, awards to acquire the same consideration paid to the stockholders of the Company pursuant to the Corporate Transaction), and any reacquisition or repurchase rights held by the Company in respect of Common Stock issued pursuant to Awards may be assigned by the Company to the successor of the Company (or the successor s parent company, if any), in connection

with such Corporate Transaction. A surviving corporation or acquiring corporation may choose to assume or continue only a portion of a Stock Award or substitute a similar stock award for only a portion of a Stock Award. The terms of any assumption, continuation or substitution shall be set by the Board in accordance with the provisions of Section 4.2(b).

(b) In the event of a Corporate Transaction in which the surviving corporation or acquiring corporation (or its parent company) does not assume or continue any or all outstanding Awards or substitute similar stock awards for such outstanding Awards, then with respect to Awards that have not been assumed, continued or substituted and that are held by Participants whose Continuous Service has not terminated prior to the effective time of the Corporate Transaction (referred to as the Current Participants), the vesting of such Awards (and, if applicable, the time at which such Stock Awards may be exercised) shall (contingent upon the effectiveness of the Corporate Transaction) be accelerated in full to a date prior to the effective time of such Corporate Transaction as the Board shall determine (or, if the Board shall not determine such a date, to the date that is five days prior to the effective time of the Corporate Transaction), and such Awards shall terminate if not exercised (if applicable) at or prior to the effective time of the Corporate Transaction, and any reacquisition or repurchase rights held by the Company with respect to such Awards shall lapse (contingent upon the effectiveness of the Corporate Transaction). No vested Restricted Stock Unit Award shall terminate pursuant to this Section 11.3(b) without being settled by delivery of shares of Common Stock, their cash equivalent, any combination thereof, or in any other form of consideration, as determined by the Board, prior to the effective time of the Corporate Transaction.

(c) In the event of a Corporate Transaction in which the surviving corporation or acquiring corporation (or its parent company) does not assume or continue any or all outstanding Awards or substitute similar stock awards for such outstanding Awards, then with respect to Awards that have not been assumed, continued or substituted and that are held by persons other than Current Participants, the vesting of such Awards (and, if applicable, the time at which such Award may be exercised) shall not be accelerated and such Awards (other than an Award consisting of vested and outstanding shares of Common Stock not subject to the Company s right of repurchase) shall terminate if not exercised (if applicable) prior to the effective time of the Corporate Transaction; *provided, however*, that any reacquisition or repurchase rights held by the Company with respect to such Awards shall not terminate and may continue to be exercised notwithstanding the Corporate Transaction. No vested Restricted Stock Unit Award shall terminate pursuant to this Section 11.3(c) without being settled by delivery of shares of Common Stock, their cash equivalent, any combination thereof, or in any other form of consideration, as determined by the Board, prior to the effective time of the Corporate Transaction.

(d) Notwithstanding the foregoing, in the event an Award will terminate if not exercised prior to the effective time of a Corporate Transaction, the Board may provide, in its sole discretion, that the holder of such Award may not exercise such Award but will receive a payment, in such form as may be determined by the Board, equal in value to the excess, if any, of (i) the value of the property the holder of the Award would have received upon the exercise of the Award immediately prior to the effective time of the Corporate Transaction, over (ii) any exercise price payable by such holder in connection with such exercise.

11.4. *Change in Control.* An Award may be subject to additional acceleration of vesting and exercisability upon or after a Change in Control as may be provided in the agreement for such Award or as may be provided in any other written agreement between the Company or any Affiliate and the Participant. An Award may vest as to all or any portion of the shares subject to the Award (i) immediately upon the occurrence of a Change in Control, whether or not such Award is assumed, continued, or substituted by a surviving or acquiring entity in the Change in Control, or (ii) in the event a Participant s Continuous Service is terminated, actually or constructively, within a designated period following the occurrence of a Change in Control. In the absence of such provisions, no such acceleration shall occur.

12. GENERALLY APPLICABLE PROVISIONS

12.1. *Amendment and Termination of the Plan*. The Board may, from time to time, alter, amend, suspend or terminate the Plan as it shall deem advisable, subject to any requirement for stockholder approval imposed by applicable law, including the rules and regulations of the principal securities market on which the Shares are traded; provided that the Board may not, without the approval of the Company s stockholders, amend the Plan to (a) increase the number of Shares that may be the subject of Awards under the Plan (except for adjustments pursuant to Section 11.1), (b) expand the types of awards available under the Plan, (c) materially expand the class of persons eligible to participate in the Plan, (d) amend any provision of Section 5.3 or Section 6.2(e), (e) increase the maximum permissible term of any Option specified by Section 5.4 or the maximum permissible term of a Stock Appreciation Right specified by Section 6.2(d), or (f) increase the limitations set forth in Sections 3.1(a), 4.2(g) or 10.4. No amendments to, or termination of, the Plan shall impair the rights of a Participant under any Award previously granted without such Participant s consent.

12.2. *Transferability of Awards*. Except as provided elsewhere herein, no Award and no Shares that have not been issued or as to which any applicable restriction, performance or deferral period has not lapsed, may be sold, assigned, transferred, pledged or otherwise encumbered, other than by will or the laws of descent and distribution, and such Award may be exercised during the life of the Participant only by the Participant or the Participant s guardian or legal representative. To the extent and under such terms and conditions as determined by the Board, a Participant may assign or transfer an Award (each transferee thereof, a Permitted Assignee) to (i) the Participant s spouse, children or grandchildren (including any adopted and step children or grandchildren), parents, grandparents or siblings, (ii) to a trust for the benefit of one or more of the Participant or the persons referred to in clause (i), or (iii) to a partnership, limited liability company or corporation in which the Participant or the persons referred to in clause (i) are the only partners, members or stockholders; provided that such Permitted Assignee shall be bound by and subject to all of the terms and conditions of the Plan and the Award Agreement relating to the transferred Award and shall execute an agreement satisfactory to the Company evidencing such obligations; and provided further that such Participant shall remain bound by the terms and conditions of the Plan. The Company shall cooperate with any Permitted Assignee and the Company s transfer agent in effectuating any transfer permitted under this Section.

12.3. *Termination of Employment*. The Board shall determine and set forth in each Award Agreement whether any Awards granted in such Award Agreement will continue to be exercisable, continue to vest or be earned and the terms of such exercise, vesting or earning, on and after the date that a Participant ceases to be employed by or to provide services to the Company or any Subsidiary (including as a Director), whether by reason of death, disability, voluntary or involuntary termination of employment or services, or otherwise. The date of termination of a Participant s employment or services will be determined by the Board, which determination will be final.

12.4. *Deferral*; *Dividend Equivalents*. The Board shall be authorized to establish procedures pursuant to which the payment of any Award may be deferred. Subject to the provisions of the Plan and any Award Agreement, the recipient of an Award may, if so determined by the Board, be entitled to receive, currently or on a deferred basis, cash, stock or other property dividends in amounts equivalent to cash, stock or other property dividends on Shares (Dividend Equivalents) with respect to the number of Shares covered by the Award, as determined by the Board, in its sole discretion. The Board may provide that such amounts and Dividend Equivalents (if any) shall be deemed to have been reinvested in additional Shares or otherwise reinvested and may provide that such amounts and Dividend Equivalents are subject to the same vesting or performance conditions as the underlying Award.

13. MISCELLANEOUS

13.1. *Award Agreements*. Each Award Agreement shall either be (a) in writing in a form approved by the Board and executed by the Company by an officer duly authorized to act on its behalf, or (b) an electronic notice in a form approved by the Board and recorded by the Company (or its designee) in an electronic recordkeeping system used for the purpose of tracking one or more types of Awards as the Board

may provide; in each case and if required by the Board, the Award Agreement shall be executed or otherwise electronically accepted by the recipient of the Award in such form and manner as the Board may require. The Board may authorize any officer of the Company to execute any or all Award Agreements on behalf of the Company. The Award Agreement shall set forth the material terms and conditions of the Award as established by the Board consistent with the provisions of the Plan.

13.2. *Tax Withholding*. The Company shall have the right to make all payments or distributions pursuant to the Plan to a Participant (or a Permitted Assignee thereof) (any such person, a Payee) net of any applicable federal, state and local taxes required to be paid or withheld as a result of (a) the grant of any Award, (b) the exercise of an Option or Stock Appreciation Right, (c) the delivery of Shares or cash, (d) the lapse of any restrictions in connection with any Award or (e) any other event occurring pursuant to the Plan. The Company or any Subsidiary shall have the right to withhold from wages or other amounts otherwise payable to such Payee such withholding taxes as may be required by law, or to otherwise require the Payee to pay such withholding taxes. If the Payee shall fail to make such tax payments as are required, the Company or its Subsidiaries shall, to the extent permitted by law, have the right to deduct any such taxes from any payment of any kind otherwise due to such Payee or to take such other action as may be necessary to satisfy such withholding obligations. The Committee shall be authorized to establish procedures for election by Participants to satisfy such obligation for the payment of such taxes by tendering previously acquired Shares (either actually or by attestation, valued at their then Fair Market Value), or by directing the Company to retain Shares (up to the Participant s minimum required tax withholding rate or such other rate that will not cause an adverse accounting consequence or cost) otherwise deliverable in connection with the Award.

13.3. *Right of Discharge Reserved; Claims to Awards*. Nothing in the Plan nor the grant of an Award hereunder shall confer upon any Employee, Director or Consultant the right to continue in the employment or service of the Company or any Subsidiary or affect any right that the Company or any Subsidiary may have to terminate the employment or service of (or to demote or to exclude from future Awards under the Plan) any such Employee, Director or Consultant at any time for any reason. Except as specifically provided by the Board, the Company shall not be liable for the loss of existing or potential profit from an Award granted in the event of termination of an employment or other relationship. No Employee, Director or Consultant shall have any claim to be granted any Award under the Plan, and there is no obligation for uniformity of treatment of Employees, Directors Consultants or Participants under the Plan.

13.4. *Substitute Awards*. Notwithstanding any other provision of the Plan, the terms of Substitute Awards may vary from the terms set forth in the Plan to the extent the Board deems appropriate to conform, in whole or in part, to the provisions of the awards in substitution for which they are granted.

13.5. *Cancellation of Award; Forfeiture of Gain*. Notwithstanding anything to the contrary contained herein, an Award Agreement may provide that the Award shall be canceled if the Participant, without the consent of the Company, while employed by the Company or any Subsidiary or after termination of such employment or service, violates a non-competition, non-solicitation or non-disclosure covenant or agreement or otherwise engages in activity that is in conflict with or adverse to the interest of the Company or any Subsidiary (including conduct contributing to any financial restatements or financial irregularities), as determined by the Board in its sole discretion. The Board may provide in an Award Agreement that if within the time period specified in the Agreement the Participant establishes a relationship with a competitor or engages in an activity referred to in the preceding sentence, the Participant will forfeit any gain realized on the vesting or exercise of the Award and must repay such gain to the Company.

13.6. *Stop Transfer Orders*. All certificates for Shares delivered under the Plan pursuant to any Award shall be subject to such stop-transfer orders and other restrictions as the Board may deem advisable under the rules, regulations and other requirements of the Securities and Exchange Commission, any stock exchange upon which the Shares are then listed, and any applicable federal or state securities law, and the Board may cause a legend or legends to be put on any such certificates to make appropriate reference to such restrictions.

13.7. *Nature of Payments*. All Awards made pursuant to the Plan are in consideration of services performed or to be performed for the Company or any Subsidiary, division or business unit of the Company. Any income or gain realized pursuant to Awards under the Plan constitutes a special incentive payment to the Participant and shall not be taken into account, to the extent permissible under applicable law, as compensation for purposes of any of the employee benefit plans of the Company or any Subsidiary except as may be determined by the Board.

13.8. *Other Plans*. Nothing contained in the Plan shall prevent the Board from adopting other or additional compensation arrangements, subject to stockholder approval if such approval is required; and such arrangements may be either generally applicable or applicable only in specific cases.

13.9. *Unfunded Status of the Plan.* The Plan is intended to constitute an unfunded plan for incentive compensation. With respect to any payments not yet made to a Participant by the Company, nothing contained herein shall give any such Participant any rights that are greater than those of a general creditor of the Company. In its sole discretion, the Board may authorize the creation of trusts or other arrangements to meet the obligations created under the Plan to deliver the Shares or payments in lieu of or with respect to Awards hereunder; provided, however, that the existence of such trusts or other arrangements is consistent with the unfunded status of the Plan.

13.10. *Foreign Employees*. Awards may be granted to Participants who are foreign nationals or employed outside the United States, or both, on such terms and conditions different from those applicable to Awards to Employees, Directors or Consultants providing services in the United States as may, in the judgment of the Board, be necessary or desirable in order to recognize differences in local law or tax policy. The Board also may impose conditions on the exercise or vesting of Awards in order to minimize the Company s obligation with respect to tax equalization for Employees or Consultants on assignments outside their home country.

13.11. *Compliance with Section 409A of the Code.* This Plan is intended to comply and shall be administered in a manner that is intended to comply with Section 409A of the Code and shall be construed and interpreted in accordance with such intent. To the extent that an Award or the payment, settlement or deferral thereof is subject to Section 409A of the Code, the Award shall be granted, paid, settled or deferred in a manner that will comply with Section 409A of the Code, including regulations or other guidance issued with respect thereto, except as otherwise determined by the Committee. Any provision of this Plan that would cause the grant of an Award or the payment, settlement or deferral thereof to fail to satisfy Section 409A of the Code shall be amended to comply with Section 409A of the Code on a timely basis, which may be made on a retroactive basis, in accordance with regulations and other guidance issued under Section 409A of the Code.

13.12. *Limitations on Liability*. Notwithstanding any other provisions of the Plan, no individual acting as a director, officer, other employee, or agent of the Company will be liable to any Participant, former Participant, spouse, beneficiary, or any other person for any claim, loss, liability, or expense incurred in connection with the Plan, nor will such individual be personally liable with respect to the Plan because of any contract or other instrument he or she executes in his or her capacity as a director, officer, other employee, or agent of the Company. The Company will indemnify and hold harmless each director, officer, other employee, or agent of the Company to whom any duty or power relating to the administration or interpretation of the Plan has been or will be delegated, against any cost or expense (including attorneys fees) or liability (including any sum paid in settlement of a claim with the Board s approval) arising out of any act or omission to act concerning this Plan unless arising out of such person s own fraud or bad faith.

13.13. *Retroactive Effect.* To the extent permitted by law, all of the provisions of this Amended and Restated Plan shall be made retroactive to all Awards granted prior to the date of the amendment and restatement.

13.14. *Use of Proceeds*. Proceeds from the sale of shares of Common Stock pursuant to Stock Awards shall constitute general funds of the Company.

13.15. *Investment Assurances***.** The Company may require a Participant, as a condition of exercising or acquiring Common Stock under any Award, (i) to give written assurances satisfactory to the Company as to

the Participant s knowledge and experience in financial and business matters and/or to employ a purchaser representative reasonably satisfactory to the Company who is knowledgeable and experienced in financial and business matters and that he or she is capable of evaluating, alone or together with the purchaser representative, the merits and risks of exercising the Award; and (ii) to give written assurances satisfactory to the Company stating that the Participant is acquiring Common Stock subject to the Award for the Participant s own account and not with any present intention of selling or otherwise distributing the Common Stock. The foregoing requirements, and any assurances given pursuant to such requirements, shall be inoperative if (i) the issuance of the shares upon the exercise or acquisition of Common Stock under the Award has been registered under a then currently effective registration statement under the Securities Act, or (ii) as to any particular requirement, a determination is made by counsel for the Company that such requirement need not be met in the circumstances under the then applicable securities laws. The Company may, upon advice of counsel to the Company, place legends on stock certificates issued under the Plan as such counsel deems necessary or appropriate in order to comply with applicable securities laws, including, but not limited to, legends restricting the transfer of the Common Stock.

13.16. *Securities Law Compliance*. The Company shall seek to obtain from each regulatory commission or agency having jurisdiction over the Plan such authority as may be required to grant Awards and to issue and sell shares of Common Stock upon exercise of the Awards; *provided, however*, that this undertaking shall not require the Company to register under the Securities Act the Plan, any Award or any Common Stock issued or issuable pursuant to any such Award. If, after reasonable efforts, the Company is unable to obtain from any such regulatory commission or agency the authority that counsel for the Company deems necessary for the lawful issuance and sale of Common Stock under the Plan, the Company shall be relieved from any liability for failure to issue and sell Common Stock upon exercise of such Awards unless and until such authority is obtained. A Participant shall not be eligible for the grant of a Stock Award or the subsequent issuance of Common Stock pursuant to the Stock Award if such grant or issuance would be in violation of any applicable securities laws.

13.17. *Withholding Obligations.* Unless prohibited by the terms of a Stock Award Agreement or the written terms of a Performance Cash Award, the Company may, in its sole discretion, satisfy any federal, state or local tax withholding obligation relating to an Award by any of the following means (in addition to the Company s right to withhold from any compensation paid to the Participant by the Company) or by a combination of such means: (i) causing the Participant to tender a cash payment; (ii) withholding shares of Common Stock from the shares of Common Stock issued or otherwise issuable to the Participant in connection with a Stock Award; *provided, however*, that no shares of Common Stock are withheld with a value exceeding the minimum amount of tax required to be withheld by law (or such lower amount as may be necessary to avoid classification of the Stock Award as a liability for financial accounting purposes); (iii) withholding cash from an Award settled in cash; (iv) withholding payment from any amounts otherwise payable to the Participant; or (v) by such other method as may be set forth in the Award agreement.

13.18. *Electronic Delivery.* Any reference herein to a written agreement or document shall include any agreement or document delivered electronically, filed publicly at www.sec.gov (or any successor website thereto) or posted on the Company s intranet.

13.19. *Deferrals.* To the extent permitted by applicable law, the Board, in its sole discretion, may determine that the delivery of Common Stock or the payment of cash, upon the exercise, vesting or settlement of all or a portion of any Award may be deferred and may establish programs and procedures for deferral elections to be made by Participants. Deferrals by Participants will be made in accordance with Section 409A of the Code. Consistent with Section 409A of the Code, the Board may provide for distributions while a Participant is still an employee or otherwise providing services to the Company. The Board is authorized to make deferrals of Awards and determine when, and in what annual percentages, Participants may receive payments, including lump sum payments, following the Participant s termination of Continuous Service, and implement such other terms and conditions consistent with the provisions of the Plan and in accordance with applicable law.

13.20. *Non-Exempt Employees.* No Award granted to an Employee who is a non-exempt employee for purposes of the Fair Labor Standards Act of 1938, as amended, shall be first exercisable for any shares of Common Stock until at least six months following the date of grant. Notwithstanding the foregoing, consistent with the provisions of the Worker Economic Opportunity Act, (i) in the event of the Participant s death or Disability, (ii) upon a Corporate Transaction in which such Award is not assumed, continued, or substituted, (iii) upon a Change in Control, or (iv) upon the Participant s retirement (as such term may be defined in the Participant s Stock Award agreement or another applicable agreement or in accordance with the Company s then current employment policies and guidelines), any vested Awards may be exercised earlier than six months following the date of grant. The foregoing provision is intended to operate so that any income derived by a non-exempt employee in connection with the exercise or vesting of an Award will be exempt from his or her regular rate of pay.

13.21. *No Obligation to Notify or Minimize Taxes; Company may Pay Individual Tax Liability.* The Company shall have no duty or obligation to any Participant to advise such holder as to the time or manner of exercising such Award. Furthermore, the Company shall have no duty or obligation to warn or otherwise advise such holder of a pending termination or expiration of an Award or a possible period in which the Award may not be exercised. The Company has no duty or obligation to minimize the tax consequences of an Award to the holder of such Stock Award. The foregoing notwithstanding, in the sole discretion of the Plan Administrator, the Company may, but is under no obligation to, agree to pay all or a portion of the individual tax liability of one or more Plan Participants whose awards do not satisfy the conditions for exemption under Section 409A of the Code.

13.22. *Corporate Action Constituting Grant of Stock Awards.* Corporate action constituting a grant by the Company of an Award to any Participant shall be deemed completed as of the date of such corporate action, unless otherwise determined by the Board, regardless of when the instrument, certificate, or letter evidencing the Award is communicated to, or actually received or accepted by, the Participant. In the event that the corporate records (*e.g.*, Board consents, resolutions or minutes) documenting the corporate action constituting the grant contain terms (*e.g.*, exercise price, vesting schedule or number of shares) that are inconsistent with those in the Award Agreement or the written terms of a Performance Cash Award as a result of a clerical error in the papering of the Award agreement, the corporate records will control.

13.23. *Governing Law*. The Plan and all determinations made and actions taken thereunder, to the extent not otherwise governed by the Code or the laws of the United States, shall be governed by the laws of the State of Nevada, without reference to principles of conflict of laws, and construed accordingly.

13.24. *Effective Date of Plan; Termination of Plan*. The Plan originally became effective on the date of the adoption of the Plan by the Board, which was August 19, 2014. Awards may be granted under the Plan at any time and from time to time on or prior to the tenth anniversary of the effective date of the Plan (August 18, 2024), on which date the Plan will expire except as to Awards then outstanding under the Plan. Such outstanding Awards shall remain in effect until they have been exercised or terminated, or have expired.

13.25. *Construction*. As used in the Plan, the words *include* and *including*, and variations thereof, shall not be deemed to be terms of limitation, but rather shall be deemed to be followed by the words *without limitation*

Grevenbroich, Germany

Owned

Töging, Germany

Owned

Raudsand, Norway

Owned

Romsdal, Norway

Owned

Swansea, Wales

Leased

2030

(1) Two facilities at this location.
(2) Automatic five-year extension option.

Item 3. Legal Proceedings
Bankruptcy Proceedings

Management has and continues to reposition the Company after Fremont emerged from Bankruptcy Proceedings in June 2010. Prior to June 2008, Fremont, a financial services holding company, with most operations conducted through FIL, which offered certificates of deposit, savings and money market deposit accounts through retail banking branches in California, was a significant participant in the residential and commercial mortgage lending industry. In June 2008, Fremont filed a voluntary petition for relief under Chapter 11 of Title 11 of the U.S. Code in the United States Bankruptcy Court for the Central District of California, Santa Ana Division (the "California Federal Bankruptcy Court"). In May 2010, the California Federal Bankruptcy Court entered an order, as amended, confirming the Plan of Reorganization. On the Reorganization Effective Date, Fremont emerged from Bankruptcy Proceedings as Signature Group Holdings, Inc.

During the Bankruptcy Proceedings, Fremont executed a number of settlement agreements related to litigation matters and loan repurchase claims. In the years ended December 31, 2015, 2014 and 2013, no additional settlements were executed or paid. The last unpaid claims consisted of the disputed Colburn and Walker matters, which were finalized in 2015 with Real Industry and the counterparties entering into settlement agreement and release agreements whereby Real Industry prevailed in full in both matters, as described in "Legal Proceedings" in Note 23—Commitments and Contingencies in the notes to consolidated financial statements, included in Part IV, Item 15 of this Annual Report.

On April 15, 2013, the California Federal Bankruptcy Court granted the Company's motion for a final decree, and issued a final decree in the Bankruptcy Proceedings. The California Federal Bankruptcy Court retained jurisdiction to preside over disputed claims described in "Legal Proceedings" in Note 23—Commitments and Contingencies in the notes to consolidated financial statements, included in Part IV, Item 15 of this Annual Report.

Legal Proceedings

The information set forth under "Legal Proceedings" in Note 23—Commitments and Contingencies in the notes to consolidated financial statements, included in Part IV, Item 15 of this Annual Report, is incorporated herein by reference.

Item 4. Mine Safety Disclosures.
Not Applicable.

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Market Information

Our common stock is traded on the NASDAQ Stock Market under the symbol "RELY" as part of the NASDAQ Global Select Market. Real Industry is also a member of the Russell Global®, Russell 2000® and Russell Microcap® indices. The following table sets forth prices of the high and low completed trades of the Company's common stock as reported as on the NASDAQ:

	2015		2014	
	High	Low	High	Low
First Quarter	$8.82	$6.06	$12.00	$9.50
Second Quarter	13.50	5.90	11.75	9.85
Third Quarter	13.00	8.33	10.25	8.00
Fourth Quarter	10.80	8.00	10.65	6.35

On February 29, 2016, there were 1,105 registered stockholders and the last reported trade of our common stock on the NASDAQ was $7.03 per share.

Dividends

There were no cash dividends declared on Real Industry's common stock during the years ended December 31, 2015, 2014 and 2013. The decision to pay dividends is made by the Board and is dependent on the earnings of Real Industry, management's assessment of future capital needs, and other factors. Neither the Company, nor its predecessor, has paid a dividend since the fourth quarter of 2006. Real Industry does not expect to pay any cash dividends on its common stock in the foreseeable future and anticipates that any earnings generated from future operations will be used to finance its operations and growth.

The terms of the Redeemable Preferred Stock issued in connection with the Real Alloy Acquisition provide for the payment of quarterly dividends, increasing from 7% for the first eighteen months after the issue date, to 8% for the next twelve months, to 9% thereafter, with dividends payable in kind for the first two years, and thereafter in cash. Other than dividends or distributions payable on our common stock in shares of common stock, the Redeemable Preferred Stock will rank superior to our common stock in the payment of accrued and accumulated dividends, declaration and payment of new dividends and distributions, and making of redemptions. In addition, without the consent of the holders of a majority of the Redeemable Preferred Stock, we are prohibited from paying dividends on our common stock until February 27, 2017.

In addition, we are a holding company that does not operate any business that is separate from its subsidiaries, primarily Real Alloy Parent and SGGH, and their respective subsidiaries. We are therefore dependent on Real Alloy Parent, SGGH, or other subsidiaries we may form or acquire in the future, for any funds from which to pay dividends. These payments may be limited by the terms of the Financings, and by financings we may enter into in the future. Among these limitations within the Senior Secured Notes and the Asset-Based Facility are limitations on the amount of dividends Real Alloy and its subsidiaries may pay us.

Performance Graph

The information required by this item is set forth under the caption "Performance Graph" in the Company's Definitive Proxy Statement to be filed with the SEC for our 2016 Annual Meeting of Stockholders (the "2016 Proxy Statement"),

and is incorporated herein by reference.

Equity Compensation Plan Information

The following table sets forth the number of shares of our common stock subject to outstanding common stock options, warrants and stock rights, the weighted average exercise price of outstanding common stock options, warrants and stock rights, and the number of shares remaining available for future award grants under our equity compensation plans ("Equity Plans") as of December 31, 2015:

	Number of Securities to be Issued Upon Exercise of Outstanding Common Stock Options, Warrants and Stock Rights (a)	Weighted Average Exercise Price of Outstanding Common Stock Options, Warrants and Stock Rights	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans, Excluding Securities Reflected in Column (a)
Equity Plans approved by security holders	1,035,650	$ 6.28	1,677,640
Equity Plans not approved by security holders	—	—	—
	1,035,650	$ 6.28	1,677,640

Issuer Purchases of Equity Securities

The following table summarizes repurchases of the Company's equity securities made during the year ended December 31, 2015, which includes options exercised by an employee by delivering shares held by such employee for more than six months and 24,167 Warrants exercised on a cashless basis during the year ended December 31, 2015:

Period	Number of Shares Purchased	Average Price Paid per Share	Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
January 1—January 31	—	$ —	—	—
February 1—February 28	—	—	—	—
March 1—March 31	—	—	—	—
April 1—April 30	—	—	—	—
May 1—May 31	5,640	7.50	—	—
June 1—June 30	—	—	—	—
July 1—July 31	—	—	—	—

August 1—August 31	—	—	—	—
September 1—September 30	21,856	9.79	—	—
October 1—October 31	—	—	—	—
November 1—November 30	—	—	—	—
December 1—December 31	—	—	—	—

Tax Benefit Preservation Provision and Rights Agreement

In order to preserve valuable tax attributes following emergence from Bankruptcy Proceedings, restrictions were included in our Amended and Restated Bylaws on transfers of Real Industry common stock. Unless approved by the Board, any attempted transfer of Real Industry common stock is prohibited and void to the extent that, as a result of such transfer (or any series of transfers) i) any person or group of persons shall become a 4.9-percent holder of Real Industry common stock or ii) the ownership interests of any “five percent holder” (as defined in Section 1.382-2T(g) of the Tax Code) shall be increased or decreased. Persons wishing to become a 4.9-percent holder (or existing five percent holders wishing to increase or decrease their percentage ownership) must request a waiver of the restriction from Real Industry, and the Board may grant a waiver in its sole discretion. The Tax Benefit Preservation Provision is meant to reduce the potential for a “change of control” event, which, if it were to occur, would have the effect of limiting the amount of U.S. NOLs available for use in a particular year.

Attempts to acquire control of the Company may be discouraged, delayed or prevented by the Rights Agreement, which was adopted to protect the value of our U.S. NOLs and continues to remain in effect as its assumption was approved by our stockholders as part of the Reincorporation. Pursuant to the Rights Agreement, ten whole rights will attach to each share of common stock outstanding. Each right entitles the registered holder to purchase from Real Industry a unit consisting of one one-thousandth (1/1000) of a share of Series A Junior Participating Preferred Stock, par value $0.001 per share, of Real Industry at a purchase price of $12.00 per unit, subject to adjustment. The rights do not become exercisable until the earlier to occur of: (i) 10 business days following a public announcement that a person or group has acquired beneficial ownership of 5% or more of outstanding Real Industry common stock (any such person or group is referred to as an acquiring person), or (ii) 10 business days (or a later date as determined by the Board) following the commencement of a tender offer or exchange offer that would result in a person or entity becoming an acquiring person. The Rights Agreement is designed to prevent an “ownership change” within the meaning of IRC Section 382 and thereby preserve our ability to utilize our U.S. NOLs.

Item 6. Selected Financial Data

(In millions, except share and per share amounts, tonnes in thousands)	As of or for the Year Ended December 31, 2015	2014	2013	2012	2011
Statement of Operations Data:					
Operating revenues	$1,145.6	$2.1	$5.3	$4.6	$1.1
Operating profit (loss)	$10.2	$(8.4)	$(7.7)	$(12.0)	$(18.4)
Loss from continuing operations	$(31.7)	$(0.1)	$(14.2)	$(7.4)	$(9.9)
Earnings (loss) from discontinued operations, net of income taxes	$24.9	$5.5	$4.2	$(0.1)	$6.4
Earnings (loss) attributable to Real Industry, Inc.	$(6.9)	$5.5	$(10.0)	$(7.5)	$(3.5)
Dividends and accretion on Redeemable Preferred Stock	(2.3)	—	—	—	—
Net earnings (loss) available to common stockholders	$(9.2)	$5.5	$(10.0)	$(7.5)	$(3.5)
Basic and diluted earnings (loss) per share:					
Loss from continuing operations	$(1.28)	$—	$(1.11)	$(0.59)	$(0.81)
Earnings (loss) from discontinued operations	0.93	0.41	0.32	—	0.52
Basic and diluted earnings (loss) per share attributable to Real Industry, Inc.	$(0.35)	$0.41	$(0.79)	$(0.59)	$(0.29)
Weighted average shares outstanding	26,657,832	13,403,083	12,836,071	12,572,843	12,277,237
Cash dividends per common share	$—	$—	$—	$—	$—
Balance Sheet Data:					
Cash and cash equivalents	$35.7	$61.9	$47.8	$49.8	$45.8
Total assets	$700.9	$121.7	$90.1	$125.7	$103.6
Total stockholders' equity	$142.4	$85.6	$49.9	$58.2	$63.8
Long-term obligations (including current portion):					
Long-term debt	$314.4	$—	$—	$37.8	$47.0
Redeemable Preferred Stock	21.9	—	—	—	—
Total long-term obligations	$336.3	$—	$—	$37.8	$47.0
Other Financial Data:					
Net cash provided by (used in):					
Operating activities	$92.5	$(14.0)	$22.8	$3.5	$(15.6)
Investing activities	(477.3)	2.9	8.7	7.6	(13.6)
Financing activities	358.0	26.0	(34.5)	(8.2)	10.8
Expense (income) from change in fair value of common stock warrant liability	1.5	(3.7)	6.9	0.9	(4.3)
Depreciation and amortization	32.5	—	—	—	—
Other noncash operating cash flows	15.6	1.0	2.0	1.8	1.1
Capital expenditures	26.0	0.1	—	—	—
U.S. net operating loss tax carryforwards	871.8	895.0	890.5	886.9	890.0
Operating Information:					

Volume invoiced (metric tonnes):					
Tolling	551.5	N/A	N/A	N/A	N/A
Buy/sell	455.5	N/A	N/A	N/A	N/A
Total volume invoiced	1,007.0	N/A	N/A	N/A	N/A

As a result of the Company's transformation in the first quarter of 2015, the selected financial data included in this Item 6 represents a change from the selected financial data included in the 2014 Form 10-K, including relevant information concerning the current operations of Real Alloy and presentation of NABCO's assets, liabilities, and results of operations in discontinued operations. For additional information about the transformative events that occurred in the first quarter of 2015, see "Overview" in Part I, Item 1 of this Annual Report.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations
This Item 7 contains certain non-GAAP financial information. See "Non-GAAP Financial Measures" below for important information regarding the non-GAAP financial information included in this Item 7, together with a reconciliation of such non-GAAP financial information presented to the most comparable GAAP information.

This MD&A is intended to provide readers of our consolidated financial statements with the perspectives of management. MD&A presents, in narrative form, information regarding our financial condition, results of operations, liquidity, and certain other factors that may affect our future results. This should allow readers of this Annual Report to obtain a comprehensive understanding of our business, strategy, current trends, and future prospects. MD&A should be read in conjunction with the consolidated financial statements and related notes included in Part IV, Item 15 of this Annual Report.

Overview

Real Industry is a Delaware holding company that operates through its subsidiaries. Following the sale of NABCO and the Real Alloy Acquisition, both of which occurred in the first quarter of 2015, our principal activities are now related to our aluminum recycling and specification alloys business. The Real Alloy Acquisition was a transformative event for the Company, both in terms of size and substance. We have and continue to devote significant time and attention to integrating and incorporating the Real Alloy Business into the Company, even as a largely stand-alone business unit. For more information on the details of the Real Alloy Acquisition and the Financings related to such transaction, please see Item 1 "Business" or Note 3—Business Combinations in the notes to consolidated financial statements in Part IV, Item 15 of this Annual Report.

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, casts 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, aerospace, building and construction, steel, and durable goods industries. Real Alloy 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.

In addition to integrating Real Alloy into the Company, our focus is on the supporting the performance of Real Alloy, as well as evaluating potential acquisition targets. We seek to acquire significant ownership interests in businesses with talented and experienced management teams, strong margins, and sustainable competitive advantages. We regularly consider acquisitions of businesses that operate in undervalued industries, as well as businesses that we believe are in transition or are otherwise misunderstood by the marketplace. Post-acquisition, we plan to operate our businesses as autonomous subsidiaries. We anticipate that we will continue to use our securities to pursue value-enhancing acquisitions and leverage our considerable tax assets, as well as support the growth needs of our existing operating segments, as necessary.

A key element to our business strategy is utilizing our U.S. NOLs, primarily generated by Fremont's legacy businesses. As of December 31, 2015, our U.S. NOLs total approximately $871.8 million. The U.S. NOLs are further discussed in Note 14—Income Taxes in the notes to consolidated financial statements included in Part IV, Item 15 of this Annual Report.

The Company's consolidated financial statements included in this Annual Report and MD&A present the Company's financial condition and results of operations by reportable segment, Corporate and Other, and discontinued operations.

As a result of the Real Alloy Acquisition and sale of NABCO in 2015, we have new reportable segments. We are only reporting the results of these reportable segments for the period from February 27, 2015 to December 31, 2015, or approximately ten months, under the reference points described as "for the year ended December 31, 2015."

Our Segments—RANA and RAEU

Real Alloy North America (RANA)

Our RANA segment includes aluminum melting, processing, recycling, and alloying activities conducted in eighteen facilities located in the United States, Canada and Mexico. This segment's operations convert aluminum scrap and dross (a by-product of melting aluminum) in combination with other alloying agents, hardeners, or other additives, as needed, to produce recycled aluminum alloys with chemical compositions and specific properties, including increased strength, formability and wear resistance, as specified by customers for their particular applications. RANA services customers serving end-uses related to automotive, consumer packaging, construction, transportation and steel. We estimate that approximately 53.8% of RANA's invoiced sales volume was used in automotive applications in the year ended December 31, 2015. A significant percentage of this segment's volume is sold through tolling arrangements, in which RANA converts customer-owned aluminum scrap and dross and returns the recycled metal in ingot or molten form to these same customers for a fee. The remainder of RANA's volume is supplied under buy/sell arrangements with our customers whereby aluminum scrap is purchased from third-parties and we convert that material to our customers' specifications and deliver it in ingot or molten form. The buy/sell portion of RANA's business has a much more significant impact on reported revenues and cost of sales compared to tolling arrangements, as the cost of the third-party aluminum scrap purchases is included in both revenues and cost of sales.

Real Alloy Europe (RAEU)

We are a leading European recycler of aluminum scrap and magnesium through our RAEU segment. Similar to RANA, this segment's operations primarily convert aluminum scrap, dross and other alloying agents as needed and deliver the recycled metal in ingot or molten form to customers from six facilities located in Germany, Norway and Wales. Our RAEU segment supplies the European automobile industry, which we estimate represented approximately 72.0% of this segment's invoiced sales volume in the year ended December 31, 2015, and other aluminum producers and manufacturers serving other European aluminum industries. Also similar to RANA, RAEU services its customer via tolling and buy/sell arrangements.

Corporate and Other

Operating costs in Corporate and Other relate to administrative, financial and human resource activities related to the oversight of our operating segments, implementation of our acquisition and growth strategies, management of our discontinued operations, and maintaining our public company status. We do not include such costs within our measure of segment earnings and they are, therefore, excluded from segment results of operations. Corporate and Other also includes the results of operating entities that do not meet the threshold of a reportable segment.

Discontinued Operations

Discontinued operations presents the financial condition and results of operations of the businesses and operations of our subsidiary SGGH that have been sold, or have been discontinued, including NABCO and certain of Fremont's former operations where SGGH is still engaged in various legal proceedings. During the first quarter of 2015, NABCO was sold for a pretax gain of $39.7 million and its results of operations have been reclassified to discontinued operations for all periods presented as a result of the strategic shift in our reported operations. See "Legal Proceedings" in Note 23—Commitments and Contingencies in the notes to consolidated financial statements included in Part IV, Item 15 of this Annual Report for more information about the material legal proceedings in which SGGH is involved, which are all related to Fremont's former operations.

Critical Measures of Our Financial Performance

The financial performance of our operating segments is the result of several factors, the most critical of which includes:

- Volumes invoiced;
- Tolling and buy/sell percentages;
- Revenues; and
- Adjusted EBITDA.

The financial performance of Real Alloy is determined, in part, by the volume of metal processed and invoiced. Increased production volume will normally result in lower per unit costs, while higher invoiced volumes will normally result in additional revenue and associated margins. A significant component of our revenue is derived from the price of aluminum, which is a commodity that changes based on both macro and micro economic supply and demand conditions, and we generally pass through this price volatility to our customers. Revenues and margin percentages are also subject to fluctuations based upon the percentage of customer-owned metal tolled, or processed. Increased processing under such tolling agreements results in lower revenues and generally also results in higher gross profit margins and net earnings margins compared to our buy/sell arrangements. Tolling agreements reduce our exposure to the risk of changing metal prices and reduce our working capital requirements. Although tolling agreements are beneficial to us in these ways, the percentage of our capacity we process under these agreements is limited by the amount of metal our customers own and their willingness to enter into such arrangements.

In addition to focusing on tolling relationships and carefully managing the size of our commercial inventory position related to our buy/sell business, Real Alloy utilizes various derivative financial instruments designed to reduce the impact of changing aluminum prices on these net physical purchases and sales, particularly in our European operations. A portion of our buy/sell business is executed based on published indices, which often do not correlate with a particular metal or aluminum index and, therefore, are not hedged. Real Alloy's risk management practices reduce but do not eliminate exposure to changing aluminum prices. While these practices limit exposure to unfavorable aluminum price changes, they also limit Real Alloy's ability to benefit from favorable price changes. Further, counterparties may require the posting of cash collateral by Real Alloy if the fair value of derivative liabilities exceeds the amount of credit granted by each counterparty, thereby reducing liquidity. As of December 31, 2015, no cash collateral was posted with counterparties.

Margins are impacted by the fees we charge our customers to process their metal, by "scrap spreads," which represent the difference between the purchase price of the aluminum scrap we buy and our selling prices, and by conversion costs. Scrap prices tend to be determined regionally and are typically impacted by supply and demand dynamics. While aluminum scrap prices may trend in a similar direction as primary aluminum prices, the extent of price movements is not highly correlated and can cause unpredictable movements in scrap spreads compared to primary aluminum. Our operations are more significantly impacted by "scrap spreads," which we strive to maximize by utilizing all grades of scrap and optimizing our metal blends and plant loadings. Additionally, our operations are labor intensive and require a significant amount of energy (primarily natural gas and electricity) to melt scrap or primary aluminum, which we refer to as conversion costs.

The measure of profitability for our operating segments is Adjusted EBITDA, or earnings before interest, taxes, depreciation and amortization, and excludes items of a nonoperational nature that may include unrealized and certain realized gains and losses on derivative financial instruments, charges and expenses related to acquisitions, management fees, and certain other gains and losses. See "Non-GAAP Financial Measures" below for a further discussion of our use of non-GAAP financial measures.

Critical Accounting Policies and Estimates

The accounting and reporting policies of the Company conform with GAAP and are fundamental to understanding our consolidated financial statements and this MD&A. Several of our policies are critical as they require management to make difficult, subjective and complex judgments about matters that are inherently uncertain and affect the reported amount of assets, liabilities, revenues and costs included in the consolidated financial statements. Circumstances and events that differ significantly from those underlying our estimates, assumptions, and judgments could cause the actual amounts reported to differ significantly from these estimates. These policies govern the following areas and are described below:

i. Business combinations;
ii. Revenue recognition, shipping and handling costs, and advertising costs;
iii. Inventories;
iv. Market risk management using derivative financial instruments;
v. Currency translation;
vi. Impairment of long-lived assets and amortizable intangible assets;
vii. Environmental and asset retirement obligations;
viii. Pension benefits;
ix. Repurchase reserve;

x. Deferred tax asset valuation; and
xi. Goodwill and intangible assets.

On an ongoing basis, we evaluate our estimates and assumptions based on historical experience and various other factors and circumstances. We believe our estimates and assumptions are reasonable under the circumstances; however, actual results may differ significantly from these estimates and assumptions, which could have a material impact on the carrying value of assets and liabilities as of the balance sheet dates, and our results of operations for the reporting periods in the future.

Business combinations

The acquisitions of our businesses are accounted for under the acquisition method of accounting. The amounts assigned to the identifiable assets acquired and liabilities assumed in connection with acquisitions are based on estimated fair values as of the date of the acquisition, with the remainder, if any, recorded as goodwill. The fair values are determined by management, taking into consideration information supplied by the management of the acquired entities, and other relevant information. Such information typically includes valuations obtained from independent appraisal experts, which management reviews and considers in its estimates of fair values. The valuations are generally based upon future cash flow projections for the acquired assets, discounted to present value. The determination of fair values requires significant judgment by management, particularly with respect to the value of identifiable intangible assets. This judgment could result in either a higher or lower value assigned to amortizable or depreciable assets. The impact could result in either higher or lower amortization and/or depreciation expense. Similarly, certain assumed liabilities, such as environmental and asset retirement obligations as well as pension obligations, involve significant management judgment that if incorrectly estimated, may result in future impairment charges.

Revenue recognition, shipping and handling costs, and advertising costs

Revenues are recognized when title transfers and risk of loss passes to the customer, in accordance with SAB 104. This typically occurs when the goods reach their destination. For customer-owned toll material, revenue is recognized upon the performance of the tolling service for the customers. For material that is consigned, revenue is not recognized until the product is used by the customer. Shipping and handling costs and advertising costs, which are expensed as incurred, are included within cost of sales and selling general and administrative (“SG&A”) expenses, respectively, in the consolidated statements of operations.

Inventories

Inventories are stated at the lower of cost or net realizable value. Cost is determined primarily on the average cost identification method and includes material, labor and overhead related to the manufacturing process. We review our inventory values on a regular basis to ensure that their carrying values can be realized. In assessing the ultimate realization of inventories, we are required to make judgments as to future demand requirements and compare that with the current or committed inventory levels. As the ultimate realizable value of most inventory is based upon the price of aluminum, future changes in those prices may lead to the determination that the cost of some, or all, of our inventory will not be realized, which would lead to recording the appropriate adjustment to inventory values.

Market risk management using derivative financial instruments

Real Alloy is engaged in activities that expose it to various market risks, including changes in the prices of aluminum alloys, aluminum scrap, copper, silicon, and natural gas, as well as changes in currency exchange rates. Certain of these financial exposures are managed as an integral part of Real Alloy’s risk management program, which seeks to reduce the potentially adverse effects that market volatility may have on operating results. We attempt to manage

these risks with the use of derivative financial instruments and pass through pricing in our customer contracts. While derivative financial instruments reduce those risks, they do not eliminate them. The counterparties to the derivative financial instruments and futures contracts expose us to losses in the event of nonperformance. All credit parties are evaluated for creditworthiness and risk assessment prior to initiating trading activities and the fair values of our derivative financial instruments include an estimate of the risk associated with nonperformance by either ourselves or our counterparties.

Real Alloy may enter into forward contracts or swaps to manage its exposure to market risk. The fair value of these instruments is reflected in the consolidated balance sheets and the impact of these instruments is reflected in the consolidated statements of operations. Real Alloy does not hold or issue derivative financial instruments for trading purposes and we do not account for derivative financial instruments as hedges. Fair values for its metal and natural gas derivative instruments, if any, are determined based on the differences between contractual and forward rates of identical hedge positions as of the balance sheet date. See Note 18—Derivatives and Other Financial Instruments and Fair Value Measurements in the notes to consolidated financial statements included Part IV, Item 15 of this Annual Report for additional information about our derivative instruments.

Currency translation

Certain of Real Alloy's international subsidiaries use the local currency as their functional currency. Real Alloy translates all of the amounts included in the consolidated statements of operations from its international subsidiaries into U.S. dollars at average monthly exchange rates, which management believes is representative of the actual exchange rates on the dates of the transactions. Adjustments resulting from the translation of the assets and liabilities into U.S. dollars at the balance sheet date exchange rates are reflected as a separate component of the Company's stockholders' equity. Currency translation adjustments accumulate in the Company's stockholders' equity until the disposition or liquidation of the international entities. Currency transactional gains and losses associated with receivables and payables denominated in currencies other than the functional currency are included within other, net in the consolidated statements of operations. The translation of accounts receivables and payables denominated in currencies other than the functional currencies resulted in transactional gains of $0.3 million for the year ended December 31, 2015.

Additionally, Real Alloy maintains intercompany long-term loans between its U.S. and foreign jurisdiction entities, which were established in the subsidiaries' functional currency and due to their long-term nature, any currency related effects are recorded as a component of accumulated other comprehensive loss. The effects of exchange rates on intercompany loans held by Real Alloy's international subsidiaries that are not long-term in nature are recognized in current period earnings. Managing liquidity requires the consideration of many alternatives, including the characterization of the nature of intercompany loans as long-term in nature or otherwise. In 2015, management reassessed the character of certain intercompany loans and as a result of the loans no longer being long-term in nature, the Company recorded $1.3 million of foreign exchange losses on intercompany loans during the year ended December 31, 2015.

Impairment of Long-Lived Assets and Amortizable Intangible Assets

We review the carrying value of property, plant and equipment that is held and used, as well as amortizable intangible assets when events or circumstances indicate that their carrying value may not be recoverable. Factors we consider that could trigger testing an asset, or asset group, for impairment include current period operating or cash flow losses, combined with a history of operating or cash flow losses, a projection or forecast that demonstrates continuing losses, significant adverse changes in the business climate within a particular business, or current expectations that a long-lived asset will be sold or otherwise disposed of significantly before the end of its estimated useful life.

We consider these factors quarterly and may test more frequently if changes in circumstances or the occurrence of events indicates that a potential impairment exists. To test for impairment, we compare the estimated undiscounted cash flows expected to be generated from the use and disposal of the asset, or asset group, to its carrying value. An asset group is established by identifying the lowest level of cash flows generated by the group of assets that are largely independent on cash flows of other assets. If cash flows cannot be separately and independently identified for a single asset, management will determine, for the asset group for which cash flows can be identified and projected, if an impairment has occurred. If these undiscounted cash flows are less than their respective carrying values, an

impairment charge would be recognized to the extent that the carrying values exceed estimated fair values. Although third-party estimates of fair value are utilized when available, the estimation of undiscounted cash flows and fair value requires management to make assumptions regarding future operating results, as well as appropriate discount rates, where necessary. The results of our impairment testing are dependent on these estimates, which require significant judgment. The occurrence of certain events, including changes in economic and competitive conditions, could impact cash flows eventually realized and our ability to accurately assess whether an asset is impaired.

Environmental and asset retirement obligations

Environmental obligations that are not legal or contractual asset retirement obligations and that relate to existing conditions caused by past operations with no benefit to future operations are expensed, while expenditures that extend the life, increase the capacity, or improve the safety of an asset or that mitigate or prevent future environmental contamination are capitalized in property, plant and equipment. Our environmental engineers and consultants review and monitor environmental issues at our existing operating sites. This process includes investigation and remedial action selection and implementation, as well as negotiations with other potentially responsible parties and governmental agencies. Based on the results of this process, we provide reserves for environmental liabilities when and if environmental assessment and/or remediation cost are probable and can be reasonably estimated in accordance with ASC 410. While our accruals are based on management's current best estimate of the future costs of remedial action, these liabilities can change substantially due to factors such as the nature and extent of contamination, changes in the required remedial actions and technological advancements. Our existing environmental liabilities are not discounted to their present values as the amount and timing of the expenditures are not fixed or reliably determinable.

Asset retirement obligations represent obligations associated with the retirement of tangible long-lived assets. Our asset retirement obligations relate primarily to the requirement to cap our three landfills, as well as costs related to the future removal of asbestos and costs to remove underground storage tanks. The fair value of a liability for an asset retirement obligation is recognized in the period in which it is incurred and capitalized as part of the carrying amount of the associated long-lived asset. These fair values are based upon the present value of the future cash flows expected to be incurred to satisfy the obligation. Determining the fair value of asset retirement obligations requires judgment, including estimates of the discount rate and estimates of future cash expenditures. Estimates of future cash expenditures are obtained primarily from independent engineering consulting firms. The present value of the obligations is accreted over time, while the capitalized cost is depreciated over the remaining useful life of the related asset. Changes in the timing or amount of future cash expenditures or the discount rate would impact the estimated fair value of the obligations.

Pension benefits

Pension benefit costs are accrued based on annual analyses performed by actuaries. These analyses are based on assumptions that include an assumed discount rate and an expected rate of return on plan assets. Both the discount rate and expected rate of return on plan assets require estimates and projections by management and can fluctuate from period to period. Real Alloy's objective in selecting a discount rate is to select the best estimate of the rate at which the benefit obligations could be effectively settled. In making this estimate, projected cash flows are developed and matched with a yield curve based on an appropriate universe of high-quality corporate bonds. Assumptions for long-term rates of return on plan assets are based upon historical returns and future expectations for returns. See Note 3—Business Combinations and Note 15—Pension Benefit Plans in the notes to consolidated financial statements included in Part IV, Item 15 of this Annual Report for more information about the assumptions used to determine the pension benefit obligation as of the date of the Real Alloy Acquisition and as of December 31, 2015, respectively.

As of December 31, 2015, an increase in the discount rate of 0.5%, assuming inflation remains unchanged, would result in a decrease of $3.8 million in accrued pension benefits, and a $3.7 million decrease in the actuarial gain for the period. A decrease in the discount rate of 0.5% as of December 31, 2015, assuming inflation remains unchanged, would result in an increase of $4.3 million in accrued pension benefits, and a $4.3 million increase in the actuarial gain for the period.

The actuarial assumptions used to determine pension benefits may differ from actual results due to changing market and economic conditions, higher or lower withdrawal rates or longer or shorter life spans of participants. We do not believe differences in actual experience or changes in assumptions will materially affect our financial position or

results of operations.

Repurchase reserve

Fremont's subprime residential mortgage business originated residential real estate loans, and made customary standard industry representations and warranties in sales of those residential real estate loans. Should a court find that Fremont breached these representations and warranties, SGGH may be required to repurchase certain loans due to material defects that occurred in the origination of the loans. SGGH maintains a repurchase reserve for the estimated losses that may to be incurred due to outstanding loan repurchase claims, as well as potential future loan repurchase claims. The reserve is based on historical repurchase settlements, expected future repurchase trends, the expected valuation of such loans when repurchased, and similar legal cases related to the statute of limitations on the representations and warranties provided in mortgage loan purchase agreements. Because the estimated reserve is based upon currently available information, is subject to known and unknown uncertainties using multiple assumptions requiring significant judgment, we have identified the estimate of the repurchase reserve as a critical accounting estimate, and actual results may vary significantly from the current estimate. When loans are repurchased or a claim is settled, charge-offs are made to the repurchase reserve.

In June 2015, the New York State Court of Appeals affirmed the decision of the New York State Supreme Court, Appellate Division in ACE Securities Corp v. DB Structured Products, Inc. (the "ACE Securities Case"), whereby the New York state six-year statute of limitations on loan repurchase demands begins to run as of the closing date on which the representations were made, which, in the ACE Securities Case, was the date of the mortgage loan purchase agreements. Based on the final decision in the ACE Securities Case, management has reassessed its exposure to losses from repurchase demands and believes SGGH's repurchase reserve of $0.7 million is adequate as of December 31, 2015.

The estimated range of possible losses related to known repurchase claims as of December 31, 2015 was $0.4 million to $0.9 million. As a result of the ACE Securities Case, management believes there is no exposure to unknown claims, or claims that have not yet been received, as Fremont's last loan sale containing these representations and warranties occurred in 2007, more than the six years, or the statute of limitations determined in the ACE Securities Case, from the balance sheet date. The estimated range of possible losses related to repurchase claims as of December 31, 2014, both known and unknown, was $3.4 million to $6.9 million, for which SGGH maintained a repurchase reserve of $5.5 million. The repurchase reserve is included in noncurrent liabilities of discontinued operations in the consolidated balance sheets, and the provision for, or recovery of, the allowance for repurchase reserve is included in other nonoperating income (expense) in the statements of operations of discontinued operations.

The repurchase reserve represents our best estimate of the probable loss that SGGH may incur if it is determined that there were material breaches of certain representations and warranties in the contractual provisions of its predecessor's sales of residential real estate loans. Because the level of repurchase losses is dependent on economic factors, investor demand strategies and other external conditions that may change over the life of the underlying loans, the liability for loan repurchase losses is difficult to estimate and requires considerable management judgment.

Deferred tax asset valuation

Deferred tax assets and liabilities are recognized for the future tax consequences related to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases, and for tax credits and NOLs. As of December 31, 2015 and 2014, we had deferred tax assets of $388.2 million and $390.7 million, respectively. We evaluate our deferred tax assets for recoverability considering negative and positive evidence, including our historical financial performance, projections of future taxable income, and future reversals of existing taxable temporary differences. We are required to establish a valuation allowance for deferred tax assets if we determine, based on available evidence at the time the determination is made, that it is more likely than not that some portion or all of the deferred tax assets will not be realized. In evaluating the need for a valuation allowance, we estimate future taxable income based on management approved business plans, future capital requirements, and ongoing tax planning strategies. This process involves significant management judgment about assumptions that are subject to change from period to period. Because the recognition of deferred tax assets requires management to make significant judgments about future earnings, the periods in which items will impact taxable income, and the application of inherently complex tax laws, we have identified the assessment of deferred tax assets and the need for any related valuation allowance as a critical accounting estimate.

Our analysis of the realizability of deferred tax assets considers future taxable income expected from continuing operations. The use of different assumptions of future earnings, the periods in which items will affect taxable income and the application of inherently complex tax laws can result in changes in the amounts of deferred tax items recognized, which can result in equity and earnings volatility because such changes are reported in current period earnings. We will continue to update our assumptions and forecasts of future taxable income and assess the need for any adjustment to the valuation allowance.

Our interpretations of tax laws are subject to examination by the IRS, state and foreign taxing authorities. Resolution of disputes over interpretations of tax laws may result in us being assessed additional income taxes. We regularly review whether we may be assessed such additional income taxes and recognize liabilities for such potential future tax obligations as appropriate.

Goodwill and intangible assets

As a result of our acquisitions, we have goodwill and other intangible assets. Goodwill resulting from business combinations is generally determined as the excess of the fair value of the consideration transferred, plus the fair value of any noncontrolling interests in the acquiree, over the fair value of the net assets acquired and liabilities assumed as of the acquisition date. Goodwill in continuing operations was $104.3 million and zero as of December 31, 2015 and 2014, respectively. Intangible assets in continuing operations consist primarily of customer relationships and totaled $15.1 million and $0.1 million as of December 31, 2015 and 2014, respectively, net of accumulated amortization. Goodwill and intangible assets in continuing operations, together, represented 17.0% and 0.1% of our total assets as of December 31, 2015 and 2014, respectively.

Goodwill is not amortized but must be allocated to reporting units and tested for impairment on an annual basis or in interim periods if events or circumstances indicate potential impairment. Subsequent to the acquisition of Real Alloy, our reporting units for purposes of goodwill impairment testing include RANA and RAEU. We perform our annual goodwill impairment test for all reporting units as of October 1 each year using a two-step process. First, we compare the fair value of each reporting unit to its current carrying amount, including goodwill. If the fair value of the reporting unit is in excess of the carrying value, the related goodwill is considered not to be impaired and no further analysis is necessary. If, however, the carrying value of the reporting unit exceeds the fair value, there is an indication of potential impairment and a second step of testing is performed to measure the amount of impairment, if any, for that reporting unit.

Estimating the fair value of reporting units and the assets, liabilities and intangible assets of a reporting unit is a subjective process that involves the use of estimates and judgments, particularly related to cash flows, discount rates and a terminal multiple. Management judgment is required to assess whether the carrying value of the reporting unit can be supported by the fair value of the individual reporting unit. There are widely accepted valuation methodologies, such as the market approach (earnings multiples and/or transaction multiples) and/or income approach (discounted cash flow methods), that are used to estimate the fair value of reporting units. We utilize both methodologies and consider a number of factors, including actual operating results, future business plans, economic projections, and market data. Because of the significant judgment used in determining the estimated fair value of our reporting units and the material balances of our goodwill and intangible assets, we have identified estimating the fair value of our reporting units as a critical accounting estimate.

In estimating the fair value of the reporting units in step one of the goodwill impairment analyses, fair values can be sensitive to changes in the projected cash flows and assumptions. In some instances, minor changes in the assumptions could impact whether the fair value of a reporting unit is greater than its carrying amount. Furthermore, a prolonged decrease or increase in a particular assumption could eventually lead to the fair value of a reporting unit being less than its carrying amount. Also, to the extent step two of the goodwill analyses is required, changes in the estimated fair values of individual assets and liabilities may impact other estimates of fair value for assets or liabilities and result in a different amount of implied goodwill, and ultimately the amount of goodwill impairment, if any. In conducting our goodwill impairment test for 2015, we determined the fair value of our reporting units using both a market approach and an income approach. Our analyses required management to make judgments about earnings multiples, future revenue growth and operating costs, expected cash flows, and discount rates. An average of the two methodologies was utilized to determine the indicated fair value of each reporting unit. See Note 8—Goodwill and Intangible Assets, Net for additional information about the assumptions used in step one of the goodwill impairment analysis.

Based on the results of step one of the 2015 goodwill impairment test, we determined that the estimated fair values of RANA and RAEU, including goodwill, exceeded their carrying values. Accordingly, goodwill was not considered impaired and the second step of impairment testing was not required. As a result of the close proximity between the Real Alloy acquisition date and the October 1 goodwill impairment testing date, the excess of fair value of our reporting units compared to their carrying values was less than 10%. If our reporting units do not continue to perform as expected from a free cash flow perspective, or if the cost of capital were to increase or valuation multiples were to decrease, we may be required to record goodwill impairment charges in the future.

Intangible assets with definite useful lives are amortized over their estimated lives and evaluated for potential impairment whenever events or changes in circumstances suggest that the carrying value of an intangible asset may not be fully recoverable. Experts are utilized to assist management in estimating the fair value of identifiable intangible assets as of the acquisition date. An impairment loss, generally calculated as the difference between the estimated fair value and the carrying value of the intangible asset, is recognized if the sum of the estimated undiscounted cash flows relating to the intangible asset is less than the corresponding carrying value. We did not

recognize impairment on intangible assets in the years ended December 31, 2015, 2014 and 2013.

RESULTS OF OPERATIONS

The following table presents selected components of our consolidated statements of operations for the years ended December 31, 2015, 2014 and 2013:

	Year Ended December 31,		
(In millions, except per share amounts)	2015	2014	2013
Revenues	$1,145.6	$2.1	$5.3
Cost of sales	1,070.7	—	—
Gross profit	74.9	2.1	5.3
Operating costs	64.7	10.5	13.0
Operating profit (loss)	10.2	(8.4)	(7.7)
Nonoperating expense, net	51.0	0.1	8.8
Loss from continuing operations before income taxes	(40.8)	(8.5)	(16.5)
Income tax benefit	(9.1)	(8.4)	(2.3)
Loss from continuing operations	(31.7)	(0.1)	(14.2)
Earnings from discontinued operations, net of income taxes	24.9	5.5	4.2
Net earnings (loss)	(6.8)	5.4	(10.0)
Earnings (loss) from continuing operations attributable to noncontrolling interest	0.1	(0.1)	—
Net earnings (loss) attributable to Real Industry, Inc.	$(6.9)	$5.5	$(10.0)
EARNINGS (LOSS) PER SHARE			
Net earnings (loss) attributable to Real Industry, Inc.	$(6.9)	$5.5	$(10.0)
Dividends and accretion on Redeemable Preferred Stock	(2.3)	—	—
Net earnings (loss) available to common stockholders	$(9.2)	$5.5	$(10.0)
Basic and diluted earnings (loss) per share:			
Continuing operations	$(1.28)	$—	$(1.11)
Discontinued operations	0.93	0.41	0.32
Basic and diluted earnings (loss) per share	$(0.35)	$0.41	$(0.79)

Consolidated Results of Operations

We reported a net loss attributable to Real Industry of $6.9 million for the year ended December 31, 2015, net earnings of $5.5 million for the year ended December 31, 2014, and a net loss of $10.0 million for the year ended December 31, 2013. Basic and diluted loss per share for the year ended December 31, 2015 was $0.35, basic and diluted earnings per share for the year ended December 31, 2014 was $0.41 per share, and basic and diluted loss per share for the year ended December 31, 2013 was $0.79 per share. In the year ended December 31, 2015, our consolidated results of operations include a number of one-time expenses or events that may be considered obscuring underlying operating results. The following events are particularly noteworthy:

- We incurred $14.8 million of transaction and financing-related costs and expenses associated with the Real Alloy Acquisition;
-

We reported $9.2 million in noncash costs related to the amortization of the fair value adjustment of inventories and prepaid supplies under purchase accounting;

- There was approximately $4.7 million of interest expense (including amortization of the original issue discount and debt issuance costs) associated with the Senior Secured Notes for the fifty days from funding on January 8, 2015 to the closing date of the Real Alloy Acquisition on February 27, 2015 where we had no offsetting operations from Real Alloy;
- We reported $1.5 million of other noncash nonoperating expense from the change in fair value of common stock warrant liability, driven primarily by the increase in the price of our common stock from December 31, 2014; and
- We recorded a $39.7 million pretax gain on sale of NABCO, as well as $4.8 million of recovery on allowance for repurchase reserve, each reported in discontinued operations.

In addition, our reported earnings only reflect approximately ten months of operating results for Real Alloy, from the acquisition date February 27, 2015 to year-end. As a result of the transformation of our business in the first quarter of 2015 from the Real Alloy Acquisition and the sale of NABCO, historical comparisons of our operating results are limited in value and we have elected not to make any comparisons that management deems could be misleading.

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Segments' Results of Operations

The following tables present the results of operations of our reportable segments for the year ended December 31, 2015, and a reconciliation of Adjusted EBITDA to operating profit. As a result of the transformative transactions completed in the first quarter of 2015 our segments did not exist in the prior year, so we are not reporting comparable results of operations. The results of operations of Real Alloy are included from the acquisition date, February 27, 2015, through December 31, 2015, as a result, references to Real Alloy performance for the year ended December 31, 2015 should be considered ten months rather than twelve months. See "Non-GAAP Financial Measures" below for more information about Adjusted EBITDA.

	Year Ended December 31, 2015		
(Dollars in millions, tonnes in thousands)	RANA	RAEU	Total
Buy/sell metric tonnes invoiced	299.9	155.6	455.5
Tolling metric tonnes invoiced	375.4	176.1	551.5
Total metric tonnes invoiced	675.3	331.8	1,007.0
Revenues	$711.4	$434.2	$1,145.6
Cost of sales	663.6	407.1	1,070.7
Gross profit	$47.8	$27.1	$74.9
Selling, general and administrative expenses	$27.3	$14.8	$42.1
Operating profit	$15.8	$8.3	$24.1
Adjusted EBITDA	$49.0	$21.3	$70.3

(In millions)	Year Ended December 31, 2015
Adjusted EBITDA	$ 70.3
Unrealized losses on derivative financial instruments	0.8
Depreciation and amortization	32.5
Amortization of purchase accounting adjustments	9.2
Corporate and Other:	
Operating loss—excludes share-based compensation expense	12.6
Share-based compensation expense	1.3
Other	3.7
Operating profit	$ 10.2

Real Alloy North America (RANA)

For the year ended December 31, 2015, RANA generated $49.0 million of Adjusted EBITDA on $711.4 million of total revenues. During the period, buy/sell arrangements with its customers represented 44.4% of total invoiced volume, while tolling arrangements represented 55.6%. Adjusted EBITDA per metric tonne invoiced was $73 during

the year ended December 31, 2015.

Gross profit for RANA was $47.8 million for the year ended December 31, 2015, representing a margin of 6.7% of total revenues. Cost of sales consists primarily of metal costs and conversion costs. During the period, RANA's cost of sales includes $4.5 million of noncash expenses associated with the amortization of the fair value adjustment of acquired inventories and prepaid supplies in purchase accounting. Excluding this amount, gross profit would have been $52.3 million during the period, or a gross margin of 7.4%. Cost of sales per metric ton invoiced for the year ended December 31, 2015 was $983. During the year ended December 31, 2015, gross profit was positively impacted by lower maintenance costs as a result of purchase accounting adjustments to property, plant and equipment.

SG&A expenses, excluding depreciation and amortization, were $27.3 million for the year ended December 31, 2015. Approximately 20% of the SG&A expenses RANA incurred during the period relate to transition services expenses for support received from Aleris for information technology services, treasury services, accounts payable, cash management and payroll, credit/collection services, environmental services, and human resource services. As Real Alloy continues to implement its separation from Aleris, management anticipates that expenses related to the transition services agreement with Aleris will decrease, and such costs and expenses will be replaced directly at Real Alloy as it builds out its own stand-alone infrastructure. We expect the ongoing expenses as a stand-alone operation to be lower than the expenses associated with the transition services provided by Aleris.

RANA recognized $1.1 million of losses on derivative financial instruments in the year ended December 31, 2015, including $0.4 million of realized losses and $0.7 million of unrealized losses. Generally, realized gains or losses represent the cash paid or received upon settlement of our derivative financial instruments, which offsets the corresponding loss or gain realized on the physical material included in cost of sales and is included in Adjusted EBITDA. Unrealized gains or losses reflect the change in the fair value of derivative financial instruments from the later of the end of the prior period or our entering into the derivative instrument, as well as the reversal of previously recorded unrealized gains or losses for derivatives that settled during the period and is excluded form Adjusted EBITDA.

RANA had depreciation and amortization expense of $26.1 million and capital expenditures of $19.4 million during the year ended December 31, 2015.

Real Alloy Europe (RAEU)

For the year ended December 31, 2015, RAEU generated $21.3 million of Adjusted EBITDA on $434.2 million of total revenues. During the period, buy/sell arrangements with its customers represented 46.9% of total invoiced volume, while tolling arrangements represented 53.1%. Adjusted EBITDA per metric ton invoiced was $64 during the period.

Gross profit for RAEU was $27.1 million for the year ended December 31, 2015, representing a margin of 6.2% of total revenues. During the period, RAEU’s cost of sales includes noncash expenses associated with the amortization of the fair value adjustment of acquired inventories in purchase accounting, totaling $4.7 million. Excluding this amount, gross profit would have been $31.8 million during the period, or a gross margin of 7.3%. Cost of sales per metric ton invoiced for the year ended December 31, 2015 was $1,227. During the year ended December 31, 2015, gross profit was positively impacted by lower maintenance costs as a result of purchase accounting adjustments to property, plant and equipment.

SG&A expenses, excluding depreciation and amortization, were $14.8 million for the year ended December 31, 2015. Approximately 13% of the SG&A expenses RAEU incurred during the period relate to transition services expenses for support received from Aleris, primarily for information technology services. As Real Alloy implements its separation from Aleris, management expects expenses related to the transition services agreement with Aleris to decrease, but such costs and expenses will be replaced directly at Real Alloy as the business builds out its own stand-alone infrastructure. We expect the ongoing expenses as a stand-alone operation to be lower than the expenses associated with the Aleris transition services.

RAEU recognized $3.1 million of losses on derivative financial instruments in the year ended December 31, 2015, including $3.0 million of realized losses, and $0.1 million of unrealized losses. Generally, realized gains or losses represent the cash paid or received upon settlement of our derivative financial instruments, which offsets the corresponding loss or gain realized on the physical material included in cost of sales. Unrealized gains or losses reflect the change in the fair value of derivative financial instruments from the later of the end of the prior period or our entering into the derivative instrument, as well as the reversal of previously recorded unrealized gains or losses for derivatives that settled during the period.

RAEU had depreciation and amortization of $6.4 million and capital expenditures of $6.6 million during the year ended December 31, 2015.

Operating costs outside of segments

Operating costs outside of our reportable segments, included in Corporate and Other, relate to administrative, financial and human resource activities related to the oversight of our operating segments, implementation of our acquisition and growth strategies, management of our discontinued operations, and maintaining our public company status. For the year ended December 31, 2015, 2014 and 2013, operating costs in Corporate and Other were $13.9 million, $10.5 million and $13.0 million, respectively. Compensation is the largest operating cost included in Corporate and Other. Of the $5.4 million of compensation expense in the year ended December 31, 2015, $1.3 million was related to noncash equity award expense and $0.3 million related to severance. Real Industry charged $2.5 million of management fees to Real Alloy in 2015, but such management fees are excluded from segment results of operations, as management excludes such costs when assessing segment performance. Corporate and Other also includes the results of Cosmedicine, as it does not meet the threshold of a reportable segment. The operations of Cosmedicine, which re-launched its branded skin care product line during the latter half of 2015, generated a loss of $2.0 million for the year ended December 31, 2015.

Nonoperating expenses and income

Interest expense (income), net

Interest expense (income), net for the years ended December 31, 2015, 2014 and 2013 was $34.9 million, $(0.1) million and $2.0 million, respectively. Included in interest expense are the amortization of debt issuance costs, which represent original issue discounts, placement and advisory fees, legal, accounting and other costs associated with issuing such debt. The amortization of debt issuance costs included in interest expense for the years ended December 31, 2015 was $4.3 million. Interest expense and amortization of original issue discount and debt issuance costs associated with the Senior Secured Notes are for the period January 8, 2015 through December 31, 2015, while the interest expense and debt issuance costs associated with the Asset-Based Facility are for the period February 27, 2015 through December 31, 2015. There was approximately $4.7 million of interest expense (including amortization of issuance discount and debt issuance costs) associated with the Senior Secured Notes for the fifty days from funding on January 8, 2015 to the closing date of the Real Alloy Acquisition on February 27, 2015 where we had no offsetting operations from Real Alloy.

Acquisition and financing-related costs and expenses

Acquisition and financing-related costs and expenses for the years ended December 31, 2015, 2014 and 2013 were $14.8 million, $3.4 million and zero, respectively. All of the expense in 2015 and 2014 related to due diligence, professional fees and expired commitments associated with certain financial arrangements entered into for the Real Alloy Acquisition.

Other nonoperating expenses and income.

For the year ended December 31, 2015, we reported $1.5 million of other noncash nonoperating expense from the change in fair value of common stock warrant liability, driven primarily by the increase in the price of our common stock from December 31, 2014. We reported $1.3 million of noncash other nonoperating expense from the foreign exchange rate effect associated with Real Alloy's intercompany loans that are not considered long-term in nature, and the Company recognized a $0.9 million gain on the sale of a trademark owned by Cosmedicine.

Income tax benefit

Income tax benefit was $9.1 million, $8.4 million and $2.3 million for the years ended December 31, 2015, 2014 and 2013, respectively. The income tax benefit for the year ended December 31, 2015 consisted of an income tax benefit of $12.3 million from domestic jurisdictions and a $3.2 million income tax expense from international jurisdictions. The domestic income tax benefit for the years ended December 2015, 2014 and 2013 is based primarily on allocations between loss from continuing operations before income taxes and earnings from discontinued operations before income taxes.

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 net tax operating losses in certain other foreign jurisdictions. Real Industry intends to maintain its valuation allowances until sufficient positive evidence exists to support their reversal. As of December 31, 2015 and 2014, we had valuation allowances of $382.4 million and $385.6 million, respectively, to reduce certain deferred tax assets to amounts that are more likely than not to be realized. Of the total as of December 31, 2015 and 2014, deferred tax valuation allowances of $377.0 million and $370.1 million, respectively, relate to net operating losses in U.S. tax jurisdictions. During the year ended December 31, 2014, $5.1 million of the valuation allowance was released based upon management's estimate of 2015 taxable income, including

the gain on sale of NABCO.

Discontinued Operations

Discontinued operations presents the financial condition and results of operations of SGGH's former businesses, specifically, NABCO and certain of Fremont's former operations.

Earnings from discontinued operations, net of income taxes increased $19.4 million to $24.9 million for the year ended December 31, 2015, as compared to $5.5 million for the year ended December 31, 2014. The earnings of discontinued operations, net of income taxes in 2015 primarily represents the $39.7 million pretax gain on sale of NABCO and the $4.8 million recovery of allowance for repurchase reserve and eight days of NABCO operating results, while the earnings in 2014 primarily represent NABCO's operating results.

FINANCIAL CONDITION

The following table presents selected components of the Company's consolidated balance sheets as of December 31, 2015 and 2014:

	December 31,	
(In millions)	2015	2014
ASSETS		
Current assets:		
Cash and cash equivalents	$35.7	$61.9
Trade accounts receivable, net	77.2	—
Financing receivable	32.7	—
Inventories	101.2	—
Prepaid expenses, supplies, and other current assets	24.7	1.0
Current assets of discontinued operations	0.3	18.1
Total current assets	271.8	81.0
Debt and equity offering costs	—	14.5
Property, plant and equipment	301.5	0.1
Intangible assets, net	15.1	0.1
Goodwill	104.3	—
Deferred income taxes	—	4.9
Other noncurrent assets	8.2	1.1
Noncurrent assets of discontinued operations	—	20.0
TOTAL ASSETS	$700.9	$121.7
LIABILITIES, REDEEMABLE PREFERRED STOCK AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Trade payables	$100.9	$—
Accrued liabilities	51.8	7.1
Long-term debt due within one year	2.3	—
Current liabilities of discontinued operations	0.1	8.1
Total current liabilities	155.1	15.2
Accrued pension benefits	38.0	—
Environmental liabilities	11.7	—
Long-term debt, net	312.1	—
Common stock warrant liability	6.9	5.6
Deferred income taxes	6.7	—
Other noncurrent liabilities	5.4	0.1
Noncurrent liabilities of discontinued operations	0.7	15.2
TOTAL LIABILITIES	536.6	36.1
Redeemable preferred stock	21.9	—
TOTAL STOCKHOLDERS' EQUITY	142.4	85.6
TOTAL LIABILITIES, REDEEMABLE PREFERRED STOCK AND STOCKHOLDERS' EQUITY	$700.9	$121.7

General

Largely as a result of the Real Alloy Acquisition and the Financings, total assets increased $579.2 million to $700.9 million as of December 31, 2015, from $121.7 million as of December 31, 2014; total liabilities increased $500.5 million to $536.6 million as of December 31, 2015, from $36.1 million as of December 31, 2014; and total stockholders’ equity increased to $142.4 million as of December 31, 2015, from $85.6 million as of December 31, 2014.

Changes in stockholders’ equity reflect a net loss during the period, increased by equity issuances and share-based compensation expense, and decreased by accumulated other comprehensive loss. See the Consolidated Statements of Changes in Stockholders’ Equity in the consolidated financial statements included in Part IV, Item 15 of this Annual Report for more details on changes in stockholders’ equity.

As a result of the transformation of our Company in the first quarter of 2015 from the Real Alloy Acquisition and the sale of NABCO, historical comparisons of our financial condition are limited in value and we have elected not to make any comparisons that management deems could be misleading.

The following tables present the assets and liabilities of our reportable segments as of December 31, 2015, and a reconciliation to our consolidated assets and liabilities. As a result of the transformation of the Company in the first quarter of 2015, we have no comparable reportable segments as of December 31, 2014.

(In millions)	RANA	RAEU
Segment Assets		
Current assets:		
Cash and cash equivalents	$8.1	$7.2
Trade accounts receivable, net	63.7	13.5
Financing receivable	—	32.7
Inventories	61.7	38.5
Prepaid expenses, supplies, and other current assets	12.5	6.8
Total current assets	146.0	98.7
Property, plant and equipment, net	199.3	102.2
Intangible assets, net	15.0	—
Goodwill	95.4	8.9
Other noncurrent assets	4.9	1.9
Total segment assets	$460.6	$211.7
Segment Liabilities		
Current liabilities:		
Trade payables	$58.1	$42.3
Accrued liabilities	34.3	14.6
Total current liabilities	92.4	56.9
Accrued pension benefits	—	38.0
Environmental liabilities	11.7	—
Other noncurrent liabilities	4.1	1.4
Total segment liabilities	$108.2	$96.3

(In millions)	
Assets:	
Real Alloy North America	$460.6
Real Alloy Europe	211.7
Unallocated	28.6
Total consolidated assets	$700.9
Liabilities:	
Real Alloy North America	$108.2
Real Alloy Europe	96.3
Unallocated	332.1
Total consolidated liabilities	$536.6

Cash and cash equivalents

Cash and cash equivalents decreased $26.2 million to $35.7 million as of December 31, 2015, from $61.9 million as of December 31, 2014. Cash and cash equivalents maintained at Real Alloy totaled $15.3 million as of December 31, 2015, an increase of $5.1 million from the $10.2 acquired on February 27, 2015. This cash is generally for working capital needs and general corporate purposes, including debt service payments. Cash at Corporate and Other decreased $41.5 million from December 31, 2014, to $20.4 million as of December 31, 2015, primarily as a result of capital contributions to Real Alloy to fund a portion of the Real Alloy Acquisition and the payment of corporate expenses during the period, offset by gross proceeds raised in the Rights Offering and controlled equity offerings totaling $68.0 million.

Trade accounts receivable, net

Trade accounts receivable, net was $77.2 million as of December 31, 2015, compared to the $150.1 million of acquired receivables as of February 27, 2015. The significant decrease in trade accounts receivable from the acquisition date to December 31, 2015 is primarily a result of the sale of accounts receivables under the Factoring Facility, and a reduction in the price of metal, as of December 31, 2015, as compared to February 27, 2015, which lowers Real Alloy's revenues, and general seasonality of the business. With the sale of NABCO and its reclassification to discontinued operation, there were no trade accounts receivable as of December 31, 2014.

Financing receivable

Financing receivable was $32.7 million as of December 31, 2015. The balance represents the amounts due RAEU from sales of accounts receivables under the Factoring Facility, less $2.8 million of outstanding advances against these amounts due.

Inventories

Inventories were $101.2 million as of December 31, 2015, compared to the $157.7 million acquired as of February 27, 2015. Inventory values have declined due to lower aluminum scrap on hand to support RANA and RAEU's buy/sell business as management has focused its efforts on reducing working capital particularly in an environment of falling scrap aluminum metal prices, which further led to the overall reduction in inventory during the period, and general seasonality of the business. With the sale of NABCO and its reclassification to discontinued operation, we are reporting zero inventories as of December 31, 2014.

Prepaid expenses, supplies and other current assets

Prepaid expenses, supplies and other current assets were $24.7 million as of December 31, 2015, an increase of $23.7 million from the $1.0 million reported as of December 31, 2014. The significant increase is associated with the Real Alloy Acquisition.

Debt and equity offering costs

Debt and equity offering costs associated with capital raising efforts were $14.5 million as of December 31, 2014. Such costs are expensed or reclassified in the period the associated offerings are completed, or terminate in the case of commitments. Of the $14.5 million as of December 31, 2014, $0.3 million associated with the Rights Offering was reclassified as a reduction of additional paid-in capital; $3.7 million associated with the Senior Secured Notes and Asset-Backed Facility were reclassified as a reduction of the associated debt; and $10.5 million associated with the backstop and bridge financing agreements that were not utilized to fund the Real Alloy Acquisition were expensed during 2015.

Property, plant and equipment, net

Property, plant and equipment, net was $301.5 million as of December 31, 2015, and reflects the final purchase accounting adjustments to estimated fair value at the Real Alloy acquisition date, plus capital expenditures during the period, offset by scheduled depreciation and amortization during the year ended.

Goodwill and intangible assets, net

Intangible assets, net, comprised primarily of customer relationships, increased $15.0 million to $15.1 million as of December 31, 2015, from $0.1 million as of December 31, 2014, primarily as a result of the Real Alloy Acquisition. Goodwill is reported at $104.3 million based on the final estimated acquisition date fair values of assets acquired and liabilities assumed in the Real Alloy Acquisition, and currency translation adjustments. See Note 3—Business Combinations in the notes to consolidated financial statements included in Part IV, Item 15 of this Annual Report for additional information about goodwill and intangible assets.

Trade payables

Trade payables were $100.9 million as of December 31, 2015, compared to the $112.4 million assumed as of February 27, 2015, with the reduction largely due to lower aluminum scrap prices and the general seasonality of the business. With the sale of NABCO and its reclassification to discontinued operation, there were nominal trade payables as of December 31, 2014.

Accrued liabilities

Accrued liabilities were $51.8 million as of December 31, 2015, compared to the $26.9 million assumed as of February 27, 2015, with the increase largely due to the accrual of interest on the Senior Secured Notes. Accrued liabilities were $7.1 million as of December 31, 2014.

Accrued pension benefits

Accrued pension benefits at RAEU were $38.0 million as of December 31, 2015 and were assumed as part of the Real Alloy Acquisition. See Note 15—Employee Benefit Plans in the notes to consolidated financial statements included in Part IV, Item 15 of this Annual Report for additional information about accrued pension benefits.

Environmental liabilities

Environmental liabilities were $16.0 million as of December 31, 2015, including $4.3 million classified in accrued liabilities and were assumed as part of the Real Alloy Acquisition. The change from the acquisition date fair values is primarily related to revised assumptions, including reductions to the estimated costs of remediation of environmental issues at Real Alloy's landfills. See Note 3—Business Combinations and Note 23—Commitments and Contingencies in the notes to consolidated financial statements included in Part IV, Item 15 of this Annual Report for additional information about environmental liabilities.

Long-term debt and Redeemable Preferred Stock

Long-term debt increased to $314.4 million as of December 31, 2015, including $2.3 million due within one year, compared to zero as of December 31, 2014. Redeemable Preferred Stock, issued in the Real Alloy Acquisition, increased to $21.9 million as of December 31, 2015, compared to zero as of December 31, 2014. The increase in long-term debt is entirely related to the Real Alloy Acquisition and Real Alloy's ongoing operations. See Note 9—Debt and Redeemable Preferred Stock in the notes to consolidated financial statements included in Part IV, Item 15 of this Annual Report.

Common stock warrant liability

Common stock warrant liability increased to $6.9 million as of December 31, 2015, compared to $5.6 million as of December 31, 2014. The $1.5 million change in fair value of common stock warrant liability during the year ended December 31, 2015 is primarily attributable to an increase in the underlying market price of our common stock from the beginning of the period. During the year, $0.2 million of the common stock warrant liability was reclassified to additional paid in capital following the exercise of 31,667 Warrants. See Note 10—Common Stock Warrant Liability in the notes to consolidated financial statements included in Part IV, Item 15 of this Annual Report for more information about the Warrants.

Discontinued Operations

Assets of discontinued operations decreased to $0.3 million as of December 31, 2015, from $38.1 million as of December 31, 2014. Liabilities of discontinued operations decreased to $0.8 million as of December 31, 2015, from $23.3 million as of December 31, 2014. The decrease in assets and liabilities of discontinued operations is primarily the result of the sale of NABCO in January 2015 and a reduction of the repurchase reserve.

The repurchase reserve decreased $4.8 million to $0.7 million as of December 31, 2015, from $5.5 million as of December 31, 2014. In June 2015, the New York State Court of Appeals affirmed the ACE Securities Case, whereby

the six-year statute of limitations on loan repurchase demands begin to run as of the date the representations were made, which, in the ACE Securities Case, was the date of the mortgage loan purchase agreements. Management has reassessed its exposure to losses from repurchase demands and, based on the final decision in the ACE Securities Case, believes a repurchase reserve of $0.7 million is adequate as of December 31, 2015.

Liquidity and Capital Resources

Our primary capital needs are for working capital obligations, capital expenditures, other general corporate purposes, and to finance and fund acquisitions. We assess liquidity in terms of our ability to generate cash to fund our operating activities. Factors that could materially impact our liquidity include:

- cash flows generated from operating activities;
- adequacy of available lines of credit;

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- our ability to attract long-term capital with satisfactory terms, whether debt or equity; and
- our acquisition activity.

Further acquisitions, divestitures, investments and changes in capital structure are possible.

As of December 31, 2015, our consolidated liquidity was $103.7 million.

Corporate Liquidity

Our holding company assets are principally comprised of stock or membership interests of our subsidiaries, cash and cash equivalents of $20.4 million, and receivables from our subsidiaries related to various intercompany arrangements, including management fees and tax sharing agreements. Our principal sources of liquidity include current cash and cash equivalents, public and private capital markets transactions, funds received from subsidiaries from management fees and tax sharing payments and repayments of advances, and borrowings and dividends from subsidiaries, as well as dispositions of existing businesses. As of December 31, 2015, our effective $700.0 million Shelf Registration Statement is available to use for existing business requirements and future acquisitions. During the year ended December 31, 2015, we raised $59.8 million of gross proceeds in our Rights Offering, including with respect to both common stockholders and Warrant holders; $1.2 million from the exercise of common stock options and Warrants; and $8.2 million from a controlled public equity offering. Our principal uses of liquidity, as of December 31, 2015, are the payment of operating costs of the holding company and to support our operating subsidiaries and our ongoing acquisition efforts. Any future acquisitions, joint ventures or other similar transactions will likely require additional capital and there can be no assurance that any such capital will be available to us on acceptable terms, if at all.

Assets of SGGH are principally comprised of stock or membership interests of its subsidiaries, cash and cash equivalents, and intercompany arrangements. Its current available liquidity is used to meet short-term cash requirements, which are principally the payment of professional fees associated with litigation in SGGH’s former businesses and operations, including discontinued operations. SGGH principal source of liquidity is its current cash and cash equivalents, funds received from subsidiaries from tax sharing payments and repayments of advances, and borrowings and dividends from affiliates.

Real Alloy Liquidity

As of December 31, 2015, Real Alloy had total liquidity of $83.1 million, including $15.3 million in cash, $42.1 million in availability under its revolving credit facility, and €23.6 million ($25.7 million) in availability under its Factoring Facility. Based on our current and anticipated levels of operations and the conditions in the markets and industry for Real Alloy, we believe that Real Alloy’s cash on hand, cash flows from operations, and availability under the Asset-Based and Factoring Facilities will enable it to meet its working capital, capital expenditures, debt service, and other funding requirements for the foreseeable future. However, its ability to fund our working capital needs, debt payments and other obligations, and to comply with the financial covenants under the Senior Secured Notes and Asset-Based Facility, including borrowing base limitations under the Asset-Based Facility, depends on its future operating performance and cash flows and many factors outside of our control, including the costs of raw materials, the state of the overall industry and financial and economic conditions and other factors, including those described under “Risk Factors” in Part 1, Item 1A of this Annual Report.

As of December 31, 2015, approximately $11.5 million of Real Alloy’s cash and cash equivalents were held by its non-U.S. subsidiaries. We currently have no plans to repatriate foreign earnings, which are expected to be permanently reinvested. If circumstances change and it becomes apparent that some or all of the permanently reinvested earnings will be remitted in the foreseeable future, an additional income tax charge may be necessary; however, we currently have the ability to remit all of the cash held by non-U.S. subsidiaries without incurring a U.S.

tax liability.

Cash Flows

The following table summarizes net cash provided (used) by operating, investing and financing activities for the years ended December 31, 2015, 2014 and 2013. The following presentation and discussion of cash flows reflects the combined cash flows from our continuing operations and discontinued operations.

	Year Ended December 31,		
(In millions)	2015	2014	2013
Net cash provided by (used in) operating activities	$92.5	$(14.0)	$22.8
Net cash provided by (used in) investing activities	(477.3)	2.9	8.7
Net cash provided by (used in) financing activities	358.0	26.0	(34.5)
Effect of exchange rate differences on cash and cash equivalents	(0.3)	—	—
Increase (decrease) in cash and cash equivalents	$(27.1)	$14.9	$(3.0)

Cash flows from operating activities

Cash flows provided by operating activities were $92.5 million for the year ended December 31, 2015, which was the result of net loss of $6.8 million for the period, adjusted for noncash expenses, including depreciation and amortization of $32.5 million; a $1.5 million noncash charge related to the change in fair value of the common stock warrant liability; the amortization of $9.2 million of the purchase accounting adjustment to inventories and prepaid supplies; the amortization of $4.3 million of debt issuance costs; $1.3 million of share-based compensation expense included in Corporate and Other, and $1.5 million in total; $89.2 million of cash provided by the changes in operating assets and liabilities; and reduced by $24.9 million of earnings from discontinued operations, net of income taxes and a $2.1 million deferred income tax benefit.

Cash flows used in and provided by operating activities in the years ended December 31, 2014 and 2013 were $14.0 million and $22.8 million, respectively, and were primarily related to the activities of NABCO and SCP.

Cash flows from investing activities

Cash flows used by investing activities were $477.3 million for the year ended December 31, 2015 and included $524.7 million to acquire Real Alloy and $26.0 million of capital expenditures, partially offset by $74.1 million of proceeds from the sale of NABCO.

Cash flows provided by investing activities in the years ended December 31, 2014 and 2013 were $2.9 million and $8.7 million, respectively, and relate primarily to the sale of investments by SCP.

Cash flows from financing activities

Cash flows provided by financing activities were $358.0 million for the year ended December 31, 2015, which included $290.2 million of net proceeds from the issuance of the Senior Secured Notes, net of original issue discount and debt issuance costs, proceeds from the Asset-Based Facility of $126.1 million and $63.3 million of net proceeds from the issuance of common stock. These fundings were offset by the repayment of NABCO debt totaling $14.3 million and $108.3 million of repayments on the Asset-Based Facility and capital leases.

Cash flows provided by financing activities for the year ended December 31, 2014 was $26.0 million, primarily proceeds from the issuance of common stock. Cash flows used in financing activities for the year ended December 31,

2013 was $34.5 million, primarily related to the retirement of $37.2 million of long-term debt.

Contractual Obligations

Contractual obligations as of December 31, 2015 are summarized by contractual maturity in the following table:

(In millions)	2016	2017 - 2018	2019 - 2020	After 2020
Long-term debt and capital leases	$2.4	$23.7	$305.1	$ —
Interest on long-term debt and capital leases	31.9	63.3	15.3	—
Redeemable Preferred Stock	—	4.3	33.6	—
Estimated pension benefit payments	0.9	2.1	2.5	7.5
Operating leases	2.8	1.9	1.0	2.3
Estimated payments for asset retirement obligations	0.9	—	—	—
Purchase obligations	1.9	2.1	0.5	—
	$40.8	$97.4	$358.0	$ 9.8

Interest on long-term debt and capital leases was estimated based on scheduled debt service payments on the Senior Secured Notes and capital leases, plus an estimate of interest payments that will be due on the Asset-Based Facility using the average outstanding borrowing in 2015 and the interest rate in effect as of December 31, 2015. Future interest payments will be different than the amount shown in the table if interest rates change or the average borrowings under the Asset-Based Facility change.

Indebtedness and Redeemable Preferred Stock

Senior Secured Notes

On January 8, 2015, Real Alloy completed a private placement of $305.0 million aggregate principal of Senior Secured Notes to qualified institutional purchasers in accordance with Rule 144A and Regulation S under the Securities Act at a price of 97.206% of the principal amount thereof. The Senior Secured Notes were issued pursuant to the Indenture between Real Alloy, an intermediate holding company, and Wilmington Trust, National Association, as trustee and notes collateral trustee. The Senior Secured Notes and related guarantees are secured by first priority security interests in the fixed assets of Real Alloy, an intermediate holding company and the Subsidiary Guarantors (as defined in the Pledge and Security Agreement) and by second priority security interests in certain other collateral of Real Alloy, an intermediate holding company and the Subsidiary Guarantors.

Asset-Based Facility

On February 27, 2015, a wholly owned subsidiary of Real Alloy and an affiliate of Real Alloy entered into the $110.0 million Asset-Based Facility. The Asset-Based Facility is secured by a first priority lien on Real Alloy’s wholly owned domestic subsidiary’s and, to the extent no adverse tax impact would be incurred, foreign subsidiaries: accounts receivable, inventory, instruments representing receivables, guarantees and other credit enhancements related to receivables, and bank accounts into which receivables are deposited, among other related assets. The Asset-Based Facility is also secured by a second priority lien on the assets that secure the Senior Secured Notes. The borrowing base under the Asset-Based Facility is determined based on eligible accounts receivable and eligible inventory. As of December 31, 2015, we estimate that the borrowing base would have supported borrowings of $67.7 million. After giving effect to outstanding borrowings and letters of credit, Real Alloy had $42.1 million available for borrowing

under the Asset-Based Facility as of December 31, 2015.

Capital leases

As part of the Real Alloy Acquisition, existing capital leases of the Real Alloy business were assumed. In the normal course of operations, Real Alloy enters into capital leases primarily related to mobile and office equipment. As of December 31, 2015, $2.3 million is 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 was recorded at estimated fair value of $19.6 million. The difference between the liquidation value and the estimated fair value as of the acquisition date is accreted to preferred dividends in the consolidated balance sheets. 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. As of December 31, 2015, the liquidation value of the Redeemable Preferred Stock was $21.9 million.

The descriptions above are only summaries, for more information see Note 9 – Debt and Redeemable Preferred Stock in the notes to consolidated financial statements included in Part IV, Item 15 of this Annual Report.

Non-GAAP Financial Measures

A non-GAAP financial measure is a numerical measure of historical or future financial performance, financial position or cash flows that excludes amounts, or is subject to adjustments that have the effect of excluding amounts, that are included in the most directly comparable measure calculated and presented in accordance with GAAP in the balance sheets, statements of operations, or statements of cash flows; or includes amounts, or is subject to adjustments that have the effect of including amounts, that are excluded from the most directly comparable measures so calculated and presented. We report our financial results in accordance with GAAP; however, our management believes that certain non-GAAP performance measures, which we use in managing our businesses, may provide investors with additional meaningful comparisons between current results and results in prior periods. Adjusted EBITDA is an example of a non-GAAP financial measure that we believe provides investors and other users of our financial information with useful information.

Management uses Adjusted EBITDA as a performance metric for the Company's segments and believes this measure provides additional information commonly used by holders of our common stock, as well as the holders of the Senior Secured Notes and parties to the Asset-Based Facility with respect to the ongoing performance of our underlying business activities, as well as our ability to meet our future debt service, capital expenditures and working capital needs. In addition, Adjusted EBITDA is a component of certain covenants under the Indenture governing the Senior Secured Notes.

Our Adjusted EBITDA calculations represent net earnings before interest, taxes, depreciation and amortization, unrealized gains and losses on derivative financial instruments, share-based compensation expense, amortization of purchase accounting adjustments, charges and expenses related to acquisitions, and certain other gains and losses.

Adjusted EBITDA as we use it may not be comparable to similarly titled measures used by other companies, and in fact, is defined differently under the Senior Secured Notes and Asset-Based Facility agreements.. We compute Adjusted EBITDA by eliminating the impact of a number of items we do not consider indicative of our ongoing operating performance and certain other items. You are encouraged to evaluate each adjustment and the reasons we consider it appropriate for supplemental analysis. However, Adjusted EBITDA is not a financial measurement computed and presented in accordance with GAAP, and when analyzing our operating performance, investors should

use Adjusted EBITDA in addition to, and not as an alternative for, net earnings, operating profit or any other performance measure derived in accordance with GAAP, or in addition to, and not as an alternative for, cash flows from operating activities as a measure of our liquidity. Adjusted EBITDA has limitations as an analytical tool, and it should not be considered in isolation, or as a substitute for, or superior to, our measures of financial performance prepared in accordance with GAAP. These limitations include, but are not limited to:

- not reflecting our cash expenditures or future requirements for capital expenditures (including replacing our depreciable assets) or contractual commitments;
- not reflecting changes in, or cash requirements for, working capital needs;
- not reflecting interest expense or cash requirements necessary to service interest and/or principal payments under the Senior Secured Notes or Asset-Based Facility;
- not reflecting certain tax payments that may represent a reduction in cash available to us; and
- comparability to other companies, including companies in our industry, that may calculate these measures differently and the degree of their usefulness as a comparative measure decreases as the number of differences in computations increases.

In addition, in evaluating Adjusted EBITDA, it should be noted that in the future we may incur expenses similar to the adjustments in the reconciliation presented below. Our presentation of Adjusted EBITDA should not be construed as an inference that our future results will be unaffected by unusual or nonrecurring items.

As a result of the transformation of the Company in the first quarter of 2015, we have chosen not to provide any non-GAAP financial measures from prior periods to avoid being misleading.

The table below provides a reconciliation of Adjusted EBITDA to its most directly comparable financial measure presented in accordance with GAAP, net loss, and to net cash provided by operating activities for the year ended December 31, 2015:

(In millions)	Year Ended December 31, 2015
Adjusted EBITDA	$ 70.3
Unrealized losses on derivative financial instruments	0.8
Depreciation and amortization	32.5
Amortization of purchase accounting adjustments	9.2
Corporate and Other:	
Operating loss—excludes share-based compensation expense	12.6
Share-based compensation expense	1.3
Other	3.7
Operating profit	10.2
Nonoperating expense, net	(51.0)
Loss from continuing operations before income taxes	(40.8)
Income tax benefit	(9.1)
Loss from continuing operations	(31.7)
Earnings from discontinued operations, net of income taxes	24.9
Net loss	(6.8)
Earnings from discontinued operations, net of income taxes	(24.9)
Depreciation and amortization	32.5
Deferred income taxes	(2.1)
Change in fair value of common stock warrant liability	1.5
Share-based compensation expense included in Corporate and Other	1.3
Amortization of debt issuance costs	4.3
Unrealized losses on derivative financial instruments	0.8
Amortization of purchase accounting adjustments	9.2
Other	1.5
Changes in operating assets and liabilities, net of the effects of the Real Alloy Acquisition	89.2
Net cash used in operating activities of discontinued operations	(14.0)
Net cash provided by operating activities	$ 92.5

Off-Balance Sheet Transactions

Discontinued Operations

Prior to 2007, Fremont securitized a portion of its residential real estate loans. Securitization is a process of transforming loans into securities that are sold to investors. The loans were first sold to a special purpose corporation, which then transferred them to a qualified special purpose entity (“QSPE”), which was a separate legal entity from Fremont. The QSPE, in turn, issued interest-bearing securities, commonly known as asset-backed securities, secured by the future cash flows to be derived from the securitized loans. The QSPE used the proceeds from the issuance of the securities to pay the purchase price of the securitized loans.

Securitizations of mortgage loans were used to provide an additional source of liquidity and were structured as sales. The special purpose entities to which the mortgage loans were transferred were QSPEs and, therefore, under previous accounting rules through 2009, were not subject to consolidation. The accounting standards were amended effective January 1, 2010 to eliminate the concept of QSPEs. We reevaluated these QSPEs, as well as all other potentially significant interests in other unconsolidated entities, to determine if SGGH should include them in its consolidated financial statements. We determined that SGGH is not the primary beneficiary of these variable interest entities and, therefore, do not consolidate the loan securitization trusts.

The security investors and the QSPEs do not have any recourse against SGGH if the cash flows generated by the securitized loans are inadequate to service the securities issued by the QSPEs. At the close of each securitization, Fremont removed the carrying value of the loans securitized from its balance sheet and added the estimated fair value of the assets obtained in consideration for the loans, which generally included the cash received (net of transaction expenses), retained junior class securities (referred to as residual interests) and mortgage servicing rights, to its balance sheet. SGGH holds these residual interests, which are carried at zero in the consolidated balance sheets, as management does not anticipate receiving any significant distributions from these residual interests in the foreseeable future. During the years ended December 31, 2015, 2014 and 2013, SGGH received $0.2 million, $0.4 million and zero, respectively.

We also have repurchase reserve liabilities related to sales of residential real estate loans by Fremont's former business that are subject to standard industry representations and warranties that may require SGGH to repurchase certain loans. Additional information concerning the repurchase reserve included in discontinued operations is included in Note 20—Discontinued Operations in the notes to consolidated financial statements included in Part IV, Item 15 of this Annual Report.

Recent Accounting Standards

The FASB issues and updates accounting standards on a regular basis. For a discussion of recently issued or updated accounting standards that are relevant to our operations, please refer to Note 2—Financial Statement Presentation and Significant Accounting Policies in the notes to consolidated financial statements included in Part IV, Item 15 of this Annual Report.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

The following quantitative and qualitative disclosures about market risk include "forward-looking statements" that involve risk and uncertainties. Actual results could differ materially from those projected in the forward-looking statements.

The potential for changes in the value of financial instruments is referred to as market risk. Our consolidated balance sheets include assets and liabilities whose fair values are subject to market risks. As of December 31, 2015, our significant market risks are primarily associated with interest rates, credit, equity prices, specifically the fair value of our own common stock, commodities and foreign currencies. The following sections address the significant market risks associated with our business activities.

Interest Rate Risk

Real Alloy is subject to interest rate risk related to its variable rate debt. Based on the outstanding variable rate debt in the year ended December 31, 2015, a 1.0% increase in interest rates under its variable rate debt agreements would have resulted in increased interest expense of $0.2 million. This sensitivity analysis of the effect of a change in interest rates on long-term debt considers only variable rate debt outstanding in the year ended December 31, 2015 and does not consider future potential changes in long-term variable rate debt levels.

Credit Risk

We are primarily exposed to credit risk with our cash equivalents, trade accounts receivables and financing receivable. We do not believe that our cash equivalents present significant credit risk because the counterparties to the instruments consist of major financial institutions. Our cash and cash equivalents as of December 31, 2015 consists principally of cash balances in noninterest bearing checking accounts and money market funds. Substantially all trade accounts receivable balances are unsecured. There is not a significant concentration of credit risk with respect to trade receivables, although the top ten customers of Real Alloy represent approximately 59.7% of the total trade accounts receivable as of December 31, 2015. The financing receivable is due from one global financial institution for which we believe the risk of loss is minimal as of December 31, 2015.

Equity Price Risk

The fair value of our common stock warrant liability is impacted to a minor extent by changes in interest rates, but the major fair value driver is the market value of our own common stock. The following table illustrates the impact of increases and decreases in the fair value of our common stock on the fair value of our common stock warrant liability. It is assumed that the increase or decrease in the fair value of our common stock occurs immediately and uniformly to each category of instrument containing interest rate risk, and that there are no significant changes to other factors used to determine the value of the instrument. The hypothetical changes in the fair value of our common stock do not reflect what could be deemed "best" or "worst" case scenarios. Variations in the fair value of our common stock could produce significant changes in other assumptions in the valuation of the common stock warrant liability, for example the actual exercise multiple may be significantly different than that assumed in our estimate of fair value. For these reasons, actual results may differ significantly from those reflected in the table.

		Estimated Fair Value after Hypothetical Change in Fair Value of Real Industry Common Stock			
(In millions)	Estimated Fair Value	15% Decrease	15% Increase	30% Decrease	30% Increase
Common stock warrant liability:					
As of December 31, 2015	$ 6.9	$5.6	$ 8.3	$ 4.4	$ 9.7
As of December 31, 2014	5.6	4.7	6.6	3.8	7.7

Commodity Price Risk

In the ordinary course of our business, we are exposed to earnings and cash flow volatility resulting from changes in the price of aluminum, and, to a lesser extent, hardeners such as silicon and copper, and energy. To mitigate the risks, Real Alloy engages in hedging strategies. For metal hedges, we use derivative instruments, such as forwards, futures, options, collars and swaps to manage the effect, both favorable and unfavorable, of such changes. For electricity and some natural gas price exposures, fixed price commitments are used.

Derivative contracts are used primarily to reduce uncertainty and volatility and cover underlying exposures and are held for purposes other than trading. Our commodity and derivative activities are subject to the management, direction and control of our Risk Management Committee, which is composed of our CEO, CFO, other officers and employees, as designated by the Audit Committee of the Board.

We are exposed to losses in the event of nonperformance by the counterparties to the derivative contracts discussed below. Although nonperformance by counterparties is possible, we do not currently anticipate any nonperformance by any of these parties. Counterparties are evaluated for creditworthiness and risk assessment prior to our initiating contract activities. The counterparties' creditworthiness is monitored on an ongoing basis, and credit levels are reviewed to ensure that there is not an inappropriate concentration of credit outstanding to any particular counterparty.

Metal Hedging

Primarily in our RAEU segment, LME future swaps or forward contracts are sold as metal is purchased to fill fixed-price customer sales orders. As sales orders are priced, LME future or forward contracts are 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 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 December 31, 2015, Real Alloy had 24.6 thousand metric tonnes of metal buy and sell derivative contracts.

Natural Gas Hedging

We monitor Real Alloy's natural gas purchase requirements and, in order to manage price exposure, the future price of a portion of the natural gas requirements may be fixed 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 NYMEX and the contractual derivative 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 December 31, 2015, Real Alloy had 1.9 trillion of British thermal unit forward buy contracts.

Fair Values and Sensitivity Analysis

The following table shows the fair values of outstanding net liability derivative contracts as of December 31, 2015, and the effect on the fair value of a hypothetical adverse change in the market prices that existed as of December 31, 2015:

(In millions)	Fair Value	Impact of a Hypothetical 10% Adverse Price Change
Metal derivatives	$ (0.1)	$ (0.3)
Natural gas	(0.6)	(0.5)

The disclosures above do not take into account the underlying commitments or anticipated transactions. If the underlying items were included in the analysis, the gains or losses on our derivative instruments would be offset by gains and losses realized on the purchase of the physical commodities. Actual results will be determined by a number of factors outside of our control and could vary significantly from the amounts disclosed. For additional information on derivative financial instruments, see Note 18—Derivatives and Other Financial Instruments and Fair Value Measurements included in the notes to consolidated financial statements included in Part IV, Item 15 of this Annual Report.

Currency Exchange Risk

The financial condition and results of operations of a majority of our international operating subsidiaries are reported in various currencies and then translated into USD at the applicable exchange rate for inclusion in our consolidated financial statements. As a result, appreciation of the U.S. dollar against these currencies will, generally, have a negative impact on reported revenues and operating profit, while depreciation of the U.S. dollar against these currencies will, generally, have a positive effect on reported revenues and operating profit. In addition, a portion of the revenues generated by our international operations are denominated in U.S. dollars, while the majority of costs incurred are denominated in local currencies. As a result, appreciation in the U.S. dollar will have a positive impact on earnings, while depreciation of the U.S. dollar will have a negative impact on earnings.

While it is difficult to quantify any particular impact of changes in exchange rates, a uniform 10% strengthening of the U.S. dollar (presuming all other variables are held constant) would have resulted in a decrease in net earnings of $0.1 million for the year ended December 31, 2015. Comparatively, a 10% weakening of the U.S. dollar would have resulted in an increase in net earnings of $0.1 million during the period. This sensitivity analysis of the effect of a change in foreign currency exchange rates does not factor in future changes in sales levels or local currency prices or costs.

Item 8. Financial Statements and Supplementary Data

The information required by this Item 8 is incorporated by reference to the Real Industry, Inc. consolidated financial statements and Reports of Independent Registered Public Accounting Firms in Part IV, Item 15 of this Annual Report.

Item 9. Changes In and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

As of the end of the period covered by this Annual Report, management, with the participation of our CEO and CFO, performed an evaluation of the effectiveness of our disclosure controls and procedures as defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act. Our disclosure controls and procedures are designed to provide reasonable assurance that information required to be disclosed in the reports we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Commission’s rules and forms, and that such information is accumulated and communicated to our management, including our CEO and CFO, to allow timely decisions regarding required disclosures.

As disclosed in our quarterly reports on Form 10-Q for the periods ended June 30, 2015 and September 30, 2015, our CEO and CFO identified a material weakness in our internal control over financial reporting. The identified material weakness pertains to control deficiencies in our financial close process, specifically accounting for the Real Alloy Acquisition, including the lack of effective oversight and review of various analyses and reconciliations, and the inability to meet external financial reporting deadlines. The material weakness was caused by the significant level of activity related to accounting for the Real Alloy Acquisition, the integration of the Real Alloy Business, a manual consolidation process, and the complexity of the Real Alloy Acquisition and the associated purchase accounting.

Also as described in our quarterly reports on Form 10-Q for the periods ended June 30, 2015 and September 30, 2015, and as discussed below, we have taken steps to remediate a number of the aspects of this material weakness; however, our CEO and CFO have concluded that our disclosure controls and procedures were not effective as of December 31, 2015, as our process to account for the Real Alloy Acquisition, a 2015 event, was not remediated by year-end.

Notwithstanding this material weakness in accounting for the Real Alloy Acquisition, management concluded that the consolidated financial statements included in this Annual Report present fairly, in all material respects, the financial position of the Company at December 31, 2015 in conformity with GAAP and our external auditors have issued an unqualified opinion on our consolidated financial statements as of and for the year ended December 31, 2015. This material weakness has no impact on our consolidated financial statements in prior years.

Management's Report on Internal Control over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in the Exchange Act. Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with GAAP. The effectiveness of any system of internal control over financial reporting is subject to inherent limitations, including the exercise of judgment in designing, implementing, operating and evaluating internal control over financial reporting. Because of these inherent limitations, internal control over financial reporting cannot provide absolute assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with GAAP and may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that our internal control over financial reporting may become inadequate because of changes in conditions or other factors, or that the degree of compliance with the policies or procedures may deteriorate. Therefore, even those systems determined to be effective can provide only reasonable assurance of achieving their control objectives.

Management assessed the effectiveness of our internal control over financial reporting as of December 31, 2015, as required under Section 404 of the Sarbanes-Oxley Act of 2002. In making this assessment, we used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control—Integrated Framework (2013 Framework). Based on this assessment, management concluded that, as of December 31, 2015, the Company's internal control over financial reporting was not effective, due to the material weakness described below.

A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of our annual or interim consolidated financial statements will not be prevented or detected on a timely basis.

The material weakness in internal control over financial reporting resulted from the inadequate design and operation of internal controls related to the accounting for the Real Alloy Acquisition, specifically the review of the completeness and accuracy of key assumptions and financial data utilized in estimating the fair value of long-lived assets, the review of the accounting for intercompany loans arising from the Real Alloy Acquisition, as well the lack

of documentation evidencing management's review of the work of specialists. The control deficiencies surrounding the Real Alloy Acquisition created a reasonable possibility that a material misstatement to the consolidated financial statements may not be prevented or detected on a timely basis, and therefore we concluded that the deficiencies represent a material weakness.

Ernst & Young LLP, an independent registered public accounting firm, issued an attestation report on the effectiveness of the Company's internal control over financial reporting as December 31, 2015, which is included below, under "Report of Independent Registered Public Accounting Firm."

Remediation Efforts to Address Identified Material Weakness

Our management takes internal controls and the integrity of the Company's consolidated financial statements seriously and believes that the remediation efforts described below are essential to maintaining strong and effective internal control over financial reporting, and a strong internal control environment. We are committed to ensuring that the Company's controls are designed and operating effectively and have taken significant steps to remediate the material weakness reported in the periods ended June 30, 2015 and September 30, 2015, including:

- We developed an in-house internal audit function to assist management in designing more robust processes and controls within the Company, particularly related to complex accounting areas such as purchase accounting and transactions not in the ordinary course of operations;
- We hired a new director of accounting and financial reporting at our Real Alloy operation, with significant technical accounting and SEC reporting experience;
- We developed and implemented processes around the consolidation and financial reporting process, including supplementing controls over unusual transactions, review of account reconciliations and other oversight by financial leadership within the Company;
- We have taken steps to automate our financial reporting and consolidation processes and added controls around the remaining manual consolidation activities; and
- We invested significantly in support and training for our financial reporting group as a demonstration of management's commitment to ensuring a strong internal control over financial reporting process for the Company with effective disclosure controls and procedures.

We timely filed our quarterly report on Form 10-Q for the period ended September 30, 2015 and this Annual Report as a result of the remediation efforts through year-end and as part of our year-end close process.

Since December 31, 2015, we have continued to enhance the design and related documentation of management review controls over business combinations and purchase accounting based on the deficiencies identified in accounting for the Real Alloy Acquisition in 2015, which will be used and assessed in future acquisitions. Additionally, we have continued to invest in support and training for our entire finance and accounting department, including Real Alloy's employees, as a demonstration of management's commitment to ensuring a strong internal control environment.

We believe these measures have strengthened our internal controls over financial reporting and will prevent a reoccurrence of the material weakness described above. Our remediation efforts are subject to ongoing management review, as well as Audit Committee oversight. As we continue to evaluate and work to improve our internal control over financial reporting, management may take additional measures to modify and strengthen the remediation efforts.

Changes in Internal Control over Financial Reporting

The Real Alloy Acquisition represented a considerable transformation for us, with Real Alloy now serving as our primary business. The transition services agreement with Aleris, under which Aleris will continue providing specified services for up to twenty-four months following the acquisition, including treasury, accounts payable, cash management, payroll, credit and collection services, has had a material impact on the Company's internal control over financial reporting. In conjunction with and following the Real Alloy acquisition, we implemented controls during the year to address risks inherent in the integration and reporting processes at Real Alloy, as well as the transition services being provided by Aleris.

In addition, the Company has taken actions to remediate the material weakness relating to internal control over financial reporting, as described above.

Except as otherwise described above, there was no change in our internal control over financial reporting that occurred during the period covered by this Report that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of

Real Industry, Inc.

We have audited Real Industry, Inc.'s internal control over financial reporting as of December 31, 2015, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). Real Industry, Inc.'s management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Report of Management on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the 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 effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company's annual or interim financial statements will not be prevented or detected on a timely basis. The following material weakness has been identified and included in management's assessment. Management has identified a material weakness in controls related to the company's accounting for business combinations process. We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of Real Industry, Inc. as of December 31, 2015, and the related consolidated statements of operations, comprehensive income (loss), stockholders' equity and cash flows for the year then ended. This material weakness was considered in determining the nature, timing and extent of audit tests applied in our audit of the 2015 financial statements, and this report does not affect our report dated March 14, 2016, which expressed an unqualified opinion on those financial statements.

In our opinion, because of the effect of the material weakness described above on the achievement of the objectives of the control criteria, Real Industry, Inc. has not maintained effective internal control over financial reporting as of December 31, 2015, based on the COSO criteria.

/s/ Ernst & Young LLP

Cleveland, Ohio

March 14, 2016

Item 9B. Other Information
None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

The information required by this item is set forth under the captions “Election of Directors,” “Executive Officers,” “Code of Conduct,” “Section 16(a) Beneficial Ownership Reporting Compliance,” and “Corporate Governance and Board Matters” in the Company’s Definitive Proxy Statement to be filed with the SEC for our 2016 Proxy Statement, and is incorporated herein by reference.

Item 11. Executive Compensation

The information required by this item is set forth under the captions “Executive Compensation and Other Information,” “Corporate Governance and Board Matters—Director Compensation,” “Compensation Discussion and Analysis,” “Compensation Committee Interlocks,” “Compensation Committee Report,” and “Payments Upon Termination and Change in Control” in the 2016 Proxy Statement, and is incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information required by this item is set forth under the captions “Equity Compensation Plan Information” and “Security Ownership of Management and Certain Beneficial Owners,” in the 2016 Proxy Statement, and is incorporated herein by reference.

Item 13. Certain Relationships and Related Party Transactions, and Director Independence

The information required by this item is set forth under the captions “Certain Relationships and Related Transactions” and “Corporate Governance and Board Matters—Director Independence,” in the 2016 Proxy Statement, and is incorporated herein by reference.

Item 14. Principal Accounting Fees and Services

The information required by this item is set forth under the caption “Audit Information—Fees Paid to Independent Registered Public Accounting Firms,” in the 2016 Proxy Statement, and is incorporated herein by reference.

PART IV

Item 15. Exhibits and Financial Statement Schedules

(a) We have omitted financial statement schedules because they are not required or are not applicable or the required information is shown in the consolidated financial statements and notes thereto. See Item 8.

Documents filed as part of this Annual Report:

Exhibit Number	Description	Form	File No.	Exhibit Number	Filing Date	Filed Herewith
2.1	Stock Purchase Agreement, dated July 29, 2011, among Signature Group Holdings, Inc., North American Breaker Co., Inc. and the shareholders of North American Breaker Co., Inc.	8-K	001-08007	2.11	August 1, 2011	
2.2	Agreement and Plan of Merger, dated November 25, 2013, among Signature Group Holdings, Inc., a Nevada corporation, SGH Holdco, Inc., a Delaware corporation, and SGH Merger Sub LLC, a Delaware limited liability company	424(b)(3)	333-191685	Annex A	November 27, 2013	
2.3	Purchase and Sale Agreement, dated as of October 17, 2014, by and among Aleris Corporation, Aleris International, Inc., Aleris Aluminum Netherlands, B.V., Aleris Deutschland Holding GmbH, Aleris Holding Canada Limited, Dutch Aluminum C.V., Aleris Deutschland Vier GmbH Co KG, SGH Acquisition Holdco, Inc., Evergreen Holding Germany GmbH and Signature Group Holdings, Inc.	8-K	001-08007	2.1	October 21, 2014	
2.4	Purchase Agreement, dated as of January 9, 2015, by and among Signature Group Holdings, Inc., SGGH, LLC, North American Breaker Co., LLC, NABCO Holding Company, LLC and North American Breaker Co., Inc.	8-K	001-08007	2.1	January 12, 2015	
2.5	Amendment No. 1 to Purchase and Sale Agreement, dated as of January 26, 2015, by and between Real Alloy Holding, Inc. and Aleris Corporation	8-K	001-08007	2.1	January 27, 2015	
2.6	Amendment No. 2 to Purchase and Sale Agreement, dated as of February 26, 2015, by and among Aleris Corporation and Real Alloy Holding, Inc.	8-K	001-08007	2.1	March 5, 2015	
3.1	Certificate of Amendment to the Company's Second Amended and Restated Certificate of Incorporation	8-K	001-08007	3.1	June 1, 2015	
3.2	Third Amended and Restated Bylaws of the Registrant	10-Q	001-08007	3.1	November 9, 2015	
3.3		8-K	001-08007	3.1		

	Form of Stock Certificate for Common Stock of Real Industry, Inc				January 2, 2014
3.4	Certificate of Designation of Series B Non-Participating Preferred Stock of Signature Group Holdings, Inc.	8-K	001-08007	3.1	March 5, 2015
4.1	Rights Agreement, dated October 23, 2007, between the Successor Registrant (as successor in interest to Signature Nevada) and Computershare Inc. (as successor in interest to Mellon Investor Services LLC), as Rights Agent between the Company and Mellon Investor Services LLC dated October 23, 2007	8-K	001-08007	4.1	October 24, 2007
4.2	First Amendment to the Rights Agreement, dated July 28, 2011	8-K	001-08007	4.1	August 3, 2011

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Exhibit Number		Description	Form	File No.	Exhibit Number	Filing Date	Filed Herewith
4.3		Rights Agreement Amendment and Assignment, dated January 2, 2014, between Signature Nevada and Computershare	8-K	000-15569	4.3	January 2, 2014	
4.4		Form of Certificate of Designations of Series A Junior Participating Preferred Stock of the Successor Registrant	8-K	000-15569	4.2	January 2, 2014	
4.5		Form of Warrant to purchase shares of Common Stock	8-K	001-08007	10.2	June 17, 2010	
4.6		Form of Registration Rights Agreement entered into between the Company and the investors thereto	8-K	001-08007	10.3	June 17, 2010	
4.7		Indenture, dated January 8, 2015, by and among SGH Escrow Corporation, Real Alloy Intermediate Holding, LLC, and Wilmington Trust, National Association, as trustee.	8-K	001-08007	4.1	January 12, 2015	
4.8		Form of 10% Senior Secured Note due 2019	8-K	001-08007	Exhibit A1 to Exhibit 4.1	January 12, 2015	
4.9		First Supplemental Indenture, dated as of February 27, 2015, by and among Real Alloy Holding, Inc., Real Alloy Intermediate Holding, LLC, each of the guarantors listed on the signature pages thereto, and Wilmington Trust, National Association (as trustee and notes collateral trustee).	8-K	001-08007	4.1	March 5, 2015	
4.10		Form of Rule 144A 10% Senior Secured Note due 2019.	8-K	001-08007	4.2	March 5, 2015	
4.11		Form of Regulation S 10% Senior Secured Note due 2019.	8-K	001-08007	4.3	March 5, 2015	
4.12		Form of Series B Preferred Stock Certificate.	8-K	001-08007	4.4	March 5, 2015	
4.13		Form of Indenture with respect to Debt Securities	S-3	333-207311	4.5	October 7, 2015	
4.14		Form of Debt Securities	S-3	333-207311	4.6	October 7, 2015	
4.15		Form of Warrant	S-3	333-207311	4.7	October 7, 2015	
4.16		Form of Warrant Agreement	S-3	333-207311	4.8	October 7, 2015	
4.17		Form of Subscription Rights Agreement (including form of rights certificate)	S-3	333-207311	4.9	October 7, 2015	
4.18		Form of Unit Agreement	S-3	333-207311	4.1	October 7, 2015	
10.1	*	Amended and Restated Signature Group Holdings, Inc. 2006 Performance Incentive Plan	S-8	001-08007	4.1	May 7, 2012	
10.2	*	Form of Restricted Stock Agreement for use with the 2006 Performance Incentive Plan	10-K	001-08007	10.2	April 1, 2013	
10.3	*	Form of Incentive Stock Option Agreement for use with the 2006 Performance Incentive Plan	10-K	001-08007	10.3	April 1, 2013	

10.4	*	Form of Nonqualified Stock Option Agreement for use with the 2006 Performance Incentive Plan	10-K	001-08007	10.4	April 1, 2013
10.5	*	Real Industry, Inc. Amended and Restated 2015 Equity Award Plan	8-K	001-08007	10.1	June 1, 2015
10.6	*	Form of Real Industry, Inc. Amended and Restated 2015 Equity Award Plan Restricted Stock Award Agreement for Directors	10-Q	001-08007	4.1	August 17, 2015
10.7	*	Form of Real Industry, Inc. Amended and Restated 2015 Equity Award Plan Restricted Stock Award Agreement for Employees	10-Q	001-08007	4.2	August 17, 2015
10.8	*	Form of Real Industry, Inc. Amended and Restated 2015 Equity Award Plan Incentive Stock Option Award Agreement	10-Q	001-08007	4.3	August 17, 2015

Exhibit Number		Description	Form	File No.	Exhibit Number	Filing Date	Filed Herewith
10.9	*	Form of Real Industry, Inc. Amended and Restated 2015 Equity Award Plan Nonqualified Stock Option Award Agreement	10-Q	001-08007	4.4	August 17, 2015	
10.10	*	Form of Real Industry, Inc. Amended and Restated 2015 Equity Award Plan Restricted Stock Unit Agreement	10-Q	001-08007	4.5	August 17, 2015	
10.11	*	Amended and Restated Real Industry, Inc. 2015 Equity Award Plan TSR Performance Award Agreement	8-K	001-08007	10.1	February 25, 2016	
10.12	*	Employment Agreement, dated June 4, 2013, by and between Signature Group Holdings, Inc. and Craig T. Bouchard	8-K	001-08007	10.2	June 5, 2013	
10.13	*	Letter Agreement, dated November 8, 2013, by and between Signature Group Holdings, Inc. and Craig T. Bouchard, related to his Employment Agreement, dated June 4, 2013, reflecting adjustments related to the Reverse Split	10-Q	001-08007	10.1	November 13, 2013	
10.14	*	Restricted Stock Agreement, dated June 5, 2013, by and between Signature Group Holdings, Inc. and Craig T. Bouchard	8-K	001-08007	10.2	June 5, 2013	
10.15	*	Amendment to Restricted Stock Agreement, dated July 16, 2013, by and between Signature Group Holdings, Inc. and Craig T. Bouchard	8-K	001-08007	10.1	July 18, 2013	
10.16	*	Nonqualified Stock Option Agreement, dated June 5, 2013, by and between Signature Group Holdings, Inc. and Craig T. Bouchard	8-K	001-08007	10.2	June 5, 2013	
10.17	*	Performance Share Agreement, dated as of June 1, 2015, between the Company and Craig T. Bouchard	8-K	001-08007	10.2	June 1, 2015	
10.18	*	Evergreen Employment Agreement, dated August 1, 2014, between Kyle C. Ross and the Company	8-K	001-08007	10.1	August 5, 2014	
10.19	*	Evergreen Employment Agreement dated March 31, 2015 between John Miller and Signature Group Holdings, Inc.	8-K	001-08007	10.1	April 2, 2015	
10.20	*	Release and Waiver Agreement, dated as of May 27, 2015, between the Company and Christopher Manderson	8-K	001-08007	10.3	June 1, 2015	
10.21		Form of Indemnification Agreement	8-K	001-08007	10.7	June 17, 2010	
10.22		Stock Purchase Agreement by and between Signature Group Holdings, Inc., a Delaware corporation, and Kettle Hill Partners, LP and Kettle Hill Partners II, LP, dated October 27, 2014	8-K	001-08007	10.1	October 29, 2014	
10.23		Registration Rights Agreement by and between Signature Group Holdings, Inc., a Delaware corporation, and Kettle Hill Partners, LP and Kettle Hill Partners II, LP, dated October 27, 2014	8-K	001-08007	10.2	October 29, 2014	

10.24	Purchase Agreement, dated December 23, 2014, between SGH Escrow Corporation and Goldman Sachs & Co., Deutsche Bank Securities Inc. As Representatives of the several Purchasers named in Schedule I hereto	8-K	001-08007	10.1	December 24, 2014
10.25	Pledge and Security Agreement, dated as of February 27, 2015, by and among each of the grantor parties listed on the signature page thereto and Wilmington Trust, National Association (as notes collateral trustee).	8-K	001-08007	10.1	March 5, 2015

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Exhibit Number		Description	Form	File No.	Exhibit Number	Filing Date	Filed Herewith
10.26		Revolving Credit Agreement, dated as of February 27, 2015, by and among Real Alloy Recycling, Inc. (formerly known as Aleris Recycling, Inc.) for itself and as representative of other borrowers, Real Alloy Canada Ltd. (formerly known as Aleris Specification Alloy Products Canada Company), General Electric Capital Corporation, for itself as a lender, letter of credit issuer, and swingline lender and as agent for all lenders, and Wintrust Bank, as a lender.	8-K	001-08007	10.2	March 5, 2015	
10.27		U.S. Revolving Guarantee and Security Agreement, dated as of February 27, 2015, by and among Real Alloy Recycling, Inc. (formerly known as Aleris Recycling, Inc.), each other U.S. borrower and grantor thereunder from time to time, and General Electric Capital Corporation, as agent.	8-K	001-08007	10.3	March 5, 2015	
10.28		Canadian Revolving Guarantee and Security Agreement, dated as of February 27, 2015, by and among Real Alloy Canada Ltd. (formerly known as Aleris Specification Alloy Products Canada Company), each other grantor thereunder from time to time, and General Electric Capital Corporation, as agent.	8-K	001-08007	10.4	March 5, 2015	
10.29		Intercreditor Agreement, dated as of February 27, 2015, by and among General Electric Capital Corporation, as North America ABL Agent, and Wilmington Trust, National Association, as Notes Collateral Trustee, and acknowledged and agreed to by Real Alloy Intermediate Holding, LLC, Real Alloy Holding, Inc.	8-K	001-08007	10.5	March 5, 2015	
10.30		Factoring Agreement, dated as of February 27, 2015, by and between GE Capital Bank AG and Aleris Recycling (German Works) GmbH.	8-K	001-08007	10.6	March 5, 2015	
10.31	*	Employment Agreement dated March 12, 2015 between Real Alloy Holding, Inc. and Terrance J. Hogan.	8-K	001-08007	10.1	March 13, 2015	
10.32		Amendment to Commitment Letter, dated January 7, 2015, by and among Chatham Asset Management, LLC, Zell Credit Opportunities Master Fund L.P., and Signature Group Holdings, Inc.	8-K	001-08007	10.1	January 12, 2015	
10.33		Amendment to Commitment Letter, dated January 8, 2015, by and among General Electric Capital Corporation, GE Capital Markets, Inc., and Signature Group Holdings, Inc.	8-K	001-08007	10.2	January 12, 2015	
10.34		Amendment to Commitment Letter, dated January 14, 2015, by and between GE Capital Bank AG and Signature Group Holdings, Inc.	8-K	001-08007	10.1	January 21, 2015	
10.35		Amended and Restated Backstop Agreement, dated as of January 26, 2015, by and between Signature Group Holdings, Inc. and Aleris Corporation	8-K	001-08007	10.1	January 27, 2015	

16.1	Letter from Squar, Milner, Peterson, Miranda & Williamson, LLP addressed to the Securities and Exchange Commission, dated as of March 16, 2015	8-K	001-08007	16.1	March 19, 2015	X
21	Subsidiaries of the Company					X
23.1	Consent of Ernst & Young LLP					X

Exhibit Number	Description	Form	File No.	Exhibit Number	Filing Date	Filed Herewith
23.2	Consent of Squar Milner LLP					X
31.1	Certification of Chief Executive Officer Pursuant to Rules 13a-14(a) or 15d-14(a) under the Securities Exchange Act of 1934, as amended					X
31.2	Certification of Chief Financial Officer Pursuant to Rules 13a-14(a) or 15d-14(a) under the Securities Exchange Act of 1934, as amended					X
32.1	Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350					X
32.2	Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350					X
101.INS	XBRL Instance Document					X
101.SCH	XBRL Taxonomy Extension Schema Document					X
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document					X
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document					X
101.LAB	XBRL Taxonomy Extension Label Linkbase Document					X
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document					X

* Management or compensatory plans or arrangements.

Real Industry, Inc.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of

Real Industry, Inc.

We have audited the accompanying consolidated balance sheet of Real Industry, Inc. as of December 31, 2015, and the related consolidated statements of operations, comprehensive income (loss), stockholders' equity and cash flows for the year 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 audit.

We conducted our audit in accordance with the 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. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides 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 Real Industry, Inc. at December 31, 2015, and the consolidated results of its operations and its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Real Industry, Inc.'s internal control over financial reporting as of December 31, 2015, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated March 14, 2016, expressed an adverse opinion thereon.

/s/ Ernst & Young LLP

Cleveland, Ohio

March 14, 2016

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of

Real Industry, Inc.

We have audited the accompanying consolidated balance sheet of Real Industry, Inc. and subsidiaries (the "Company") as of December 31, 2014, and the related consolidated statements of operations, comprehensive loss, changes in stockholders' equity, and cash flows for each of the two years in the period ended December 31, 2014. 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 the 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. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2014, and the results of their operations and their cash flows for each of the two years in the period ended December 31, 2014, in conformity with U.S. generally accepted accounting principles.

/s/ Squar Milner LLP

Los Angeles, California

October 6, 2015

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements.
REAL INDUSTRY, INC.

CONSOLIDATED BALANCE SHEETS

(In millions, except share and per share amounts)	December 31, 2015	2014
ASSETS		
Current assets:		
Cash and cash equivalents	$35.7	$61.9
Trade accounts receivable, net	77.2	—
Financing receivable	32.7	—
Inventories	101.2	—
Prepaid expenses, supplies, and other current assets	24.7	1.0
Current assets of discontinued operations	0.3	18.1
Total current assets	271.8	81.0
Debt and equity offering costs	—	14.5
Property, plant and equipment, net	301.5	0.1
Intangible assets, net	15.1	0.1
Goodwill	104.3	—
Deferred income taxes	—	4.9
Other noncurrent assets	8.2	1.1
Noncurrent assets of discontinued operations	—	20.0
TOTAL ASSETS	$700.9	$121.7
LIABILITIES, REDEEMABLE PREFERRED STOCK AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Trade payables	$100.9	$—
Accrued liabilities	51.8	7.1
Long-term debt due within one year	2.3	—
Current liabilities of discontinued operations	0.1	8.1
Total current liabilities	155.1	15.2
Accrued pension benefits	38.0	—
Environmental liabilities	11.7	—
Long-term debt, net	312.1	—
Common stock warrant liability	6.9	5.6
Deferred income taxes	6.7	—
Other noncurrent liabilities	5.4	0.1
Noncurrent liabilities of discontinued operations	0.7	15.2
TOTAL LIABILITIES	536.6	36.1
Redeemable Preferred Stock, Series B; $1,000 liquidation preference per share; 100,000 and zero shares designated; 26,502 and zero shares issued and outstanding as of December 31, 2015 and 2014, respectively	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; 28,901,464 and 17,099,882 shares issued; and 28,891,766 and 17,099,882 shares outstanding as of December 31, 2015 and 2014, respectively	—	—
Additional paid-in capital	546.0	482.0
Accumulated deficit	(403.3)	(396.3)
Treasury stock, at cost; 9,698 and zero shares as of December 31, 2015 and 2014, respectively	(0.1)	—
Accumulated other comprehensive loss	(1.0)	—
Total stockholders' equity—Real Industry, Inc.	141.6	85.7
Noncontrolling interest	0.8	(0.1)

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TOTAL STOCKHOLDERS' EQUITY	142.4	85.6
TOTAL LIABILITIES, REDEEMABLE PREFERRED STOCK AND STOCKHOLDERS' EQUITY	$700.9	$121.7

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

REAL INDUSTRY, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

	Year Ended December 31,		
(In millions, except per share amounts)	2015	2014	2013
Revenues	$1,145.6	$2.1	$5.3
Cost of sales	1,070.7	—	—
Gross profit	74.9	2.1	5.3
Selling, general and administrative expenses	56.0	10.0	12.9
Losses on derivative financial instruments	4.2	—	—
Amortization of intangibles	2.0	0.1	—
Other operating expense, net	2.5	0.4	0.1
Operating profit (loss)	10.2	(8.4)	(7.7)
Nonoperating expense (income):			
Interest expense (income), net	34.9	(0.1)	2.0
Change in fair value of common stock warrant liability	1.5	(3.7)	6.9
Acquisition-related costs and expenses	14.8	3.4	—
Foreign exchange loss on intercompany loans	1.3	—	—
Other, net	(1.5)	0.5	(0.1)
Total nonoperating expense	51.0	0.1	8.8
Loss from continuing operations before income taxes	(40.8)	(8.5)	(16.5)
Income tax benefit	(9.1)	(8.4)	(2.3)
Loss from continuing operations	(31.7)	(0.1)	(14.2)
Earnings from discontinued operations, net of income taxes	24.9	5.5	4.2
Net earnings (loss)	(6.8)	5.4	(10.0)
Earnings (loss) from continuing operations attributable to noncontrolling interest	0.1	(0.1)	—
Net earnings (loss) attributable to Real Industry, Inc.	$(6.9)	$5.5	$(10.0)
EARNINGS (LOSS) PER SHARE			
Net earnings (loss) attributable to Real Industry, Inc.	$(6.9)	$5.5	$(10.0)
Dividends and accretion on Redeemable Preferred Stock	(2.3)	—	—
Net earnings (loss) available to common stockholders	$(9.2)	$5.5	$(10.0)
Basic and diluted earnings (loss) per share:			
Continuing operations	$(1.28)	$—	$(1.11)
Discontinued operations	0.93	0.41	0.32
Basic and diluted earnings (loss) per share	$(0.35)	$0.41	$(0.79)

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

REAL INDUSTRY, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

	Year Ended December 31,		
(In millions)	2015	2014	2013
Net earnings (loss)	$(6.8)	$5.4	$(10.0)
Other comprehensive income (loss):			
Currency translation adjustments	(6.0)	—	—
Pension benefit adjustments	7.1	—	—
Deferred tax benefit on pension benefit adjustments	(2.1)	—	—
Net change in unrealized gains during the period:			
Investment securities, available for sale	—	—	0.2
Reclassification of realized amount included in net loss	—	—	(0.4)
Comprehensive income (loss)	(7.8)	5.4	(10.2)
Comprehensive income (loss) attributable to noncontrolling interest	0.1	(0.1)	—
Comprehensive income (loss) attributable to Real Industry, Inc.	$(7.9)	$5.5	$(10.2)

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

REAL INDUSTRY, INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(In millions, except shares)	Preferred Stock		Common Stock		Treasury Stock		Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Noncontrolling Interest	Total
	Shares	Amount	Shares	Amount	Shares	Amount					
Balance, December 31, 2012	—	$ —	12,074,314	$ —	—	$ —	$ 449.8	$ (391.8)	$ 0.2	$ —	$ 58.2
Net loss attributable to Real Industry, Inc.	—	—	—	—	—	—	—	(10.0)	—	—	(10.0)
Common stock acquired	—	—	(32,885)	—	32,885	(0.3)	—	—	—	—	(0.3)
Issuance of restricted common stock, net of forfeitures	—	—	139,005	—	(20,768)	0.2	(0.2)	—	—	—	—
Common stock options exercised	—	—	20,668	—	—	—	0.1	—	—	—	0.1
Common stock warrant consideration	—	—	—	—	—	—	0.1	—	—	—	0.1
Share-based compensation expense	—	—	—	—	—	—	2.1	—	—	—	2.1
Change in accumulated other comprehensive income (loss)	—	—	—	—	—	—	—	—	(0.2)	—	(0.2)
Balance, December 31, 2013	—	—	12,201,102	—	12,117	(0.1)	451.9	(401.8)	—	—	50.0
Net earnings attributable to	—	—	—	—	—	—	—	5.5	—	—	5.5

Real Industry, Inc.											
Loss from continuing operations attributable to noncontrolling interest	—	—	—	—	—	—	—	—	—	(0.1)	(0.1)
Common stock issued, net	—	—	4,684,615	—	—	—	28.3	—	—	—	28.3
Common stock acquired	—	—	(9,229)	—	9,229	(0.1)	—	—	—	—	(0.1)
Issuance of restricted common stock, net of forfeitures	—	—	73,394	—	(21,346)	0.2	(0.2)	—	—	—	(0.0)
Common stock options exercised	—	—	150,000	—	—	—	0.8	—	—	—	0.8
Common stock warrant consideration	—	—	—	—	—	—	0.1	—	—	—	0.1
Share-based compensation expense	—	—	—	—	—	—	1.1	—	—	—	1.1
Balance, December 31, 2014	—	—	17,099,882	—	—	—	482.0	(396.3)	—	(0.1)	85.6
Net loss attributable to Real Industry, Inc.	—	—	—	—	—	—	—	(6.9)	—	—	(6.9)

Earnings from continuing operations attributable to noncontrolling interest	—	—	—	—	—	—	—	—	—	0.1	0.1
Common stock issued, net	—	—	11,304,673	—	—	—	63.3	—	—	—	63.3
Common stock acquired	—	—	(9,698)	—	9,698	(0.1)	0.1	(0.1)	—	—	(0.1)
Issuance of restricted common stock, net of forfeitures	—	—	240,990	—	—	—	—	—	—	—	—
Common stock options exercised	—	—	229,892	—	—	—	1.2	—	—	—	1.2
Exercise of Warrants	—	—	26,027	—	—	—	0.2	—	—	—	0.2
Noncontrolling interest acquired in business combination	—	—	—	—	—	—	—	—	—	0.8	0.8
Share-based compensation expense	—	—	—	—	—	—	1.5	—	—	—	1.5
Dividends and accretion on Redeemable Preferred Stock	—	—	—	—	—	—	(2.3)	0	—	—	(2.3)
Change in accumulated other comprehensive income (loss)	—	—	—	—	—	—	—	—	(1.0)	—	(1.0)
Balance, December 31, 2015	—	$—	28,891,766	$—	9,698	$(0.1)	$546.0	$(403.3)	$(1.0)	$0.8	$142.4

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

REAL INDUSTRY, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31,		
(In millions)	2015	2014	2013
Cash flows from operating activities:			
Net earnings (loss)	$(6.8)	$5.4	$(10.0)
Adjustments to reconcile net earnings (loss) to net cash provided by (used in) operating activities:			
Earnings from discontinued operations, net of income taxes	(24.9)	(5.5)	(4.2)
Depreciation and amortization	32.5	0.1	—
Deferred income taxes	(2.1)	(5.1)	—
Change in fair value of common stock warrant liability	1.5	(3.7)	6.9
Share-based compensation expense included in Corporate and Other	1.3	1.0	2.0
Amortization of debt issuance costs	4.3	—	—
Unrealized losses on derivative financial instruments	0.8	—	—
Amortization of purchase accounting adjustments	9.2	—	—
Proceeds from sale of loans held for sale, net	—	—	27.1
Gain on sale of loans held for sale, net	—	—	(5.0)
Other	1.5	(1.2)	(0.2)
Changes in assets and liabilities:			
Trade accounts receivable, net	3.7	—	—
Financing receivable	33.4	—	—
Inventories	44.6	—	—
Prepaid expenses, supplies, and other current assets	3.7	2.1	2.7
Debt and equity offering costs	—	(14.5)	—
Other noncurrent assets	(5.4)	0.2	(2.0)
Trade payables	(8.2)	—	—
Accrued liabilities	19.1	5.1	0.7
Other noncurrent liabilities	(1.7)	0.3	0.1
Net cash provided by (used in) operating activities of discontinued operations	(14.0)	1.8	4.7
Net cash provided by (used in) operating activities	92.5	(14.0)	22.8
Cash flows from investing activities:			
Acquisition of business, net of cash	(524.7)	—	—
Proceeds from sale of NABCO, net of $3.9 million held in escrow	74.1	—	—
Purchases of property and equipment	(26.0)	(0.1)	—
Other	(0.7)	3.1	6.2
Net cash provided by (used in) investing activities of discontinued operations	—	(0.1)	2.5
Net cash provided by (used in) investing activities	(477.3)	2.9	8.7
Cash flows from financing activities:			

Retirement of long-term debt	—	—	(37.2)
Payment of NABCO outstanding debt	(14.3)	—	—
Proceeds from Asset-Based Facility, net of issuance costs	126.1	—	—
Repayments on capital leases and the Asset-Based Facility	(108.3)	—	—
Proceeds from issuance of Senior Secured Notes, net of debt issuance costs	290.2	—	—
Proceeds from exercise of common stock options and Warrants	1.4	0.9	0.1
Proceeds from issuance of common stock, net of issuance costs	63.3	28.3	—
Net cash provided by (used in) financing activities of discontinued operations	(0.4)	(3.1)	2.9
Net cash provided by (used in) financing activities	358.0	26.0	(34.5)
Effect of exchange rate changes on cash and cash equivalents	(0.3)	—	—
Increase (decrease) in cash and cash equivalents	(27.1)	14.9	(3.0)
Cash and cash equivalents, beginning of period	62.9	48.0	51.0
Cash and cash equivalents, end of period	$35.8	$62.9	$48.0
Cash and cash equivalents, end of period—continuing operations	$35.7	$61.9	$47.8

Cash and cash equivalents, end of period—discontinued operations	0.1	1.0	0.2
Cash and cash equivalents, end of period	$35.8	$62.9	$48.0

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

REAL INDUSTRY, INC.

NOTES TO 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 ("U.S. 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 the primary business within our former industrial supply segment. 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"). A portion of the proceeds of the sale of NABCO were used to fund the Real Alloy Acquisition.

The Real Alloy Business, as 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, aerospace, building and construction, steel, and durable goods industries. Real Alloy processes aluminum scrap 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.

The closing of the Real Alloy Acquisition was the culmination of a series of equity and debt financing transactions that began in the fourth quarter of 2014, raising the capital required to fund the Real Alloy Acquisition and pay transaction costs as summarized below (collectively, the "Financings"):

- In October 2014, Real Industry issued 0.3 million shares of common stock at $10.00 per share in a private placement, providing gross proceeds of $3.0 million;
- In December 2014, Real Industry issued approximately 4.4 million shares of common stock at $6.50 per share in an underwritten public offering providing gross proceeds of $28.5 million;
- In January 2015, Real Alloy, as successor to SGH Escrow Corporation ("SGH Escrow"), issued $305.0 million in senior secured notes due January 15, 2019 (the "Senior Secured Notes") at a price of 97.206% of the principal amount, providing gross proceeds of $296.5 million;
- In February 2015, Real Industry issued approximately 9.8 million shares of common stock to existing common stockholders in a stapled rights offering (the "Rights Offering"), providing gross proceeds of $55.0 million;
- In February 2015, the U.S., Canadian and German operating subsidiaries of Real Alloy entered into new credit facilities, including a $110.0 million asset-based lending facility (the "Asset-Based Facility") secured by assets of certain of Real Alloy's North American subsidiaries, and a €50.0 million factoring facility (the "Factoring Facility") for the purchase of eligible accounts receivable of Real Alloy's German operations; and
- In February 2015, Real Industry issued 25,000 shares, at a $1,000 liquidation preference per share, of a new series of non-participating preferred stock (the "Redeemable Preferred Stock") to Aleris.

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. 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, divestiture and financing activities described above, our operations in 2015 have been and will be substantially different from that reported in the previous periods covered by this Annual Report on Form 10-K (the “Annual Report”). See Note 19— Segment and Geographic Information for additional information about our reportable segments.

The assets and liabilities and results of operations of NABCO 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 20—Discontinued Operations for additional information about NABCO and other discontinued operations.

NOTE 2—FINANCIAL STATEMENT PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

The accompanying consolidated financial statements comprise the accounts of Real Industry, 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"). All intercompany transactions have been eliminated in the consolidated financial statements. The Company evaluates subsequent events through the date of filing with the Securities and Exchange Commission ("SEC").

Certain amounts in the accompanying consolidated financial statements have been reclassified to conform to the current presentation, including the classification of NABCO as a discontinued operation, the reclassification of acquisition-related fees and costs from selling, general and administrative expenses in 2014, and the reclassification of interest income from operating revenues to interest expense (income), net.

Use of estimates

Management has made a number of estimates and assumptions relating to the reporting of assets, liabilities, revenues and expenses and the disclosure of contingent assets and liabilities to prepare these consolidated financial statements in accordance with GAAP. Significant areas requiring the use of management estimates relate primarily to valuation of long-lived assets, including goodwill and intangible assets, environmental liabilities, asset retirement obligations, pension benefits, litigation reserves, valuation of deferred income taxes, and the loan repurchase reserve. Actual results could differ from those estimates.

Revenue recognition, shipping and handling costs, and advertising costs

Revenues are recognized when title transfers and the risk of loss passes to the customer. This typically occurs when the goods reach their destination, depending on individual shipping terms. For customer-owned toll material, revenue is recognized upon the performance of the tolling service for the customers. For material that is consigned, revenue is not recognized until the product is used by the customer. Shipping and handling costs are included within cost of sales in the consolidated statements of operations included elsewhere in this Annual Report. Advertising costs, totaling $0.3 million for the year ended December 31, 2015, are expensed as incurred. There were no advertising costs incurred in the years ended December 31, 2014 and 2013.

During the year ended December 31, 2015, one customer accounted for approximately 14.4% of consolidated revenues, and the top ten customers accounted for 60.5% of consolidated revenues.

Business combinations

Business combinations are accounted for using the acquisition method where the purchase price paid is allocated to the assets acquired and liabilities assumed, and noncontrolling interest, if applicable, based on their estimated fair values. Any excess purchase price over the fair value of the net assets acquired is recorded as goodwill.

Cash and cash equivalents and restricted cash

Cash and cash equivalents include cash on hand, cash on deposit at financial institutions and other short-term liquid investments. Cash and cash equivalents are stated at cost, which approximates fair value. All highly liquid investment instruments with maturities of three months or less at the acquisition date are classified as cash equivalents. Cash that is subject to legal restrictions or is unavailable for general operating purposes is considered restricted cash and classified in other assets, including $3.9 million in an escrow fund to support NABCO's representations and warranties under the NABCO purchase agreement as of December 31, 2015.

Accounts receivable allowances and credit risk

Credit is extended to our customers based on an evaluation of their financial condition; generally, collateral is not required. We maintain an allowance against our accounts receivable for the estimated probable losses on uncollectible accounts. The allowance is based upon our historical loss experience, current economic conditions within the industries we serve as well as our determination of the specific risk related to certain customers. Accounts receivable are charged off against the reserve when, in management's estimation, further collection efforts would not result in a reasonable likelihood of receipt, or later as proscribed by statutory regulations. As of December 31, 2015 and 2014, the trade accounts receivable allowance totaled $0.3 million and zero, respectively.

As of December 31, 2015, two customers accounted for more than 10% of our accounts receivable, both were less than 20% and the top ten customers represented approximately 59.7% of the total accounts receivable as of December 31, 2015.

Financing receivable

Real Alloy has an agreement to sell certain of its trade accounts receivables in Europe. The agreement results in true sales of transferred receivables, as defined in Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 860, Transfers and Servicing, which occurs when receivables are transferred to a purchaser without recourse to the Company. Such amounts are reported as financing receivable in the consolidated balance sheets until proceeds from such sales are received from the counterparty, and are categorized as a Level 2 measurement in the fair value hierarchy. Cash proceeds from such sales are generally received within thirty days and are included in operating cash flows.

The transferred receivables are isolated from Real Alloy's accounts, as debtors pay into a segregated escrow account maintained by the counterparty. Real Alloy maintains continuing involvement with the transferred receivables through limited servicing obligations, primarily related to recordkeeping. Real Alloy retains no right to the receivables, or associated collateral, and does not collect a servicing fee. Following transfer, Real Alloy has no further rights to receive any cash flows or other benefits from the transferred receivables and has no further obligations to provide additional cash flows or other assets to any party related to the transfer.

Inventories

Inventories are stated at the lower of cost or net realizable value. At Real Alloy, cost is determined primarily on the average cost method and includes material, labor and overhead related to the manufacturing process, as applicable. Cosmedicine acquires its specialty cosmetics inventory as fully packaged finished goods, ready for sale to consumers. Cosmedicine's inventory cost is determined on the average cost method. The value of inventories acquired in business combinations is recorded at fair value and any fair value adjustment is amortized to cost of sales over the applicable inventory turn.

During the year ended December 31, 2015, no single supplier represented more than 10% of metal purchases. The top ten suppliers accounted for 22.0% of total metal purchases during the year ended December 31, 2015.

Debt and equity offering costs

Debt and equity offering costs represents fees, costs and expenses associated with ongoing capital raising efforts. Fees, costs and expenses associated with completed debt offerings are recorded as a reduction to the carrying value of the associated debt and amortized to interest expense over the life of the underlying instruments. Fees, costs and expenses associated with completed equity offerings are recorded as a reduction of additional paid-in capital. Fees, costs and expenses associated with commitments that are not utilized or debt and equity offerings that are not completed are expensed in the period that the underlying commitment expires or offering is terminated.

Property, plant and equipment

Property, plant and equipment is stated at cost, net of depreciation and asset impairments. The cost of property, plant and equipment acquired in business combinations represents the fair value of the acquired assets at the time of acquisition.

The estimated fair value of asset retirement obligations incurred after the Real Alloy Acquisition are capitalized to the related long-lived asset at the time the obligations are incurred and are depreciated over the estimated remaining useful life of the related asset.

Major renewals and improvements that extend an asset's useful life are capitalized to property, plant and equipment. Major repair and maintenance projects are expensed over periods not exceeding twenty-four months, while normal maintenance and repairs are expensed as incurred. Depreciation is computed using the straight-line method over the estimated useful lives of the related assets, as follows:

	Estimated Useful Lives
Buildings and improvements	5 - 33 years
Production equipment and machinery	2 - 25 years
Office furniture, equipment and other	3 - 10 years

Property, plant and equipment, identifiable intangible assets, and other long-lived assets that have definite lives are evaluated for impairment when events or changes in circumstances, or a triggering event, indicate that the carrying value of the assets may not be recoverable. Upon the occurrence of a triggering event, the impacted assets are reviewed to assess whether the undiscounted cash flows expected for the use of the asset, plus residual value from the ultimate disposal, exceeds the carrying value of the assets. If the carrying value exceeds the estimated recoverable amounts, the assets are written down to fair value. As of December 31, 2015, no impairment on property, plant and equipment, identifiable intangible assets, or other long-lived assets has been recognized.

Goodwill and intangible assets

Goodwill is tested for impairment as of October 1 of each year and may be tested more frequently if changes in circumstances or the occurrence of events indicates that a potential impairment exists. We evaluate goodwill based upon our reporting units, which are defined as operating segments or, in certain situations, one level below the operating segment.

The impairment test is a two-step process, which requires us to make judgments in determining what assumptions to use in the calculations. The first step of the process consists of estimating the fair value of each reporting unit based on discounted cash flow models and guideline public company ("GPC") information, using revenue and profit forecasts, and comparing those estimated fair values with the carrying values, which include allocated goodwill. These projections include assumptions about prices, margins and other operating costs. Other key assumptions included in the fair value of our reporting units include estimated cash flow periods, terminal values based on our anticipated growth rate and the discount rate used, which is based on our current cost of capital, adjusted for the risks associated with our operations. If the determined fair value is less than the carrying value, a second step is performed to compute the amount of the impairment by determining an "implied fair value" of goodwill, which is compared to the corresponding carrying value. See Note 8—Goodwill and Intangible Assets, Net for additional information about the results of the annual impairment tests.

Intangible assets consist primarily of customer relationships recognized in business combinations. Intangible assets with finite lives are amortized over their estimated useful lives, which represent the period over which the asset is expected to contribute directly or indirectly to future cash flows. Intangible assets with finite lives are reviewed for impairment whenever events and circumstances indicate the carrying value of such assets or liabilities may not be recoverable and exceed their fair value. If an impairment loss exists, the carrying amount of the intangible asset is adjusted to a new cost basis. The new cost basis is amortized over the remaining useful life of the asset. Tests for impairment or recoverability require significant management judgment, and future events affecting cash flows and market conditions could adversely impact the valuation of these assets and result in impairment losses.

As of December 31, 2015 and 2014, no impairment has been recognized on identifiable intangible assets or goodwill.

Deferred financing costs

Costs related to the issuance of long-term debt are capitalized and classified as a reduction of the associated debt in the consolidated balance sheets and are amortized over the term of the related debt agreements as interest expense using the effective interest method. Costs related to the Factoring Facility are capitalized and classified as other assets in the consolidated balance sheets and are amortized over the term of the arrangement on a straight-line basis as interest expense.

Common stock warrant liability

In June 2010, warrants to purchase an aggregate of 1.5 million shares of the Company's common stock (the "Warrants") were issued for an aggregate cash purchase price of $0.3 million. The Warrants have a term of ten years and had an original exercise price of $10.30 per share. The Warrants include anti-dilution and pricing protection provisions that provide for a reduction in the exercise price of the Warrants if any common stock (or equivalents) of the Company are issued at a price per share less than the exercise price during the term of the Warrants, excluding issuances under the Company's equity award and incentive programs. As a result of the Rights Offering in February 2015, in which the Company issued shares for $5.64 per share, the exercise price of the Warrants was reduced to, and as of December 31, 2015 remains, $5.64. The Warrants are financial instruments classified as derivative liabilities and are re-measured at fair value at each reporting date and on each Warrant exercise date. The fair value of Warrants exercised are reclassified to additional paid-in capital. Other changes in the common stock warrant liability are recognized in earnings.

Derivatives and hedging

Real Alloy is engaged in activities that expose it to various market risks, including changes in the prices of aluminum alloys, aluminum scrap, copper, silicon, and natural gas, as well as changes in currency exchange rates. Certain of these financial exposures are managed as an integral part of its risk management program, which seeks to reduce the potentially adverse effects that the volatility of the markets may have on operating results. Real Alloy may enter into forward contracts or swaps to manage the exposure to market risk. The fair value of these instruments is reflected in the consolidated balance sheets and the impact of these instruments is reflected in the consolidated statements of operations. Real Alloy does not hold or issue derivative financial instruments for trading purposes.

The estimated fair values of derivative financial instruments are recognized as assets or liabilities as of the balance sheet date. Fair values for metal and natural gas derivative financial instruments are determined based on the differences between contractual and forward rates of identical hedge positions as of the balance sheet date. In developing these fair values, Real Alloy includes an estimate of the risk associated with nonperformance by either its counterparty or itself.

Real Alloy does not account for its derivative financial instruments as hedges. The changes in fair value of derivative financial instruments and the associated gains and losses realized upon settlement are recorded in losses on derivative financial instruments in the consolidated statements of operations. All realized gains and losses are included within net cash provided by operating activities in the consolidated statements of cash flows. Real Alloy is exposed to losses in the event of nonperformance by its derivative counterparties. The counterparties' creditworthiness is monitored on an ongoing basis, and credit levels are reviewed to ensure appropriate concentrations of credit outstanding to any particular counterparty. Although nonperformance by counterparties is possible, we do not currently anticipate nonperformance by any of these parties.

Currency translation

Certain of Real Alloy's international subsidiaries use the local currency as their functional currency. Real Alloy translates all of the amounts included in the consolidated statements of operations from its international subsidiaries into U.S. dollars at average monthly exchange rates, which management believes is representative of the actual exchange rates on the dates of the transactions. Adjustments resulting from the translation of the assets and liabilities into U.S. dollars at the balance sheet date exchange rates are reflected as a separate component of the Company's stockholders' equity. Currency translation adjustments accumulate in the Company's stockholders' equity until the disposition or liquidation of the international entities. Currency transactional gains and losses associated with receivables and payables denominated in currencies other than the functional currency are included within other, net in the consolidated statements of operations. The translation of accounts receivables and payables denominated in currencies other than the functional currencies resulted in transactional gains of $ 0.3 million for the year ended

December 31, 2015.

Additionally, Real Alloy maintains intercompany long-term loans between its U.S. and foreign jurisdiction entities, which were established in the subsidiaries' functional currency and due to their long-term nature, any currency related effects are recorded as a component of accumulated other comprehensive loss. The effects of exchange rates on intercompany loans held by Real Alloy's international subsidiaries that are not long-term in nature are recognized in current period earnings. The Company recorded $1.3 million of foreign exchange losses on intercompany loans during the year ended December 31, 2015.

Environmental and asset retirement obligations

Environmental obligations that are not legal or contractual asset retirement obligations and that relate to existing conditions caused by past operations with no benefit to future operations are expensed, while expenditures that extend the life, increase the capacity or improve the safety of an asset, or mitigate or prevent future environmental contamination are capitalized in property, plant and equipment. Obligations are recorded when their occurrence is probable and the associated costs can be reasonably estimated. While accruals are based on management's current best estimate of the future costs of remedial action, these liabilities can change substantially due to factors such as the nature and extent of contamination, changes in the required remedial actions and technological advancements. Existing environmental liabilities are not discounted to their present values, as the amount and timing of the expenditures are not fixed or reliably determinable. Environmental liabilities that represent short-term remediation costs are classified in accrued liabilities.

Asset retirement obligations represent the present value of estimated future obligations associated with the retirement of tangible long-lived assets. Our asset retirement obligations relate primarily to capping our three landfills, as well as costs related to the future removal of asbestos and underground storage tanks at various recycling facilities. The estimated fair value of such legal obligations is recognized in the period in which the obligations are incurred, and capitalized as part of the carrying amount of the associated long-lived asset. These estimated fair values are based upon the present value of future cash flows expected to be required to satisfy the obligations. Determining the estimated fair value of asset retirement obligations requires judgment, including estimates of the credit adjusted interest rate and estimates of future cash flows. Estimates of future cash flows are obtained primarily from engineering consulting firms. The present value of the obligations is accreted over time while the capitalized costs are depreciated over the remaining estimated useful life of the related asset. Short-term asset retirement obligations are classified in accrued liabilities, while long-term asset retirement obligations are classified as other noncurrent liabilities.

Pension benefits

The Company measures the costs of its obligations for under defined pension plans based on its health care cost trends and actuarial assumptions, including discount rates, mortality rates, assumed rates of return, compensation increases, and turnover rates. Pension benefit costs are accrued based on annual analyses performed by actuaries. These analyses are based on assumptions including a discount rate and the expected rate of return on plan assets. Both the discount rate and expected rate of return on plan assets require estimates and projections by management and can fluctuate from period to period. Real Alloy's objective in selecting a discount rate is to select the best estimate of the rate at which the benefit obligations could be effectively settled. In making this estimate, projected cash flows are developed and matched with a yield curve based on an appropriate universe of high-quality corporate bonds. Assumptions for long-term rates of return on plan assets are based upon historical returns and future expectations for returns (calculated using the fair value of plan assets). See Note 3—Business Combinations and Note 15—Employee Benefit Plans for more information about the assumptions used to determine the pension benefit obligation as of the date of the Real Alloy Acquisition and as of December 31, 2015.

Management reviews its assumptions on an annual basis and makes modifications to the assumptions based on current rates and trends when it is appropriate to do so. The effect of modifications to those assumptions is recorded in accumulated other comprehensive income (loss) and amortized to net periodic cost over future periods using the corridor method. The Company believes that the assumptions utilized in recording its obligations under its plans are reasonable based on its experience and market conditions. Net periodic costs are recognized as employees render the services necessary to earn these post-retirement benefits. Management does not believe differences in actual experience or reasonable changes in assumptions will materially affect the Company's financial position or results of operations.

Management believes these assumptions are appropriate; however, the actuarial assumptions used to determine pension benefits may differ from actual results due to changing market and economic conditions, higher or lower

withdrawal rates, or longer or shorter life spans of participants. Management does not believe differences in actual experience or reasonable changes in assumptions will materially affect the Company's financial position or results of operations.

Income taxes

Deferred income taxes are computed using the liability method, under which deferred income taxes represent the tax effect of differences between the financial and income tax bases of assets and liabilities. As a result of generating operating losses since 2006, among other factors, the Company has determined that sufficient uncertainty exists as to the realizability of certain of its deferred tax assets and, as such, has placed a full valuation allowance of $382.4 million and $385.6 million on its U.S. deferred tax assets as of December 31, 2015 and 2014, respectively. In the year ended December 31, 2014, the Company released $5.1 million of the deferred tax valuation allowance based on expected future taxable income. In future years, U.S. tax benefits and related U.S. deferred tax assets will be recognized if the Company considers realization of the net U.S. deferred tax assets to be more likely than not, or to the extent that U.S. deferred tax liabilities are recognized in connection with business combinations.

Uncertain tax positions that meet the more likely than not recognition threshold are measured to determine the amount of benefit to recognize. An uncertain tax position is measured at the largest amount of benefit that management believes has a greater than 50% likelihood of realization upon settlement. The Company classifies interest and penalties as a component of income tax expense.

Comprehensive income (loss)

Comprehensive income (loss) consists of net earnings (loss) attributable to Real Industry, net unrealized gains on investment securities, available for sale, foreign currency translation adjustments and pension benefit adjustments, and is presented in the consolidated statements of comprehensive income (loss). As of December 31, 2015, $7.2 million of accumulated other comprehensive loss is related to gains and losses on the foreign currency effect on intercompany loans that are of a long-term investment nature. See Note 13—Accumulated Other Comprehensive Income (Loss) for additional information about the components of and activity in accumulated other comprehensive income (loss).

Discontinued operations

GAAP requires the results of operations of a component of an entity that either has been disposed of or is classified as held for sale to be reported as discontinued operations in the consolidated financial statements if the sale or disposition represents a strategic shift that has (or will have) a major effect on an entity's operations and financial results.

In January 2015, SGGH sold all of its interest in NABCO to provide a portion of the funding of the Real Alloy Acquisition, which represented a strategic shift in our operations.

As of December 31, 2015, discontinued operations includes only legacy litigation, primarily home mortgage foreclosure cases in which the Company has no ongoing association with the mortgage or foreclosure, and a mortgage loan repurchase reserve. Refer to Note 20—Discontinued Operations for assets, liabilities, and financial results of the components of the Company designated as discontinued operations. Significant accounting policies specific to assets and liabilities of discontinued operations are described under "Repurchase reserve" below.

Repurchase reserve

Pursuant to Fremont's subprime residential mortgage business, Fremont's primary operating subsidiary FIL sold loans and made customary standard industry representations and warranties about the loans. SGGH may be required to repurchase certain loans should a court find that FIL breached certain representations and warranties provided to counterparties that purchased the loans. SGGH maintains a repurchase reserve pursuant to Topic 460, Guarantees and Topic 450, Contingencies, for the estimated losses expected to be incurred due to outstanding loan repurchase claims, as well as potential future loan repurchase claims. The reserve is based on historical repurchase settlements, expected future repurchase trends for loans sold in whole loan sale transactions, and the expected valuation of such loans when repurchased. The estimated reserve is based upon currently available information and is subject to known and unknown uncertainties using multiple assumptions requiring significant judgment. Actual results may vary significantly from the current estimate. The repurchase reserve is relieved when a claim is settled or as our exposure decreases as the statute of limitations run on existing claims.

Recent accounting pronouncements

In February 2016, the FASB issued Accounting Standards Update ("ASU") 2016-02, Leases (Topic 842) ("ASU 2016-02"), to make leasing activities more transparent and comparable, and requires substantially all leases be recognized by lessees on their balance sheet as a right-of-use asset and corresponding lease liability, including leases currently accounted for as operating leases. ASU 2016-02 is effective for all interim and annual reporting periods beginning after December 15, 2018, and early adoption is permitted. We are currently evaluating the impact of ASU 2016-02 on the Company's consolidated financial statements and disclosures.

In November 2015, the FASB issued ASU 2015-17, Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes (“ASU 2015-17”), which provides for the simplification of reporting deferred income taxes in the balance sheet. ASU 2015-17 requires that deferred taxes be reported as noncurrent assets and liabilities when presented in a classified balance sheet. ASU 2015-17 is effective for fiscal years beginning after December 15, 2016, and interim periods within those annual periods, with early application permitted. ASU 2015-17 may be applied either prospectively to all deferred tax assets and liabilities, or retrospectively to all periods presented. We adopted the retrospective guidance provided in ASU 2015-17 in the year ended December 31, 2015. The retrospective application to the December 31, 2014 consolidated balance sheet resulted in the reclassification of $5.1 million of current deferred income tax assets to noncurrent deferred income tax assets.

In September 2015, the FASB issued ASU 2015-16, Business Combinations (Topic 805) (“ASU 2015-16”), which provides that an acquirer recognize adjustments to provisional amounts during the measurement period in which the adjustments are identified. ASU 2015-16 requires that an acquirer record, in the same period’s financial statements, the effect on earnings of changes in depreciation, amortization, or other income effects, if any, as a result of the change to the provisional amounts, calculated as if the accounting had been completed as of the acquisition date. ASU 2015-16 requires an entity to present separately on the face of the statements of operations, or disclose in the notes, the portion of the amount recorded in current period earnings, by line item, that would have been recorded in previous reporting periods if the adjustment to the provisional amounts had been recognized as of the acquisition date. ASU 2015-16 is effective for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. We adopted the guidance provided in ASU 2015-16 in the year ended December 31, 2015, and such guidance had no impact on the Company’s consolidated financial statements.

In April 2015, the FASB issued ASU 2015-03, Interest—Imputation of Interest (Topic 835-30) (“ASU 2015-03”), and in August 2015, the FASB issued ASU 2015-15, Interest—Imputation of Interest (Topic 835-30) (“ASU 2015-15”). Both updates relate to the presentation and recognition of debt issuance costs. ASU 2015-15 provides that given the absence of authoritative guidance within ASU 2015-03, for debt issuance costs related to line-of-credit arrangements, the SEC staff would not object to an entity deferring and presenting the debt issuance costs as an asset and subsequently amortizing the deferred debt issuance costs ratably over the term of the line-of-credit arrangement, regardless of whether there are any outstanding borrowings on the line-of-credit arrangement. The Company’s presentation of debt issuance costs associated with line-of-credit arrangements follows the guidance of ASU 2015-03 and ASU 2015-15 and, therefore, had no impact on the Company’s consolidated financial statements.

In July 2015, the FASB issued ASU 2015-11, Inventory (Topic 330) (“ASU 2015-11”), which provides that an entity measure inventory at the lower of cost or net realizable value. Net realizable value is the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. ASU 2015-11 will be effective for fiscal years beginning after December 15, 2016, will be applied prospectively, and early adoption is permitted as of the beginning of an interim or annual period. We adopted the guidance of ASU 2015-11 in the year ended December 31, 2015, and it did not have a material impact on the Company’s financial statements or disclosures.

In May 2014, the FASB issued 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. We are currently evaluating the impact the application of ASU 2014-09 will have on the Company’s financial statements and disclosures.

NOTE 3—BUSINESS COMBINATIONS

On February 27, 2015, Real Industry, through its indirect wholly owned subsidiary, Real Alloy, acquired 100% of the voting interests of the Real Alloy Business from Aleris, under a purchase agreement (the “Real Alloy Purchase Agreement”). Upon closing, we paid $496.2 million to Aleris, and an additional $5.0 million of cash and the Redeemable Preferred Stock were placed into escrow to satisfy the indemnification obligations of Aleris under the Real Alloy Purchase Agreement, in which Aleris has agreed to indemnify Real Alloy and its affiliates for certain

claims and losses. During the second quarter, we paid an additional $31.3 million of the purchase price representing the initial working capital adjustment under the Real Alloy Purchase Agreement. The final working capital adjustment totaled $2.4 million and was paid on September 3, 2015.

As part of the transaction, Real Alloy and Aleris entered into a transition services agreement ("TSA"), under which Aleris provides certain customary post-closing transition services to Real Alloy, including information technology services, treasury services, accounts payable, cash management and payroll, credit/collection services, environmental services, and human resource services for periods ranging from three to twenty-four months following the acquisition date. For the year ended December 31, 2015, Real Alloy incurred $7.4 million of transition services expenses under the TSA.

We incurred acquisition and financing-related costs and expenses associated with the Real Alloy Acquisition totaling approximately $14.8 million during the year ended December 31, 2015, which are classified as nonoperating expenses in the consolidated statements of operations. Acquisition and financing-related costs and expenses associated with the Real Alloy Acquisition recognized in 2014 totaled $3.4 million.

The acquisition was accounted for as a business combination, with the purchase price allocated based on the estimated fair values of the assets acquired and liabilities assumed, with goodwill totaling $104.6 million. As a result of finalizing the purchase accounting in the fourth quarter ended December 31, 2015, goodwill was increased by $19.6 million from the amount reported as of September 30, 2015. The adjustments primarily related to the final fair value adjustments of property, plant and equipment, deferred taxes, and environmental liabilities. The changes to goodwill during the year ended December 31, 2015 from our initial preliminary purchase price allocation are reflected in the following table:

(In millions, before currency translation adjustments)	
Balance, December 31, 2014	$—
Preliminary purchase price allocation for the Real Alloy Acquisition reported as of March 31, 2015	102.3
Adjustments to preliminary purchase price allocation recorded in the measurement period	2.3
Balance, December 31, 2015	$104.6

Goodwill was allocated to our reporting units, Real Alloy North America ("RANA") and Real Alloy Europe ("RAEU"), as of the acquisition date on a relative fair value basis, with $95.4 million and $9.2 million allocated to RANA and RAEU, respectively. See Note 19— Segment and Geographic Information for additional information about our reportable segments.

The following tables provide summary information about the purchase consideration, identifiable assets acquired, liabilities assumed, and goodwill.

(In millions)	
Purchase consideration:	
Cash paid at closing	$501.2
Fair value of Redeemable Preferred Stock issued	19.6
Initial working capital adjustment	31.3
Final working capital adjustment	2.4
Total purchase consideration	$554.5
Purchase price allocation:	
Assets:	
Cash	$10.2
Trade accounts receivable	150.1
Inventories	157.7
Property, plant and equipment	311.7
Deferred income taxes	0.7
Prepaid expenses, supplies, and other current assets	19.9
Identifiable intangible assets	17.0
Total assets	667.3
Liabilities:	
Trade payables	112.4
Accrued liabilities	26.9
Accrued pension benefits	46.0
Environmental liabilities	12.1
Noncurrent asset retirement obligations	5.9
Deferred income taxes	7.5
Other	6.6

Total liabilities	217.4
Estimated fair value of net assets acquired	$449.9
Total purchase consideration	$554.5
Estimated fair value of net assets acquired	449.9
Goodwill	$104.6

The estimated fair value of trade accounts receivable is based on the undiscounted receivables management expected to receive from the $150.4 million of total trade accounts receivable at the acquisition date. Due to the short-term nature of the receivables, the undiscounted receivables expected to be collected are estimated to approximate fair value.

Inventories include the estimated fair value of finished goods, work in process and raw materials. The estimated fair value of finished goods was based on analyses of future selling prices and the profit associated with the manufacturing effort. The estimated fair value of work in process considered costs to complete to finished goods and was based on analyses of future selling prices and the profit associated with the manufacturing effort. The estimated fair value of raw materials was based on replacement cost. The $157.7 million of estimated fair value of inventories includes $4.2 million in fair value adjustments, all of which was amortized as noncash charges in cost of sales during the year ended December 31, 2015. See Note 5—Inventories for additional information about inventory as of December 31, 2015.

Property, plant and equipment includes land, site improvements, buildings and building improvements, and machinery, equipment, furniture and fixtures. The estimated fair value of property, plant and equipment was based on appraisals and replacement cost analyses. The estimated fair value of construction in progress was based on replacement cost, which approximated carrying value. See Note 7—Property, Plant and Equipment, Net for additional information about property, plant and equipment as of December 31, 2015.

The fair value of property, plant and equipment acquired was estimated as follows:

(In millions)	Estimated Fair Value
Land and improvements	$ 62.9
Buildings and improvements	56.6
Machinery, equipment, furniture and fixtures	181.9
Construction work in progress	10.3
Property, plant and equipment	$ 311.7

Identifiable intangible assets represent the estimated fair value of customer relationships. The valuation of intangible assets acquired was based on management's estimates, available information, and reasonable and supportable assumptions and used an excess earnings approach. Significant assumptions included forecast revenues, customer retention rates and profit margins, a discount rate of 13.5% based on our overall cost of equity, adjusted for perceived business risks related to these customer relationships, and an estimated economic useful life of twenty years. Due to uncertainties related to the expected cash flows, the customer relationships are amortized on a straight-line basis over the weighted average life of the expected cash flows, or seven years. See Note 8—Goodwill and Intangible Assets, Net for additional information about intangible assets as of December 31, 2015.

The fair value of prepaid, supplies, and other assets includes a $6.4 million fair value adjustment related to inventory supplies, which under Real Alloy's accounting policy had been expensed, but remained available for use as of the acquisition date. The estimated fair value of the supplies is based on replacement cost. $5.6 million of the fair value adjustment related to supplies was amortized as noncash charges in cost of sales during the year ended December 31, 2015.

The fair value of trade payables and accrued liabilities were estimated to approximate carrying value due to the short-term nature of the liabilities, except for the toll liability, which was adjusted by $0.6 million as part of the inventory fair value adjustment, all of which was recognized in cost of sales in the year ended December 31, 2015 See Note 12—Prepaid Expenses, Other Assets, and Accrued and Other Liabilities for additional information about accrued liabilities as of December 31, 2015.

Accrued pension benefits include defined benefit plans for German employees. The plans are based on final pay and service, but some senior officers are entitled to receive enhanced pension benefits. Benefit payments are financed, in

part, by contributions to a relief fund that establishes a life insurance contract to secure future pension payments. Based on statutory pension contribution calculations proscribed under German law, the plans are substantially underfunded. The unfunded statutory accrued pension costs are covered under a pension insurance association under German law should Real Alloy, or its subsidiaries, be unable to fulfill their pension obligations. See Note 15—Employee Benefit Plans for additional information about pension benefits.

The following assumptions were utilized to measure accrued pension benefits as of the acquisition date:

Discount rate	1.7%
Rate of compensation increase	3.0%
Pension increase	1.8%
Turnover	2.0%

Environmental liabilities represent estimated reserves for long-term environmental remediation costs that have been recognized based on the guidance in FASB ASC 450, Contingencies, and FASB ASC 410, Asset Retirement and Environmental Obligations. Real Alloy is subject to various environmental laws and regulations governing, among other things, the handling, disposal and remediation of hazardous substances and wastes, and employee safety. Short-term environmental remediation costs totaling $3.2 million are classified in accrued liabilities as of the acquisition date. Given the changing nature of environmental legal requirements, Real Alloy may be required to take environmental control measures at some of its facilities to meet future requirements. See Note 23—Commitments and Contingencies for additional information regarding environmental liabilities.

The estimated fair value of the Redeemable Preferred Stock was determined based on a discounted cash flow using estimates of market rates and redemption probabilities. See Note 9—Debt and Redeemable Preferred Stock and Note 18—Derivative and Other Financial Instruments and Fair Value Measurements for additional information about the Redeemable Preferred Stock as of December 31, 2015.

Deferred income taxes represent the differences between the book and tax bases of the assets acquired, which as of the acquisition date totaled $0.7 million of deferred tax assets and $7.5 million of deferred tax liabilities in Germany, the United Kingdom, Norway, Canada and Mexico. As a result of an election under section 338(h)(10) of the Internal Revenue Code of 1986, as amended (the "Tax Code"), the tax bases of U.S. assets acquired and most liabilities assumed were adjusted to the acquisition date fair values. Approximately $66.3 million of the goodwill is expected to be deductible for U.S. income tax reporting purposes. See Note 14—Income Taxes for additional information regarding deferred income taxes as of December 31, 2015.

Other liabilities assumed include asset retirement obligations, which represent obligations associated with the retirement of tangible long-lived assets, which primarily relate to the requirement to cap three landfills, as well as costs related to the future removal of asbestos and underground storage tanks at various facilities. The estimated fair value is based upon the present value of the future cash flows expected to be required to satisfy the obligation using discount rates ranging from 6.7% to 13.2%. Determining the fair value of asset retirement obligations requires judgment, including estimates of the credit adjusted interest rate and estimates of future cash flows. The present value of the obligations is accreted over the useful life of the associated assets. See Note 11—Asset Retirement Obligations for additional information about the asset retirement obligations as of December 31, 2015, and Note 12—Prepaid Expenses, Other Assets, and Accrued and Other Liabilities for additional information about other liabilities as of December 31, 2015.

Based on the estimated fair value of assets acquired and liabilities assumed, goodwill of $104.6 million is attributable to Real Alloy's strong management team, assembled workforce and its defensible market share. See Note 8—Goodwill and Intangible Assets, Net for additional information about goodwill as of December 31, 2015.

The operating results of Real Alloy are included in the Company's consolidated financial statements from the acquisition date. For the period from the acquisition date to December 31, 2015, Real Alloy's total revenues and loss from continuing operations before income taxes were $1,145.6 million and $23.3 million, respectively.

The following selected unaudited pro forma results of operations of the Company for the years ended December 31, 2015 and 2014, give effect to this business combination as though the transaction occurred on January 1, 2014:

	Year Ended December 31,	
(In millions)	2015	2014
Total revenues:		

As reported	$1,145.6	$2.1
Pro forma	1,382.6	1,523.4
Loss from continuing operations before income taxes:		
As reported	$(40.8)	$(8.5)
Pro forma	(22.8)	(53.6)

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NOTE 4—FINANCING RECEIVABLE

The financing receivable relates to proceeds receivable from the sale of trade accounts receivable under the Factoring Facility, net of advances taken against the sales proceeds and administrative fees and costs. The following table provides information about the Factoring Facility and financing receivable as of December 31, 2015:

(In millions)	December 31, 2015
Balance, beginning of period	$ —
Sales of trade accounts receivable	431.5
Proceeds from sales of trade accounts receivable	(395.3)
Advances, net against financing receivable	(2.8)
Currency translation adjustments	(0.7)
Balance, end of period	$ 32.7

On February 27, 2015, an indirect wholly owned German subsidiary of Real Alloy, entered into the €50.0 million Factoring Facility, which provides for nonrecourse sales of certain of its trade accounts receivables to a financial institution, subject to certain limitations and eligibility requirements. The Factoring Facility has a termination date of January 15, 2019.

Prior to the collection of proceeds from the transferred receivables, advances against such proceeds are available to the Real Alloy subsidiary, subject to certain limitations and eligibility requirements. Such advances, which totaled $2.8 million as of December 31, 2015, are recorded as a reduction to the financing receivable in the consolidated balance sheets, due to the counterparty’s right of set off.

The interest rate applicable to advances under the Factoring Facility is the three-month EURIBOR (daily rate) fixed on the last business day of a month for the following month, plus 1.65%. Interest expense on advances was $0.1 million for the year ended December 31, 2015.

NOTE 5—INVENTORIES

The following table presents the components of inventories as of December 31, 2015 and 2014:

(In millions)	December 31, 2015	2014
Real Alloy:		
Finished goods	$32.2	$ —
Raw materials and work in process	68.1	—
Total Real Alloy inventories	100.3	—

Cosmedicine - finished goods	0.9	
Total inventories	$101.2	$ —

NOTE 6—DEBT AND EQUITY OFFERING COSTS

In connection with the Company's capital raising and acquisition activities, we have incurred fees, costs and expenses associated with various financing transactions that were in process as of December 31, 2015 and 2014. The debt and equity offering costs are summarized in the following table:

	December 31,	
(In millions)	2015	2014
Debt costs associated with acquisitions	$—	$3.7
Backstops commitments associated with acquisitions	—	10.5
Rights and other equity offering costs	—	0.3
Total debt and equity offering costs	$—	$14.5

As of December 31, 2015, all of the capitalized debt and equity offering costs capitalized as of December 31, 2014 had been reclassified with the associated debt issued or additional paid-in capital with the associated equity issued and $10.5 million was recognized as expense in 2015 as commitments expired.

NOTE 7—PROPERTY, PLANT AND EQUIPMENT, NET

The following table presents the components of property, plant and equipment, net as of December 31, 2015 and 2014:

(In millions)	December 31, 2015	2014
Land and improvements	$65.5	$—
Buildings and improvements	58.4	0.1
Machinery, equipment, furniture and fixtures	201.7	0.1
Construction work in progress	6.2	—
Property, plant and equipment	331.8	0.2
Accumulated depreciation	(30.3)	(0.1)
Property, plant and equipment, net	$301.5	$0.1

Capital lease assets totaled $4.5 million and zero as of December 31, 2015 and 2014, respectively. Capital lease amortization is included in depreciation expense. Accumulated depreciation for capital lease assets totaled $0.5 million and zero as of December 31, 2015 and 2014, respectively. During the year ended December 31, 2015, $0.6 million of interest was capitalized in connection with capital projects.

The following table provides depreciation expense and repair and maintenance expense for the years ended December 31, 2015, 2014 and 2013:

(In millions)	Year Ended December 31, 2015	2014	2013
Depreciation expense included in cost of sales	$29.9	$—	$—
Depreciation expense included in selling, general and administrative expenses	0.6	0.1	0.1

NOTE 8—GOODWILL AND INTANGIBLE ASSETS, NET

Accounting for acquired goodwill in accordance with GAAP requires significant judgment with respect to the determination of the valuation of the acquired assets and liabilities assumed in order to determine the final amount of goodwill recorded in a business combination. Goodwill is not amortized, rather, it is evaluated for impairment on an annual basis, or more frequently when a triggering event occurs between annual tests that would more likely than not reduce the fair value of the reporting unit below its carrying value. The reporting units evaluated for goodwill impairment have been determined to be the same as the Company’s operating segments.

Annual goodwill impairment testing

In the first step of the goodwill impairment test, the fair value of each reporting unit is compared to its carrying amount. The Company utilizes a combination of a discounted cash flow (“DCF”) approach and a GPC approach in order to value the Company's reporting units required to be tested for impairment. Each of the DCF and GPC approaches were weighted 50%. These nonrecurring fair value measurements are primarily determined using unobservable inputs. Accordingly, these fair value measurements are categorized within Level 3 of the fair value hierarchy.

Under the DCF, we estimate the fair value of a reporting unit based on the present value of future cash flows. Cash flow projections are based on management’s estimate of revenue growth rates and operating margins and take into consideration industry and market conditions, as well as company specific economic factors. The DCF calculations also include a terminal value calculation that is based on an expected long-term growth rate for the applicable reporting unit. The discount rate is based on the weighted average cost of capital adjusted for the relevant risk associated with the business specific characteristics and the uncertainty associated with the reporting unit's ability to execute on the projected cash flows. The weighted average cost of capital used in the income approach was 10.5%. For 2015, a long-term growth rate of three percent was used and was determined based on estimated future gross domestic product. Other significant assumptions include future capital expenditures and changes in working capital requirements.

Under the GPC we identify a group of comparable companies giving consideration to, among other relevant characteristics, similar lines of business, business risks, growth prospects, business maturity, market presence, leverage, and size and scale of operations. The analysis compares the public market implied fair value for each comparable public company to its historical and projected revenues and EBITDA. The calculated range of multiples for the comparable companies used was generally consistent with the purchase multiples in the Real Alloy Acquisition, which was applied to projected EBITDA and revenues to determine a range of fair values as of October 1, 2015, which is applied to our historical and projected EBITDA and revenues, respectively, to determine a range of fair values as of October 1, 2015.

The DCF and GPC analyses are based on our projected financial information, which includes a variety of estimates and assumptions. While we consider such estimates and assumptions reasonable, they are inherently subject to uncertainties and a wide variety of significant business, economic and competitive risks, many of which are beyond our control and may not materialize. Changes in these estimates and assumptions may have a significant effect on the estimation of the fair value of our reporting units.

Results of the October 1, 2015 testing of both RANA and RAEU indicated fair values for these reporting units in excess of their respective carrying amounts. No interim indicators of impairment were identified in 2015.

The following table reflects the activity associated with goodwill during the year ended December 31, 2015:

(In millions)	RANA	RAEU	Total
Balance, December 31, 2014	$ —	$ —	$—
Acquisition of Real Alloy	95.4	9.2	104.6
Currency translation adjustments	—	(0.3)	(0.3)
Balance, December 31, 2015	$ 95.4	$ 8.9	$ 104.3

Intangible assets consisted of the following as of December 31, 2015 and 2014:

	December 31,	
(In millions)	2015	2014
Customer relationships	$ 17.0	$—
Product formulations	0.2	0.2
Accumulated amortization	(2.1)	(0.1)
Intangible assets, net	$ 15.1	$ 0.1

The following table presents the estimated amortization of intangible assets in future periods:

(In millions)	
2016	$ 2.5
2017	2.4
2018	2.5
2019	2.4

2020	2.5
Thereafter	2.8
Amortization of intangible assets	$15.1

NOTE 9—DEBT AND REDEEMABLE PREFERRED STOCK

The following table presents the Company's long-term debt as of December 31, 2015 and 2014:

(In millions)	December 31, 2015	2014
Senior Secured Notes:		
Principal amount outstanding	$305.0	$ —
Unamortized original issue discount and issuance costs	(14.3)	—
Senior Secured Notes, net	290.7	—
Asset-Based Facility:		
Principal amount outstanding	22.0	—
Unamortized debt issuance costs	(2.4)	—
Asset-Based Facility, net	19.6	—
Capital leases	4.1	—
Current portion of long-term debt	(2.3)	—
Total long-term debt, net	$312.1	$ —

Long-term debt

Senior Secured Notes

On January 8, 2015, Real Alloy, as successor to SGH Escrow, completed a private placement of $305.0 million aggregate principal of 10% Senior Secured Notes at a price of 97.206% of the principal amount thereof to qualified institutional purchasers in accordance with Rule 144A and Regulation S under the Securities Act. The Senior Secured Notes were issued pursuant to an indenture, dated as of January 8, 2015 (the "Indenture") between Real Alloy, as successor to SGH Escrow, Real Alloy Parent, and Wilmington Trust, National Association ("Wilmington"), as trustee and notes collateral trustee.

Under the terms of the Pledge and Security Agreement, dated as of February 27, 2015, by and between each of Real Alloy, Real Alloy Parent and the other parties signatory thereto, and Wilmington as notes collateral trustee, the Senior Secured Notes and related guarantees are secured by first priority security interests in the fixed assets of Real Alloy, Real Alloy Parent and the Subsidiary Guarantors (as defined in the Pledge and Security Agreement) and by second priority security interests in certain other collateral of Real Alloy, Real Alloy Parent and the Subsidiary Guarantors.

The Indenture, among other things, limits Real Alloy and its restricted subsidiaries' (as defined in the Indenture) ability to: incur additional indebtedness or issue certain preferred stock; pay dividends or make other distributions on capital stock or prepay subordinated indebtedness; purchase or redeem any equity interests; make investments; create liens; sell assets; enter into agreements that restrict dividends or other payments by restricted subsidiaries; consolidate, merge or transfer all or substantially all of its assets; engage in transactions with Real Alloy's affiliates; or enter into any sale and leaseback transactions. These covenants are subject to important exceptions and qualifications. As of December 31, 2015, Real Alloy was in compliance with all applicable covenants under the Indenture and Pledge and Security Agreement.

The Senior Secured Notes mature on January 15, 2019 and interest is payable on January 15 and July 15 of each year, commencing on July 15, 2015, through the date of maturity. For the year ended December 31, 2015, interest expense associated with the Senior Secured Notes was $33.4 million, including $3.6 million of noncash expense related to the amortization of the original issue discount and debt issuance costs.

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Asset-Based Facility

On February 27, 2015, a wholly owned domestic subsidiary of Real Alloy and an affiliate of Real Alloy entered into the $110.0 million Asset-Based Facility that matures on October 17, 2018. The Asset-Based Facility is secured by a first priority lien on the borrowers and, to the extent no adverse tax impact would be incurred, Real Alloy's foreign subsidiaries' accounts receivable, inventory, instruments representing receivables, guarantees and other credit enhancements related to receivables, and bank accounts into which receivables are deposited, among other related assets. The Asset-Based Facility is also secured by a second priority lien on the assets that secure the Senior Secured Notes. The borrowing base under the Asset-Based Facility is determined based on eligible accounts receivable and eligible inventory. U.S. dollar denominated loans under the U.S. sub-facility of the Asset-Based Facility will bear interest, at the borrowers' option, either (i) at 1, 2, 3 or 6-month interest periods at LIBOR, or (ii) the Base Rate (as defined below), in each case plus a margin based on the amount of the excess availability under the Asset-Based Facility. The "Base Rate" is equal to the greater of (a) the U.S. prime rate, (b) the U.S. Federal Funds Rate plus 50 basis points, and (c) the sum of LIBOR plus a margin based on the amount of the excess availability under the Asset-Based Facility. Canadian dollar denominated loans under the Canadian sub-facility of the Asset-Based Facility will bear interest, at the borrowers' option, either (i) at 1, 2, 3 or 6-month interest periods at an average Canadian interbank rate, or (ii) floating at the greater of the Canadian prime rate or the average 30-day Canadian interbank rate plus 1.35%, in each case plus a margin based on the amount of the excess availability under the Asset-Based Facility. Events of default will trigger an increase of 2.0% in all interest rates. Interest is payable monthly in arrears, except for LIBOR loans and Canadian interbank rate loans, for which interest is payable at the end of each relevant interest period. The Asset-Based Facility provides for the issuance of up to $25.0 million of letters of credit. In addition to paying interest on any outstanding principal under the Asset-Based Facility, the borrowers are required to pay commitment fees in respect of unutilized commitments ranging from 0.25% to 0.38% based on average utilization for the applicable period. On the initial funding date, the borrowers paid a 1.0% funding fee. For the year ended December 31, 2015, interest expense associated with the Asset-Based Facility was $1.2 million, including $0.7 million related to the amortization of debt issuance costs.

As of December 31, 2015, Real Alloy had available borrowing capacity of $42.1 million under the Asset-Based Facility, after giving effect to the outstanding letters of credit of $3.7 million. As of December 31, 2015, the borrowers were in compliance with all applicable covenants under the Asset-Based Facility.

Capital Leases

As part of the Real Alloy Acquisition, existing capital leases of the Real Alloy Business, primarily mobile and office equipment, were assumed. In the normal course of operations, Real Alloy enters into capital leases to finance office, mobile, and other equipment for its operations. As of December 31, 2015, $2.3 million of the $4.1 million in total 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. 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 shares of Redeemable Preferred Stock are generally non-voting, however the consent of the holders of a majority of the outstanding shares of Redeemable Preferred Stock are required, among other requirements, (i) until February 27, 2017, to (x) declare or pay cash dividends on Real Industry common stock; or (y) purchase, redeem or acquire shares of Real Industry common stock, other than, among others, certain shares of common stock issued to

employees; (ii) so long as at least $10.0 million in aggregate principal amount of Redeemable Preferred Stock is outstanding, to make acquisitions valued at more than 5% of the consolidated assets of the Company and its subsidiaries; (iii) to take actions that would adversely affect the rights of the holders of the Redeemable Preferred Stock; and (iv) to undertake certain merger activities unless the Redeemable Preferred Stock remains outstanding or is purchased at the liquidation preference.

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 under 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 may 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 held by Aleris and its subsidiaries has a liquidation preference of $26.5 million, as of December 31, 2015, and 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 maximum redemption amount, including future in kind dividends, if redeemed by the holder on August 27, 2020, their earliest redemption date, is $28.5 million.

The carrying value of Redeemable Preferred Stock is based on the estimated fair value of the instrument as of the issuance date. The difference between the redemption value and the estimated fair value as of the issuance date is being accreted to the redemption value 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 year ended December 31, 2015:

(In millions)	
Balance, December 31, 2014	$—
Fair value of Redeemable Preferred Stock issued	19.6
Dividends and accretion	2.3
Balance, December 31, 2015	$21.9

The following table presents contractual maturities of long-term debt as of December 31, 2015:

(In millions)	
2016	$2.4
2017	1.2
2018	22.5
2019	305.1
2020	—
Total	$331.2

NOTE 10—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 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 were 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 December 31, 2015.

In May 2015, 15,000 Warrants were exercised, including 7,500 on a cashless basis, resulting in the issuance of 9,360 shares of common stock and gross proceeds of $0.1 million. In September 2015, 16,667 Warrants were exercised on a cashless basis, resulting in the issuance of 6,969 shares of common stock. Upon exercise, the fair value of the Warrants exercised are reclassified to additional paid-in capital. As of December 31, 2015, 1,468,333 Warrants remain outstanding.

The Company utilizes a Monte Carlo simulation to estimate the fair value of the common stock warrant liability. See Note 12—Derivative and Other Financial Instruments and Fair Value Measurements for a discussion about the estimated fair values determined using the Monte Carlo simulation option pricing model. A decrease in the common stock warrant liability results in other nonoperating income, while an increase in the common stock warrant liability results in other nonoperating expense. The following table presents changes in the fair value of the common stock warrant liability during the years ended December 31, 2015, 2014 and 2013:

	Year Ended December 31,		
(In millions)	2015	2014	2013
Balance, beginning of period	$5.6	$9.3	$2.4
Warrants exercised	(0.2)	—	—
Change in fair value of common stock warrant liability	1.5	(3.7)	6.9
Balance, end of period	$6.9	$5.6	$9.3

NOTE 11—ASSET RETIREMENT OBLIGATIONS

The following table presents activity for asset retirement obligations for the year ended December 31, 2015:

(In millions)	
Balance, December 31, 2014	$—
Obligations assumed in business combination	6.5
Revisions and liabilities incurred	(1.0)
Accretion expense	0.4
Payments	(0.9)
Balance, December 31, 2015	$5.0

Of the total asset retirement obligations as of December 31, 2015, $0.9 million is classified as accrued liabilities, with the remaining $4.1 million classified as other noncurrent liabilities in the consolidated balance sheets.

NOTE 12—PREPAID EXPENSES, SUPPLIES, OTHER ASSETS, AND ACCRUED AND OTHER LIABILITIES

The following tables provide details of prepaid expenses, other assets, accrued liabilities and other noncurrent liabilities within continuing operations as of December 31, 2015 and 2014:

Prepaid Expenses, Supplies, and Other Current Assets

(In millions)	December 31, 2015	2014
Prepaid expenses	$8.0	$0.7
Supplies	11.6	—
Restricted cash	3.9	—
Other	1.2	0.3
Total prepaid expenses, supplies, and other current assets	$24.7	$1.0

Other Noncurrent Assets

(In millions)	December 31, 2015	2014
Loans receivable, net	$1.0	$1.1
Utility and other deposits	6.8	—
Other	0.4	—
Total other noncurrent assets	$8.2	$1.1

Accrued Liabilities

(In millions)	December 31, 2015	2014
Employee-related costs	$13.5	$0.8
Accrued interest	14.0	—
Toll liability	8.2	—
Income taxes payable	2.0	—
Environmental liabilities	4.3	—
Asset retirement obligations	0.9	—
Derivative liabilities, net	0.7	—
Other	8.2	6.3
Total accrued liabilities	$51.8	$7.1

Other Noncurrent Liabilities

(In millions)	December 31, 2015	2014
Asset retirement obligations	$4.1	$—
Other	1.3	0.1
Total other noncurrent liabilities	$5.4	$0.1

NOTE 13—ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

The following table summarizes the activity within accumulated other comprehensive income (loss) for the years ended December 31, 2015, 2014 and 2013:

(In millions)	Unrealized Gains on Investment Securities, Available for Sale	Currency Translation	Pension Benefit Adjustment	Accumulated Other Comprehensive Income (Loss)
Balance, December 31, 2012	$ 0.2	$ —	$ —	$ 0.2
Unrealized gains	0.2	—	—	0.2
Amounts realized in earnings	(0.4)	—	—	(0.4)
Balance, December 31, 2013 and 2014	—	—	—	—
Currency translation adjustments	—	(6.0)	—	(6.0)
Pension benefit adjustments	—	—	7.1	7.1
Deferred tax expense on pension benefit adjustments	—	—	(2.1)	(2.1)
Balance, December 31, 2015	$ —	$ (6.0)	$ 5.0	$ (1.0)

NOTE 14—INCOME TAXES

The following table reflects earnings (loss) from continuing operations before income taxes by domestic and foreign tax jurisdictions:

	Year Ended December 31,		
(In millions)	2015	2014	2013
U.S.	$(43.8)	$(8.5)	$(16.5)
Foreign	3.0	—	—
Loss from continuing operations	$(40.8)	$(8.5)	$(16.5)

The following table summarizes income tax benefit, within continuing operations, for the years ended December 31, 2015, 2014 and 2013:

(In millions)	Year Ended December 31, 2015	2014	2013
Current income tax expense (benefit):			
Federal	$(13.9)	$(3.1)	$(2.4)
State	0.4	(0.7)	(0.5)
Foreign	6.5	—	—
Total current income tax benefit	(7.0)	(3.8)	(2.9)
Deferred income tax expense (benefit):			
Federal	1.3	(4.6)	0.5
State	(0.1)	—	0.1
Foreign	(3.3)	—	—
Total deferred income tax expense (benefit)	(2.1)	(4.6)	0.6
Total income tax benefit	$(9.1)	$(8.4)	$(2.3)

The following table provides a reconciliation of the effective tax rates in the consolidated statements of operations from continuing operations with the statutory U.S. federal income tax rate of 34.0%:

(In millions)	Year Ended December 31, 2015	2014	2013
U.S. federal statutory rate	34.0 %	34.0 %	34.0 %
State income taxes	(0.6)%	4.9 %	2.2 %
Foreign income taxes	(0.4)%	0.0 %	0.0 %
Deferred tax valuation allowance	(26.5)%	(131.3)%	(10.6)%
Fair value adjustments	(1.2)%	14.7 %	(14.9)%
Revisions to prior years	19.1 %	171.4 %	2.1 %
Other permanent items	(2.1)%	(0.1)%	(0.2)%
Other	0.0 %	4.7 %	2.3 %
Effective tax rate	22.3 %	98.3 %	14.9 %

The following table provides a summary of the activity in the amount of unrecognized tax benefits for the years ended December 31, 2015, 2014 and 2013:

(In millions)	Year Ended December 31, 2015	2014	2013
Balance, beginning of period	$—	$0.3	$0.4
Additions	0.3	0.3	—
Reductions	—	—	(0.1)
Settlements	—	(0.6)	—
Balance, end of period	$0.3	$—	$0.3

Unrecognized tax benefits as of December 31, 2015 were $0.3 million, the recognition of which would impact the effective tax rate. Interest and penalties related to unrecognized tax benefits are recognized as a component of income tax expense. For the year ended December 31, 2015, the Company recognized no income tax expense related to interest and penalties.

The Company has not provided for U.S. income taxes on undistributed earnings of certain non-U.S. subsidiaries, as such amounts are considered permanently reinvested outside the U.S. To the extent foreign earnings previously treated as permanently reinvested are repatriated, the related U.S. tax liability may be reduced by any foreign income taxes paid on these earnings. It is not practicable to determine the U.S. federal income tax liability that would be payable, if any, should such earnings not be permanently reinvested. As of December 31, 2015, non-U.S. subsidiaries have cumulative unremitted earnings of $12.4 million.

Deferred income taxes are a component of continuing operations and include the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and for income tax reporting purposes. The components of the Company's deferred tax assets, liabilities and valuation allowances as of December 31, 2015 and 2014 are summarized in the following table:

(In millions)	December 31, 2015	2014
Deferred tax assets:		
Net operating loss carryforwards	$366.9	$375.2
Alternative minimum tax credits	11.8	10.9
Repurchase reserve	0.2	2.1
Inventory	0.4	0.6
Compensation	1.1	0.9
Pension obligations	5.7	—
Other	2.1	1.0
Total deferred tax assets	388.2	390.7
Deferred tax valuation allowance	(382.4)	(385.6)
Deferred tax assets, net of valuation allowance	5.8	5.1
Deferred tax liabilities:		
Property, plant and equipment	(11.4)	—
Intangible assets	(1.1)	(0.6)
Other	—	0.4
Total deferred tax liabilities	(12.5)	(0.2)
Net deferred assets (liabilities)	$(6.7)	$4.9

The Company assesses deferred tax assets to consider whether it is more likely that not that the deferred tax assets will be realized. The ultimate realization of deferred tax assets depends on the ability to generate taxable income during the periods and in jurisdictions in which the temporary difference become deductible. As a result of generating losses since 2006, among other factors, the Company determined that sufficient uncertainty existed as to the realizability of its deferred tax assets and placed a full valuation allowance on its U.S. deferred tax assets. Based on the Company's analysis of estimated taxable income, including the NABCO sale and the Real Alloy Acquisition, $5.1 million of the deferred tax valuation allowance was released in the year ended December 31, 2014. The following table provides information about the activity of our deferred tax valuation allowance:

(In millions)	Year Ended December 31, 2015	2014	2013
Balance, beginning of period	$385.6	$375.0	$373.7
Additions (reductions) recorded in the provision for income taxes	(5.8)	10.6	1.3
Business acquired	2.6	—	—
Balance, end of period	$382.4	$385.6	$375.0

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 2009 through 2014 tax years remain open to examination. The activity in 2013 and 2014 relates to an IRS examination of the Company's 2003, 2004, 2005 and 2008 tax years, which was completed in March 2014. Due to the existing NOL carryforwards, the Company is still subject to audit for certain loss years prior to 2008

by the Internal Revenue Service and by various state taxing authorities as the NOL for a particular year is utilized. As of December 31, 2015, the Company has no tax years under examination.

As of December 31, 2015, the Company has estimated U.S. NOLs of $871.8 million and non-U.S. net operating tax loss carryforwards 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.

NOTE 15—EMPLOYEE BENEFIT PLANS

Defined Contribution Plans

The Company's defined contribution plans cover substantially all U.S. employees. The plans provide for employer contributions and, in some cases, an age and salary based contribution. The match of employee contributions under defined contribution plans and supplemental employer contributions for the years ended December 31, 2015, 2014 and 2013 were as follows:

	Year Ended December 31,		
(In millions)	2015	2014	2013
Company match of employee contributions	$1.1	$0.2	$0.2
Supplemental employer contribution	0.4	—	—

Defined Benefit Pension Plans

Real Alloy sponsors three defined benefit pension plans for its German employees. The plans are based on final pay and service, but some senior employees are entitled to receive enhanced pension benefits. Benefit payments are financed, in part, by contributions to a relief fund that establishes a life insurance contract to secure future pension payments (which represents a Level 2 measurement within the fair value hierarchy). The plans, however, are substantially underfunded under German law. The unfunded accrued pension benefits are covered under a pension insurance association under German law, should Real Alloy be unable to fulfill its obligations under the plans.

The following table presents the components of the net periodic benefit expense under the German defined benefit pension plans for the year ended December 31, 2015:

(In millions)	Year Ended December 31, 2015
Service cost	$ 0.9
Interest cost	0.7
Expected return on plan assets	(0.1)
Net periodic benefit expense	$ 1.5

The following table reflects changes in projected benefit obligations and plan assets during the year ended December 31, 2015:

	Year Ended December

(In millions)	31, 2015
Changes in projected benefit obligations:	
Projected benefit obligations, beginning of period	$ —
Projected benefit obligations assumed in business combination	49.8
Service cost	0.9
Interest cost	0.7
Actuarial gain	(7.2)
Benefits paid	(0.8)
Currency translation and other	(1.2)
Projected benefit obligations, end of period	42.2
Changes in plan assets:	
Fair value of plan assets, beginning of period	—
Fair value of plan assets acquired in business combination	3.8
Employer contributions	0.5
Actual return on plan assets	0.1
Currency translation and other	(0.2)
Fair value of plan assets, end of period	4.2
Net amount recognized	$ 38.0

The following table provides additional information about amounts recognized in the consolidated balance sheet as of December 31, 2015:

(In millions)	Year Ended December 31, 2015
Pension benefit obligations	$ 38.0
Net actuarial gain recognized in accumulated other comprehensive income (before tax)	7.1
Amortization of net actuarial gain expected to be recognized during the next fiscal year (before tax)	0.3
Accumulated benefit obligation	37.5
Projected employer contribution for 2016	0.6

Plan Assumptions. The Company makes assumptions regarding such variables as the expected long-term rate of return on plan assets and the discount rate applied to determine service and interest cost. The discount rate is selected to provide management's best estimate of the rate at which the benefit obligation could effectively be settled. In making this estimate, projected cash flows are developed and matched with a yield curve based on an appropriate universe of high-quality corporate bonds.

Assumptions for long-term rates of return on plan assets are based upon historical returns, future expectations for returns for each asset class and the effect of periodic target asset allocation rebalancing. We believe these assumptions are appropriate based upon the mix of the investments and the long-term nature of the plans' investments. The following table provides assumptions used to determine benefit obligations as of December 31, 2015:

	December 31, 2015	
Discount rate	2.4	%
Rate of compensation increase	2.8	%
Pension increase	1.6	%
Turnover	2.0	%

The following table reflects the assumptions used to determine the net periodic benefit cost for the year ended December 31, 2015:

	Year Ended December 31, 2015	
Discount rate	1.7	%
Expected return on plan assets	1.5	%

Rate of compensation increase	3.0	%

Expected Future Benefit Payments. The following table provides estimated benefit payments for the Company's pension plans, which reflect expected future service:

	Years Ended December 31,					
(In millions)	2016	2017	2018	2019	2020	2021 - 2025
Expected future benefit payments	$0.9	$1.0	$1.1	$1.2	$1.3	$7.5

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NOTE 16—SHARE-BASED PAYMENTS

Incentive Plans

At the 2015 Annual Meeting of Stockholders, our stockholders approved the Signature Group Holdings, Inc. 2015 Equity Award Plan, and following our corporate name change, the Amended and Restated Real Industry, Inc. 2015 Equity Award Plan (the "2015 Equity Plan"), which provides for the grant of restricted common stock, common stock options, performance shares, stock appreciation rights, and restricted stock units to employees, nonexecutive directors and consultants. The 2015 Equity Plan replaces the Amended and Restated 2006 Signature Group Holdings, Inc. Performance Incentive Plan (the "Incentive Plan"). Including the carryover shares from the Incentive Plan, the Board is authorized to issue up to 1.9 million shares of common stock, or its equivalent, under the 2015 Equity Plan. The terms and conditions of awards outstanding under the Incentive Plan are not affected by the termination of the Incentive Plan, as their terms survive any termination. As of December 31, 2015 and 2014, there were no stock appreciation rights or restricted stock units outstanding. As of December 31, 2014, under the Incentive Plan, there were approximately 0.5 million shares available for grant. As of December 31, 2015, there are 259,323 shares of unvested restricted common stock, 775,650 fully vested and exercisable common stock options, and 260,000 unvested performance shares outstanding under the Incentive Plan and 2015 Equity Plan. As of December 31, 2015, under the 2015 Equity Plan, there were approximately 1.7 million shares available for grant.

Director Compensation Program

The Director Compensation Program provides for annual grants of restricted shares of the Company's common stock on the first business day of each calendar year to each nonexecutive Board member, under both the 2015 Equity Plan and the Incentive Plan. Through the year ended December 31, 2015, these grants had a grant date fair value of $75,000 per nonexecutive director, and vested on January 1 of the following year. Beginning January 1, 2016, these grants will have a grant date fair value of $85,000. Compensation to nonexecutive directors joining the Company after January 1 is prorated for the time of service and those awards also vest on January 1 of the following year.

Restricted common stock

Restricted common stock awards are granted with various vesting schedules ranging from immediately to five years. Grants that vest immediately have restrictions on transfer of the common stock for approximately one year. The following table provides activity of restricted common stock for the years ended December 31, 2015, 2014 and 2013:

	Shares	Weighted Average Grant Date Fair Value Per Share
Balance, December 31, 2012	357,522	$ 4.32
Restricted common stock vested	(356,886)	4.61
Restricted common stock granted	139,005	5.70
Balance, December 31, 2013	139,641	4.94
Restricted common stock vested	(98,530)	5.76
Restricted common stock granted	73,394	9.89
Balance, December 31, 2014	114,505	4.94
Restricted common stock vested	(96,172)	6.92

Restricted common stock granted	255,151	6.89
Restricted common stock forfeited	(14,161)	8.08
Balance, December 31, 2015	259,323	$ 7.05

Share-based compensation related to restricted common stock awards was $0.8 million, $0.7 million and $1.2 million for the years ended December 31, 2015, 2014 and 2013, respectively. As of December 31, 2015, the aggregate unamortized value of share-based restricted common stock awards was $1.1 million, and will be recognized over a weighted average period of 2.1 years from December 31, 2015.

During the years ended December 31, 2015, 2014 and 2013, employees were granted 32,412, 17,986 and 10,871 shares of restricted common stock, respectively; executive officers were granted 172,529, 27,500 and 25,000 shares of restricted common stock, respectively; and directors were granted 50,210, 27,908, and 103,134 shares of restricted common stock, respectively.

Common stock options

The Company issued common stock options to employees under the Incentive Plan, with various vesting schedules ranging from immediately to four years. The fair value of each common stock option award is estimated on the grant date using either a Black-Scholes option pricing model for service-based awards or a trinomial lattice option pricing model for market-based awards. Expected volatilities were based on historical volatility of the Company's common stock. The common stock option awards expire eight to ten years following the grant date and the expected lives are based on the simplified method as the Company does not have sufficient common stock option exercise experience to support a reasonable estimate of expected term. The risk-free rate is the yield available on U.S. Treasury zero-coupon issues with remaining maturities approximating the expected term at the grant date. There were no common stock option awards granted in the years ended December 31, 2015 and 2014. The following table provides assumptions used in determining the fair value of common stock option grants for the year ended December 31, 2013:

(Weighted averages)	Year Ended December 31, 2013	
Expected volatility	55.00	%
Risk-free interest rate	1.15	%
Expected term (in years)	5.60	
Dividend yield	—	%
Grant date fair value per share	$ 2.75	

The following table presents activity of nonvested common stock options during the years ended December 31, 2015, 2014 and 2013:

	Options	Weighted Average Exercise Price Per Share
Balance, December 31, 2012	872,373	$ 5.41
Common stock options granted	205,000	9.52
Common stock options vested	(383,208)	5.47
Common stock options forfeited	(20,332)	3.62
Balance, December 31, 2013	673,833	6.59
Common stock options vested	(592,433)	6.29
Balance, December 31, 2014	81,400	7.62
Common stock options vested	(31,400)	3.84
Common stock options forfeited	(50,000)	10.00
Balance, December 31, 2015	—	$ —

The following table presents activity of exercisable common stock options during the years ended December 31, 2015, 2014 and 2013:

	Options	Weighted Average Exercise Price Per Share
Balance, December 31, 2012	181,327	$ 5.21
Common stock options exercised	(20,668)	3.00
Common stock options vested	383,208	5.47
Balance, December 31, 2013	543,867	5.76
Common stock options exercised	(150,000)	5.72
Common stock options vested	592,433	6.29
Balance, December 31, 2014	986,300	6.08
Common stock options exercised	(242,050)	5.16
Common stock options vested	31,400	3.84
Balance, December 31, 2015	775,650	$ 6.28

The following table provides information pertaining to the intrinsic value of common stock options outstanding and exercisable as of December 31, 2015 and 2014:

(In millions)	December 31, 2015	2014
Intrinsic value of common stock options outstanding	$ 1.6	$ 1.5
Intrinsic value of common stock options exercisable	1.6	1.4

The following table provides information presents the intrinsic value of common stock options exercised and the fair value of common stock options that vested during the years ended December 31, 2015, 2014 and 2013:

(In millions)	Year Ended December 31, 2015	2014	2013
Intrinsic value of common stock options exercised [1]	$ 0.6	$ 0.4	$ 0.1
Fair value of common stock options vested[2]	0.1	1.2	0.8

[1] The intrinsic value of common stock options exercised is the difference between the fair value of the Company's common stock on the exercise date and the exercise price.
[2] The fair value of common stock options vested is based on the grant date fair value.

Share-based compensation related to common stock option awards was $0.1 million, $0.6 million and $0.9 million for the years ended December 31, 2015, 2014 and 2013, respectively. As of December 31, 2015, there was no unamortized share-based expense related to common stock options, and the weighted average remaining contractual life for common stock options outstanding and exercisable as of December 31, 2015 was 5.4 years.

Performance Shares

The Company issues performance share awards as part of long-term incentive compensation to certain employees under the 2015 Plan. The fair value of each performance share award is estimated on the grant date using a Monte Carlo simulation. The awards have a three-year cliff vesting, and the percentage of the award that vests is based upon the market appreciation of the Company's common stock. Upon vesting, the performance shares are issued in the form of unrestricted common stock. The following table provides assumptions used in determining the fair value of performance share awards granted during the year ended December 31, 2015:

(Weighted averages)	Year Ended December 31, 2015
Grant date fair value	$ 7.53
Grant date closing stock price	$ 11.05
Volatility	48.90 %

Risk-free rate	0.84	%
Dividend yield	—	%
Probability of death or disability	5.00	%

The following table presents activity of outstanding performance share awards during the year ended December 31, 2015:

	Performance Shares	Grant Date Fair Value per Share
Balance, December 31, 2014	—	$ —
Performance shares awarded	260,000	7.53
Balance, December 31, 2015	260,000	$ 7.53

Share-based compensation related to performance share awards was $0.4 million for the year ended December 31, 2015. As of December 31, 2015 and 2014, the aggregate unamortized value of share-based performance share awards was $1.6 million. The unamortized value of share-based performance awards will be recognized over a weighted average period of 2.0 years from December 31, 2015.

NOTE 17—EARNINGS (LOSS) PER SHARE

The Company computes earnings (loss) per share using the two-class method, as unvested restricted common stock contains nonforfeitable rights to dividends and meets the criteria of a participating security. 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 is 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. by the weighted average number of common shares outstanding for the reporting period. In connection with the Rights Offering, the Company distributed subscription rights to all of its existing stockholders as of January 28, 2015, and the subscription rights price represented a discount to the market value of the Company's common stock upon the closing of the Rights Offering on February 27, 2015, with respect to the common stockholders. The discount in the Rights Offering with respect to common stockholders represented an implied stock dividend, for which the weighted average shares outstanding have been retroactively adjusted. Adjustments to the weighted average shares outstanding in all reporting periods prior to January 1, 2015 disclosed in this Annual Report reflect an 8.3% increase from originally reported weighted average shares outstanding, based on the fair value per share immediately preceding the closing of the Rights Offering, with respect to common stockholders, and the fair value of the common stock as of February 27, 2015. The computation of weighted average shares outstanding for the year ended December 31, 2015 includes an 8.3% adjustment related to the discount in the Rights Offering. 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 years ended December 31, 2015, 2014 and 2013:

(In millions, except share and per share amounts)	Year Ended December 31, 2015	2014	2013
Loss from continuing operations	$(31.7)	$(0.1)	$(14.2)
Earnings from discontinued operations, net of income taxes	24.9	5.5	4.2
Net earnings (loss)	(6.8)	5.4	(10.0)
Earnings (loss) from continuing operations attributable to noncontrolling interest	0.1	(0.1)	—
Net earnings (loss) attributable to Real Industry, Inc.	(6.9)	5.5	(10.0)
Dividends and accretion on Redeemable Preferred Stock	(2.3)	—	—
Numerator for basic and diluted earnings (loss) per share— Net earnings (loss) available to common stockholders	$(9.2)	$5.5	$(10.0)
Denominator for basic and diluted earnings (loss) per share— Weighted average shares outstanding	26,657,832	13,403,083	12,836,071

Basic and diluted earnings (loss) per share:			
Continuing operations	$(1.28)	$—	$(1.11)
Discontinued operations	0.93	0.41	0.32
Basic and diluted earnings (loss) per share	$(0.35)	$0.41	$(0.79)

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 years ended December 31, 2015, 2014 and 2013, 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 table provides details on the average market price of Real Industry common stock and the weighted average number of outstanding shares of unvested restricted common stock, common stock options, unvested performance shares and Warrants that were potentially dilutive for each of the periods presented:

	Year Ended December 31,		
	2015	2014	2013
Average market price of Real Industry common stock	$9.22	$9.58	$8.57
Potentially dilutive common stock equivalents:			
Unvested restricted common stock	234,109	106,001	331,660
Common stock options	710,555	1,041,673	1,033,484
Unvested performance shares	152,438	—	—
Warrants	1,485,941	1,500,000	1,500,000
Total potentially dilutive common stock equivalents	2,583,043	2,647,674	2,865,144

The following table provides summary information about the potentially dilutive common stock equivalents:

	Year Ended December 31,		
(In millions, except exercise prices)	2015	2014	2013
Average unamortized share-based compensation expense:			
Unvested restricted common stock awards	$1.3	$0.6	$0.7
Unvested common stock options	—	0.1	0.7
Unvested performance share awards	1.0	—	—
Range of exercise prices on common stock options	$ 3.00 - $ 10.00	$ 3.00 - $ 10.00	$ 3.00 - $ 10.00
Weighted average exercise price of the Warrants	$5.73	$6.66	$6.68

NOTE 18—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 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 the 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 noncurrent asset or liability.

Metal hedging

As metal is purchased to fill fixed-price customer sales orders at RAEU, London Metal Exchange (“LME”) future swaps or forward contracts may be sold. As sales orders are priced, LME future or forward contracts may be purchased,

which contracts generally settle within six months. Real Alloy can 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 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 December 31, 2015, Real Alloy had 24.6 thousand metric tonnes 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 December 31, 2015, Real Alloy had 1.9 trillion of 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 December 31, 2015, 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 December 31, 2015, no cash collateral was posted or held.

The table below presents gross amounts of recognized assets and liabilities, the amounts offset in the consolidated balance sheets and the net amounts of assets and liabilities presented therein. As of December 31, 2015, there were no amounts subject to enforceable master netting arrangements or similar agreements that have not been offset in the consolidated balance sheets.

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

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

(In millions)	Balance Sheet Location	December 31, 2015
Derivative liabilities		
Metal	Accrued liabilities	$ 0.1
Natural gas	Accrued liabilities	0.6
Total		$ 0.7

Common stock warrant liability

Common stock warrant liability is considered a derivative liability as a result of 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 49.9% and an expected term of 4.4 years as of December 31, 2015, along with a 60% equity raise probability at a 15% discount to the 10-Day volume weighted average price ("VWAP") assumption in the periods following December 31, 2015, and 52.0% volatility and an expected term of 5.8 years as of December 31, 2014, along with a 25% equity raise probability at a 15% discount to the 10-Day VWAP assumption in the periods following December 31, 2014. 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.

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 December 31, 2015 and 2014:

(In millions)	Fair Value Hierarchy	Estimated Fair Value December 31, 2015	2014
Derivative assets	Level 2	$0.2	$—
Derivative liabilities	Level 2	(0.9)	—
Net derivative liabilities		$(0.7)	$—
Common stock warrant liability	Level 3	$(6.9)	$(5.6)

The common stock warrant liability is the only asset or liability measured at fair value on a recurring basis using significant unobservable inputs (Level 3) as of December 31, 2015 and 2014. Please see Note 10—Common Stock Warrant Liability for a reconciliation from the beginning to the ending balance of the common stock warrant liability for the years ended December 31, 2015, 2014 and 2013.

Both realized and unrealized gains and losses on derivative financial instruments are included within losses on derivative financial instruments in the consolidated statements of operations. The following table presents realized losses on derivative financial instruments during the year ended December 31, 2015:

(In millions)	Year Ended December 31, 2015
Metal	$ 2.9
Natural gas	0.5
Total	$ 3.4

Other Financial Instruments

The following tables present the carrying values and fair value estimates of other financial instruments as of December 31, 2015 and 2014:

		December 31, 2015	
			Estimated
(In millions)	Fair Value Hierarchy	Carrying Amount	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	3.9	3.9
Loans receivable, net (other assets)	Level 3	1.1	1.1
Liabilities			
Long-term debt:			
Senior Secured Notes	Level 1	$290.7	$ 310.9
Asset-Based Facility	Level 2	19.6	22.0
Redeemable Preferred Stock	Level 3	$21.9	$ 18.7

		December 31, 2014	
(In millions)	Fair Value Hierarchy	Carrying Amount	Estimated Fair Value
Assets			
Continuing operations:			
Cash and cash equivalents	Level 1	$61.9	$ 61.9
Loans receivable, net (other noncurrent assets)	Level 3	1.2	1.2
Discontinued operations:			
Cash and cash equivalents	Level 1	1.0	1.0
Liabilities			
Discontinued operations:			
Line of credit	Level 3	$1.0	$ 1.0
Long-term debt	Level 3	13.6	13.6

The Company used the following methods and assumptions to estimate the fair value of each financial instrument as of December 31, 2015 and 2014:

Cash and cash equivalents and restricted cash held in escrow

Cash and cash equivalents and restricted cash held in escrow are recorded at historical cost. The carrying value is a reasonable estimate of fair value as these instruments have short-term maturities and market interest rates.

Financing receivable

Financing receivable represents the net amount due from the sale and transfer of trade accounts receivable under the Factoring Facility. The carrying value is a reasonable estimate of fair value as the financing receivable is generally outstanding for no more than thirty days and the counterparty is a large creditworthy financial institution.

Loans receivable, net

Loans receivable, net, consists of commercial real estate loans. The estimated fair value considers the collateral coverage of assets securing the loans and estimated credit losses, as well as variable interest rates, which approximate market interest rates.

Long-term debt – Senior Secured Notes

The estimated fair value of the Senior Secured Notes as of December 31, 2015 is based on observable market prices.

Long-term debt – Asset-Based Facility

The estimated fair value of the Asset-Based Facility as of December 31, 2015 is based on market characteristics, including interest rates and maturity dates generally consistent with market terms.

Redeemable Preferred Stock

The carrying value of Redeemable Preferred Stock is based on the estimated fair value of the instrument at issuance, calculated using a discounted cash flow analysis using the Hull & White model, with an original term of sixty-six months, assuming either the holder will put or the issuer will call at the redemption date. The cash dividend yield and the Redeemable Preferred Stock, including the payment-in-kind Redeemable Preferred Stock, were discounted at the spot rate plus a 17.5% credit spread adjustment to a zero coupon yield curve, which is being accreted to redemption value over the period preceding the holder's right to mandatorily redeem the instrument, or sixty-six months from issuance, using the effective interest method. An increase in the discount rate would result in a decrease in the estimated fair value of the Redeemable Preferred Stock, while a decrease in the discount rate would result in an increase in the estimated fair value of the Redeemable Preferred Stock. There have been no significant changes in the fair value of the Redeemable Preferred Stock subsequent to issuance.

Line of credit – discontinued operations

The line of credit was a short-term borrowing facility, used primarily to support ongoing operations of NABCO. The carrying value was a reasonable estimate of fair value, as this instrument had a short-term maturity and a market interest rate.

Long-term debt – discontinued operations

NABCO's long-term debt included term loans, the fair value of which was based on the market characteristics of the individual loan terms, including interest rates, scheduled principal amortization and maturity dates, generally consistent with market terms.

The Company's Level 3 assets and liabilities are determined using valuation techniques that incorporate unobservable inputs that require significant judgment or estimation. The following tables present quantitative information about the valuation techniques and unobservable inputs applied to Level 3 fair value measurements as of December 31, 2015 and 2014:

(In millions)	December 31, 2015 Estimated Fair Value	Valuation Technique	Unobservable Input	Input Value	
Common stock warrant liability	$6.9	Monte Carlo Simulation	Volatility	49.9	%
			Expected term	4.4 years	
			Equity raise probability	60	%
			Issue price discount to fair value	15	%
Redeemable Preferred Stock	$18.7	Discounted cash flow	Credit spread	17.5	%
			Redemption period	56 months	

(In millions)	December 31, 2014 Estimated Fair Value	Valuation Technique	Unobservable Input	Input Value	
Common stock warrant liability	$5.6	Monte Carlo Simulation	Volatility	52.0	%
			Expected term	5.8 years	
			Equity raise probability	25	%
			Issue price discount to fair value	15	%

Significant unobservable inputs used in the fair value measurement of the common stock warrant liability include volatility, expected term, the probability of an equity raise, and the offering price discount to fair value, presuming the equity raise is a rights offering. The December 31, 2015 and 2014 estimated fair values were determined using a

Monte Carlo simulation. Significant decreases in volatility, expected term or the equity raise probability would result in a decrease in the estimated fair value of the common stock warrant liability, while significant increases in volatility, expected term or the equity raise probability would result in an increase in the estimated fair value of the common stock warrant liability. The primary driver in the estimated fair value of the common stock warrant liability is the measurement date common stock price.

Significant unobservable inputs used in the fair value measurement of the Redeemable Preferred Stock include the estimated credit spread and redemption period. The Company used these unobservable inputs in a discounted cash flow model to estimate the fair value as of December 31, 2015. Decreases in the redemption period and credit spread would result in an increase in the estimated fair value of the Redeemable Preferred Stock, while increases in the redemption period and credit spread would result in a decrease in the estimated fair value of the Redeemable Preferred Stock.

NOTE 19—SEGMENT AND GEOGRAPHIC INFORMATION

Segment information is prepared on the same basis that our chief operating decision-maker (“CODM”), who is our chief executive officer, manages the segments, evaluates financial results, and makes key operating decisions, and for which discrete financial information is available. As of December 31, 2015, the Company had two reportable segments; RANA and RAEU, each of which is also an operating segment.

Measurement of segment income or loss and segment assets and liabilities

The accounting policies of the reportable segments are the same as those described in Note 2—Financial Statement Presentation and Significant Accounting Policies. Our measure of profitability for our reportable segments is earnings before interest, taxes, depreciation and amortization and excludes certain other items ("Adjusted EBITDA"). Certain of the Company's assets and liabilities have not been allocated to our reportable segments, including corporate cash, the common stock warrant liability, deferred income taxes, and long-term debt, none of which our CODM uses to evaluate the performance of our reportable segments. Additionally, certain of the Company's corporate administrative expenses are not allocated to the reportable segments.

Reportable segment information

The following tables show segment revenues and Adjusted EBITDA for the year ended December 31, 2015 and a reconciliation of Adjusted EBITDA to operating profit. For the years ended December 31, 2014 and 2013, there were no reportable segments.

	Year Ended December 31, 2015		
(In millions)	RANA	RAEU	Total
Revenues	$711.4	$434.2	$1,145.6
Adjusted EBITDA	$49.0	$21.3	$70.3

(In millions)	Year Ended December 31, 2015
Adjusted EBITDA	$ 70.3
Unrealized losses on derivative financial instruments	0.8
Depreciation and amortization	32.5
Amortization of purchase accounting adjustments	9.2
Corporate and Other:	
Operating loss—excludes share-based compensation expense	12.6
Share-based compensation expense	1.3
Other	3.7
Operating profit	$ 10.2

The following tables present summarized balance sheet information for each of our reportable segments and a reconciliation to consolidated assets and liabilities as of December 31, 2015:

(In millions)	RANA	RAEU
Segment Assets		
Current assets:		
Cash and cash equivalents	$8.1	$7.2
Trade accounts receivable, net	63.7	13.5
Financing receivable	—	32.7
Inventories	61.7	38.5
Prepaid expenses, supplies, and other current assets	12.5	6.8
Total current assets	146.0	98.7
Property, plant and equipment, net	199.3	102.2
Intangible assets, net	15.0	—
Goodwill	95.4	8.9
Other noncurrent assets	4.9	1.9
Total segment assets	$460.6	$211.7
Segment Liabilities		
Current liabilities:		
Trade payables	$58.1	$42.3
Accrued liabilities	34.3	14.6
Total current liabilities	92.4	56.9
Accrued pension benefits	—	38.0
Environmental liabilities	11.7	—
Other noncurrent liabilities	4.1	1.4
Total segment liabilities	$108.2	$96.3

(In millions)	
Assets:	
Real Alloy North America	$460.6
Real Alloy Europe	211.7
Unallocated	28.6
Total consolidated assets	$700.9
Liabilities:	
Real Alloy North America	$108.2
Real Alloy Europe	96.3
Unallocated	332.1
Total consolidated liabilities	$536.6

Geographic Information

The following tables provide information about our consolidated revenues for the year ended December 31, 2015, and consolidated long-lived tangible assets, net of accumulated depreciation, as of December 31, 2015:

Revenues

(In millions)	Year Ended December 31, 2015
United States	$ 545.2
International:	
Europe	434.2
Canada and Mexico	166.2
Total international	600.4
Total revenues	$ 1,145.6

Long-lived Tangible Assets

(In millions)	December 31, 2015
United States	$ 167.9
International:	
Europe	102.2
Canada and Mexico	31.4
Total international	133.6
Total long-lived tangible assets	$ 301.5

Capital expenditures in RANA and RAEU for the year ended December 31, 2015 were $19.4 million and $6.6 million, respectively.

NOTE 20—DISCONTINUED OPERATIONS

The following table presents the assets and liabilities, as of December 31, 2015 and 2014, of the components of the Company designated as discontinued operations as of December 31, 2015:

(In millions)	December 31, 2015	2014
Current assets:		
Cash and cash equivalents	$0.1	$1.0
Trade accounts receivable, net	—	4.5
Inventories	—	11.4
Prepaid expenses, supplies, and other current assets	0.2	1.2
Total current assets of discontinued operations	$0.3	$18.1
Noncurrent assets:		
Property, plant and equipment, net	$—	$0.3
Intangible assets, net	—	1.6
Goodwill	—	17.8
Other noncurrent assets	—	0.3
Total noncurrent assets of discontinued operations	$—	$20.0
Current liabilities:		
Trade payables	$—	$2.9
Accrued liabilities	0.1	0.3
Line of credit	—	1.0
Long-term debt due within one year	—	3.9
Total current liabilities of discontinued operations	$0.1	$8.1
Noncurrent liabilities:		
Long-term debt	$—	$9.7
Repurchase reserve	0.7	5.5
Total noncurrent liabilities of discontinued operations	$0.7	$15.2

On January 9, 2015, we sold all of our interests in NABCO (previously reported as the Industrial Supply segment) for $77.9 million, including a final working capital adjustment of $0.1 million. As a result of the sale, the gain on sale of NABCO, along with the assets, liabilities and results of operations of NABCO are included in discontinued operations for all periods presented.

Repurchase reserve

Through the first quarter of 2015, SGGH maintained a repurchase reserve that represented estimated losses from repurchase claims, both known and unknown, based on claimed breaches of certain representations and warranties provided by FIL to counterparties that purchased residential real estate loans, predominantly from 2002 through 2007. Management estimated the likely range of the loan repurchase liability based on a number of factors, including, but not limited to, the timing of such claims relative to the loan origination date, the quality of the documentation supporting such claims, the number and involvement of cross-defendants, if any, related to such claims, and a time and expense estimate if a claim were to result in litigation. The estimate was based on then-currently available information and was subject to known and unknown uncertainties using multiple assumptions requiring significant judgment.

In June 2015, the New York State Court of Appeals affirmed the decision of the New York State Supreme Court, Appellate Division in ACE Securities Corp v. DB Structured Products, Inc. (the “ACE Securities Case”), whereby the New York state six-year statute of limitations on loan repurchase demands begins to run as of the closing date on which the representations were made, which, in the ACE Securities Case, was the date of the mortgage loan purchase agreements. Based on the final decision in the ACE Securities Case, management has reassessed its exposure to losses from repurchase demands and believes a repurchase reserve of $0.7 million is adequate as of December 31, 2015.

The Company did not settle or receive any repurchase claims during the years ended December 31, 2015 and 2014. The repurchase reserve liability was $0.7 million and $5.5 million as of December 31, 2015 and 2014, respectively. As a result of the decision in the ACE Securities Case, we reassessed the estimates for losses associated with repurchase claims and, consequently, reduced the allowance for repurchase reserves by $4.3 million in the quarter ended June 30, 2015. During the years ended December 31, 2015, 2014 and 2013, the repurchase reserve was reduced by $4.8 million, $1.0 million and $1.0 million, respectively. As a result of the change in estimate as a result of the ACE Securities Case, the reduction in the repurchase reserve in excess of our previous estimate increased earnings from discontinued operations, net of income tax by $2.1 million or $0.08 per share for the year ended December 31, 2015.

The following table presents the operating results, for the years ended December 31, 2015, 2014 and 2013, for the components of the Company designated as discontinued operations as of December 31, 2015:

	Year Ended December 31,		
(In millions)	2015	2014	2013
Revenues	$0.7	$39.8	$37.8
Cost of sales	0.4	25.3	23.4
Gross profit	0.3	14.5	14.4
Selling, general and administrative expenses	0.5	6.5	6.9
Amortization of intangibles	—	1.1	1.6
Operating profit (loss)	(0.2)	6.9	5.9
Nonoperating income	44.7	2.3	0.8
Earnings before income taxes	44.5	9.2	6.7
Income tax expense	19.6	3.7	2.5
Earnings from discontinued operations, net of income taxes	$24.9	$5.5	$4.2

The nonoperating income for the year ended December 31, 2015 is primarily related to the $39.7 million gain on sale of NABCO and the $4.8 million reduction of the repurchase reserve.

NOTE 21—SUPPLEMENTAL CASH FLOW INFORMATION

The following table provides supplemental cash flow information for the years ended December 31, 2015, 2014 and 2013:

(In millions)	Year Ended December 31, 2015	2014	2013
Cash paid for interest:			
Continuing operations	$16.7	$—	3..4
Discontinued operations	—	0.8	0.5
Cash paid for income taxes:			
Continuing operations	$4.3	$0.5	$0.4
Discontinued operations	—	0.1	0.2

NOTE 22—UNAUDITED QUARTERLY FINANCIAL INFORMATION

The following tables present unaudited quarterly financial information, which has been prepared on a basis consistent with that of the audited consolidated financial statements and includes all necessary material adjustments, consisting of normal recurring accruals and adjustments, to present fairly the unaudited quarterly financial information. The quarterly financial results of operations for these periods are not necessarily indicative of future financial results of operations. The quarterly per share calculations are based on the weighted average number of shares for each period; therefore, the sum of the quarters may not necessarily be equal to the full year per share amounts.

	Unaudited 2015 Information for the Three Months Ended			
(In millions, except per share amounts)	March 31,	June 30,	September 30,	December 31,
Revenues	$137.8	$368.7	$ 338.6	$ 300.5
Cost of sales	133.0	347.4	313.2	277.1
Gross profit	4.8	21.3	25.4	23.4
Operating costs	7.6	18.5	18.0	20.6
Operating profit (loss)	(2.8)	2.8	7.4	2.8
Net earnings (loss) attributable to Real Industry, Inc.	6.7	(10.9)	1.2	(3.9)
Earnings per share - basic	$0.30	$(0.42)	$ 0.02	$ (0.16)
Earnings per share - diluted	0.30	(0.42)	0.02	(0.16)

During the three months ended March 31, 2015, we sold NABCO (January 9, 2015) and acquired Real Alloy (February 27, 2015). NABCO is presented in discontinued operations for all periods presented. We recognized a $39.7 million pretax gain on the sale of NABCO. In the three months ended June 30, 2015, we revised the estimated exposure to SGGH's repurchase reserve, within discontinued operations, and recognized a $4.3 million recovery of the repurchase reserve.

	Unaudited 2014 Information for the Three Months Ended			
(In millions, except per share amounts)	March 31,	June 30,	September 30,	December 31,
Revenues	$0.1	$—	$ —	$ 2.0
Cost of sales	—	—	—	—
Gross profit	0.1	—	—	2.0
Operating costs	2.6	0.2	3.8	3.9
Operating profit (loss)	(2.5)	(0.2)	(3.8)	(1.9)
Net earnings (loss) attributable to Real Industry, Inc.	0.1	(0.5)	0.8	5.1
Earnings per share - basic	$0.01	$(0.04)	$ 0.06	$ 0.41
Earnings per share - diluted	0.01	(0.04)	0.06	0.41

NOTE 23—COMMITMENTS AND CONTINGENCIES

Environmental Matters

Real Alloy's operations are subject to environmental laws and regulations governing air emissions, wastewater discharges, the handling, disposal and remediation of hazardous substances and wastes, and employee health and safety. These laws can impose joint and several liabilities for releases or threatened releases of hazardous substances upon statutorily defined parties, including us, regardless of fault or the lawfulness of the original activity or disposal. Given the changing nature of environmental legal requirements, we may be required, from time to time, to take environmental control measures at some of our facilities to meet future requirements. Real Alloy is under regulatory consent orders or directives to install environmental control measures by agencies in two states.

The following table provides a summary of changes in accrued environmental liabilities for the year ended December 31, 2015:

(In millions)	Year Ended December 31, 2015
Balance, December 31, 2014	$ —
Environmental liabilities assumed in business combination	15.3
Revisions and liabilities incurred	1.0
Translation and other charges	(0.3)
Balance, December 31, 2015	16.0
Less amount classified as accrued liabilities	(4.3)
Environmental liabilities	$ 11.7

These amounts are in addition to asset retirement obligations discussed in Note 11—Asset Retirement Obligations, and represent the most probable costs of remedial actions. Management estimates that costs related to identified remedial actions will be paid out, primarily, over the next ten years.

Leases

The Company leases various types of property and equipment, primarily office space and equipment used in manufacturing and office equipment. Rent expense during the years ended December 31, 2015, 2014 and 2013 was $3.1 million, $0.2 million and $0.2 million, respectively. The following table provides a summary of future minimum lease payments required under operating leases that have initial or remaining noncancellable terms in excess of one year, which may also contain renewal options, and scheduled capital lease payments as of December 31, 2015:

	Future Minimum Lease Payments	
(In millions)	Operating Leases	Capital Leases
2016	$2.8	$ 2.4
2017	1.3	1.2
2018	0.6	0.5
2019	0.5	0.1
2020	0.5	—
Thereafter	2.3	—
	$8.0	$ 4.2

Capital lease obligations are classified as long-term debt in the consolidated balance sheets. See Note 9—Debt and Redeemable Preferred Stock for additional information about capital leases.

Purchase Obligations

The Company's noncancellable purchase obligations are principally for the purchase of natural gas and services related to waste disposal. The purchase obligations are long-term arrangements to purchase services that are enforceable and legally binding on the Company and specify all significant terms and conditions, including fixed or minimum services to be purchased: fixed, minimum or variable price provisions; and the approximate timing of the transactions. As a result of the variability in pricing the purchase obligations, actual amounts paid may vary from the amounts shown in the following table, which present amounts due under long-term noncancellable purchase obligations.

	Year Ending December 31,				
(In millions)	2016	2017	2018	2019	Total
Purchase obligations	$1.9	$1.6	$0.5	$0.5	$4.5

Amounts purchased under long-term purchase obligations during the year ended December 31, 2015 approximated amounts projected for 2016.

Employees

As of December 31, 2015, approximately 21% of our U.S. employees and substantially all of our non-U.S. employees are covered under collective bargaining agreements.

Legal Proceedings

Real Industry, Real Alloy and SGGH have been named as a defendant in or as a party to a number of legal actions or proceedings that arose in the ordinary course of business. In some of these actions and proceedings, claims for monetary damages are asserted. In view of the inherent difficulty of predicting the outcome of such legal actions and proceedings, management generally cannot predict what the eventual outcome of the pending matters will be, what the timing of the ultimate resolution of these matters will be, or what the eventual loss related to each pending matter may be, if any.

In accordance with applicable accounting guidance, management establishes an accrued liability for litigation when those matters present loss contingencies that are both probable and reasonably estimable. In such cases, there may be an exposure to loss in excess of any amounts accrued. The estimated loss is based upon currently available information and is subject to significant judgment, a variety of assumptions, and known and unknown uncertainties. The matters underlying the estimated loss may change from time to time, and actual results may vary significantly from the current estimate. Therefore, an estimate of loss represents what management believes to be an estimate of loss only for certain matters meeting these criteria. It does not represent the Company’s maximum loss exposure.

Based on management's current understanding of these pending legal actions and proceedings, it does not believe that judgments or settlements arising from pending or threatened legal matters, individually or in the aggregate, would have a material adverse effect on the consolidated financial position, results of operations or cash flows of the Company. However, in light of the inherent uncertainties involved in these matters, some of which are beyond the Company's control, and the very large or indeterminate damages sought in some of these matters, an adverse outcome in one or more of these matters could be material to the Company's results of operations or cash flows for any particular reporting period.

The legal proceedings summarized below include material matters that were resolved or concluded since December 31, 2014, as well as ongoing matters that may have an adverse effect on our business and future financial results.

SGGH Matters

Colburn Matter. Gwyneth Colburn, the former Executive Vice President of Fremont's Commercial Real Estate group, filed both a lawsuit and a bankruptcy proof of claim seeking in excess of $2.5 million under a contract known as a management continuity agreement ("MCA"). The Company prevailed on Ms. Colburn's lawsuit and the bankruptcy court disallowed her proof of claim. With appeals from those rulings pending, in October 2015, SGGH and Ms. Colburn entered into a settlement and release agreement whereby Ms. Colburn dismissed her claims and all pending appeals in exchange for a waiver of SGGH's rights to recover costs. As of December 31, 2015, this matter is now concluded with SGGH prevailing in full.

Walker Matter. Kyle Walker, the former Chief Executive Officer and President of FIL, filed both a lawsuit and a bankruptcy proof of claim seeking in excess of $3.5 million under an MCA. The Company prevailed on Mr. Walker's lawsuit and the bankruptcy court disallowed his proof of claim. With an appeal from the disallowance of the bankruptcy proof of claim pending (all appeals from the judgment in the lawsuit having been exhausted) in October 2015, SGGH and Mr. Walker entered into a settlement and release agreement whereby Mr. Walker dismissed his claims and the bankruptcy appeal in exchange for a waiver of SGGH's rights to recover costs. As of December 31, 2015, this matter is now concluded with SGGH prevailing in full.

RMBS Defense, Indemnity and Contribution Matters. In connection with residential mortgage-backed securities offerings ("RMBS Offerings") involving loans originated by FIL, either or both of FIL and its subsidiary entered into loan purchase agreements, underwriting agreements and indemnification and contribution agreements, which contained or incorporated various representations and warranties relating to the loans. Investment banks involved in these RMBS Offerings have been sued in a number of actions concerning their activities related to subprime mortgages ("RMBS Actions"), where SGGH or its former businesses is not a named defendant. SGGH has received demands for defense, indemnity and contribution from defendants in various RMBS Actions. SGGH has rejected each of these demands on several grounds. There is no assurance that SGGH or its former businesses will not be named as defendants in additional RMBS Actions, be sued to enforce claimed rights to defense, indemnity and contribution, or receive additional demands for defense, indemnity and contribution. It is SGGH's intention to vigorously defend any such claims, but SGGH cannot presently predict whether such claims will be pursued or what the outcome would be.

Subpoenas for Information and Documents. In addition to the above-described RMBS Actions, SGGH has received and responded to a number of subpoenas for information from federal agencies and other third-parties in civil litigation matters in which SGGH is not a defendant, but which concern home mortgage transactions involving the Fremont's origination and sale of whole loans, and certain RMBS Offerings.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this Annual Report to be signed on its behalf by the undersigned, thereunto duly authorized.

REAL INDUSTRY, INC.

/s/ Craig T. Bouchard
Craig T. Bouchard
Chairman of the Board and
Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this Annual Report has been signed below by the following persons on behalf of the Registrant, in the capacities and on the dates indicated.

Name	Title	Date
/s/ Craig T. Bouchard Craig T. Bouchard	Chairman of the Board and Chief Executive Officer	March 14, 2016
/s/ Kyle Ross Kyle Ross	Executive Vice President and Chief Financial Officer	March 14, 2016
/s/ Peter C.B. Bynoe Peter C.B. Bynoe	Director	March 14, 2016
/s/ Patrick Deconinck Patrick Deconinck	Director	March 14, 2016
/s/ William Hall William Hall	Director	March 14, 2016
/s/ Patrick E. Lamb Patrick E. Lamb	Director	March 14, 2016
/s/ Raj Maheshwari Raj Maheshwari	Director	March 14, 2016
/s/ Philip Tinkler Philip Tinkler	Director	March 14, 2016