Real Industry, Inc.
Form 10-K
March 13, 2017

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the Fiscal Year Ended December 31, 2016

or

Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from to

Commission File Number 001-08007

REAL INDUSTRY, INC.

(Exact Name of Registrant as Specified in its Charter)

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

Securities Registered Pursuant to Section 12(b) of the Act:

None

Securities Registered Pursuant to Section 12(g) of the Act:

(Title of Each Class)

Common Stock, $0.001 par value

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act of 1933. Yes No

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. Yes No

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

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

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

The aggregate market value of the Registrant's common stock held by non-affiliates of the Registrant was $180,577,791 on June 30, 2016, the last business day of the Registrant's most recently completed second fiscal quarter, based on the closing sales price of the Registrant's common stock on the Nasdaq Stock Exchange, on that date. Shares of the Registrant's common stock held by each officer, director and each person known to the Registrant to own 10% or more of the outstanding voting power of the Registrant, as of that date, have been excluded since such persons may be deemed to be affiliates. This determination of affiliate status is not a determination for any other purpose.

On March 1, 2017, 29,788,937 shares of the Registrant's common stock were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Part III incorporates by reference certain information from the Registrant’s definitive proxy statement for the 2017 Annual Meeting of Stockholders to be filed with the Securities and Exchange Commission on or before May 1, 2017.

REAL INDUSTRY, INC.

ANNUAL REPORT ON FORM 10-K

For the Fiscal Year Ended December 31, 2016

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SAFE HARBOR STATEMENT UNDER THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995

Certain statements in this Annual Report on Form 10-K for the fiscal year ended December 31, 2016 (the “Annual Report”), including, without limitation, matters discussed under Part II, Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations” (“MD&A”) should be read in conjunction with the consolidated financial statements, related notes, and other detailed information included elsewhere in this Annual Report. We are including this cautionary statement to make applicable and take advantage of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Certain statements that are not historical fact are forward-looking statements. These forward-looking statements can be identified by the use of words such as “believes,” “anticipates,” “expects,” “intends,” “plans,” “projects,” “strategy,” “estimates,” “assumes,” “may,” “should,” “will,” “likely,” “could” or othe expressions. Such forward-looking statements involve known and unknown risks, uncertainties and other important factors that could cause actual results, performance or achievements to differ materially from the forward-looking statements. These forward-looking statements are based on our current beliefs, intentions and expectations. These statements are neither guarantees nor indicative of future performance. Important assumptions and other important factors that could cause changes in our financial condition or results of operations or could cause actual results to differ materially from those forward-looking statements include, but are not limited to:

- changes in domestic and international demand for recycled aluminum, including in the automotive, consumer packaging, aerospace, building and construction, steel, and durable goods manufacturing industries;
- the cyclical nature of the aluminum industry, material adverse changes in the aluminum industry or end-use segments, such as global and regional supply and demand conditions for aluminum and aluminum products, and changes in our customers’ industries;
- commodity price fluctuations in the aluminum market, including for metallic scrap, and the ability of Real Alloy (as defined below) to enter into effective commodity derivatives or arrangements to effectively manage our exposure to such commodity price fluctuations;
- our ability to use our United States (“U.S.”) net operating loss tax carryforwards (“NOLs”) and recognize future tax benefits, including in connection with the Real Alloy Acquisition (as defined below);
- the servicing of, and the high leverage associated with, the indebtedness from the financings associated with the Real Alloy Acquisition, security interests in the assets associated with such indebtedness, and compliance with the terms of the indebtedness, including the restrictive covenants that constrain the operation of our business and the businesses of our subsidiaries;
- disruption in relationships with customers, employees and suppliers of the Real Alloy Business (as defined below) and our other businesses;
- the ability of Real Alloy to maintain favorable credit ratings and commercial terms with suppliers, customers, ratings agencies and credit insurers;
- our ability to successfully identify, acquire and integrate additional companies and businesses that perform and meet expectations after completion of such acquisitions;
- our ability to achieve future profitability;
- our ability to control operating costs and other expenses;
- the ability of Real Alloy to service and meet the obligations of its existing financings, maintain liquidity and our ability to secure additional financing;
- our dependence, as a holding company, on funding from our operating subsidiaries;
- general economic conditions may be worse than expected;
- competition among other companies with whom we compete may increase significantly;
- the loss of key personnel or the ability to cost-effectively attract, retain and motivate key personnel;
- our ability to maintain effective disclosure controls and procedures and internal control over financial reporting to ensure timely, effective and accurate financial reporting;
- changes in accounting policies and practices, as may be adopted by regulatory agencies and other organizations, including without limitation the Securities and Exchange Commission (“SEC or “Commission”) and the Financial

Accounting Standards Board ("FASB");

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- changes in laws or government regulations or policies affecting our current business operations and/or the legacy businesses related to residential mortgage lending and servicing, which are now a part of discontinued operations;
- the impact of current or new litigation matters, or changes in litigation strategies brought against us in our current businesses, or the former businesses of our subsidiary SGGH, LLC (“SGGH”);
- our ability to successfully defend against demands by investment banks for defense, indemnity and contribution where the banks have been sued in actions concerning their activities relating to securitizations involving loans originated by SGGH’s former businesses; and
- other factors, risks and uncertainties described in this Annual Report under Part I, Item 1A “Risk Factors,” as may be supplemented in our other filings with the Commission from time to time.

All forward-looking statements set forth herein are qualified by these cautionary statements and are made only as of the date hereof. We undertake no obligation to update or revise the information contained herein including, without limitation, any forward-looking statements whether as a result of new information, subsequent events or circumstances, or otherwise, unless otherwise required by law.

PART I

Item 1. Business

Overview

Real Industry, Inc. (“Real Industry,” the “Company,” “we,” “us” or “our”) is a Delaware holding company that operates throug
its subsidiaries. Our current business focus is supporting the performance of Real Alloy, a global leader in aluminum recycling and our single largest operating business today, and to make acquisitions of additional operating companies. We seek to acquire meaningful ownership stakes in businesses with talented and experienced management teams, strong customer relationships, 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. After such acquisitions, we expect to operate our businesses as autonomous subsidiaries, as we do with Real Alloy. We anticipate that we will continue to use our securities and third-party debt to pursue value-enhancing acquisitions and leverage our considerable tax assets, as well as support the needs of our existing operating segments, as necessary.

A key element to our business strategy is utilizing our considerable U.S. NOLs by becoming a significantly profitable enterprise. Our U.S. NOLs were predominantly generated by the legacy businesses of Fremont General Corporation (“Fremont”), and as of December 31, 2016, we have U.S. NOLs of approximately $916.0 million, which begin to expire if not used before our 2027 tax year. The ultimate realization of our deferred tax assets, including our U.S. NOLs, depends on our ability to generate future U.S. federal taxable income through the implementation of our business plan.

Transformation of Real Industry

During 2015, the Company underwent a considerable transformation. On January 9, 2015, we completed the sale of North American Breaker Co., LLC (“NABCO”), our circuit breaker supply business and previously our primary business within our subsidiary SGGH. On February 27, 2015, we acquired and began operating the global recycling and specification alloys business (the “Real Alloy Business” operated as Real Alloy Holding, Inc. or “Real Alloy”) of Aleris Corporation (“Aleris”) for total consideration of $554.5 million (the “Real Alloy Acquisition”). In support of the Real Alloy Acquisition, Real Alloy issued $305.0 million aggregate principal of senior secured notes (the “Senior Secured Notes”), Real Alloy’s German operations entered into a €50 million nonrecourse factoring facility (the “Factoring Facility”), and Real Alloy entered into a $110 million senior secured revolving asset-based credit facility (the “Asset-Based Facility”).

Headquartered in Beachwood, Ohio, 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, foundries, and casters. Further, it delivers recycled metal in liquid or solid form according to customer specifications. Real Alloy serves the automotive, consumer packaging, aerospace, building and construction, steel, and durable goods industries. Real Alloy’s facilities are capable of processing industrial (new) scrap, post-consumer (old/obsolete) scrap, and various aluminum by-products, providing it a great degree of flexibility in reclaiming high-quality recycled aluminum. Real Alloy currently operates twenty-one facilities strategically located throughout North America and six facilities in Europe.

Because the Real Alloy Acquisition was a transformative event for the Company, both in terms of size and substance, we have devoted significant time and attention to integrating and incorporating the Real Alloy Business into the Company, even as a largely stand-alone operating entity. In April 2016, we completed the integration of Real Alloy and terminated the Aleris transition services agreement (“TSA”).

During the second quarter of 2015, our common stock began trading on the Nasdaq Stock Market (“NASDAQ”) under the symbol “RELY”; with stockholder approval, we changed our name to Real Industry, Inc.; and Real Industry became a member of the Russell Global®, Russell 2000® and Russell Microcap® indexes.

On November 1, 2016, Real Alloy completed its first acquisition as one of our subsidiaries, with the purchase of select assets of Beck Aluminum Alloys (“Beck Alloys”), a privately-held operator of three secondary aluminum recycling facilities in the U.S. for $23.6 million (the “Beck Acquisition”). Beck Alloys’ recycling/smelting plants in Mount Pleasant, Wisconsin; Houston, Texas; and Lebanon, Pennsylvania primarily produce high-purity foundry alloys from aluminum scrap to supply the automotive, wheel, and recreational equipment casting industries. Also in the transaction, Real Alloy obtained a significant minority equity ownership interest in an affiliated enterprise serving as a broker/distributor of prime aluminum and primary based alloys (“Beck Trading”). The financial position and results of operations of the equity ownership interest in the trading business will be reported in our existing reportable segments.

Following the appointment of Kyle Ross, as President, interim Chief Executive Officer and Chief Investment Officer in August 2016, during the third and fourth quarters of 2016, we took a number of steps to streamline our corporate function and reduce outside general and administrative expense. In September 2016, we appointed a new Chief Financial Officer ("CFO"), Michael J. Hobey, who was formerly the CFO at Real Alloy, and a new General Counsel, Kelly Howard, who had previously worked as external counsel to the Company. Further, management initiated a restructuring and transition of the Company's corporate finance and accounting organization in Sherman Oaks principally to consolidate these functions into Real Alloy's Beachwood, Ohio headquarters. Further, we determined to pursue a disposal of Cosmedicine, LLC ("Cosmedicine").

Corporate History and Structure

Real Industry, Inc. is the successor to Signature Group Holdings, Inc., a Delaware corporation ("Signature Delaware"), which on January 2, 2014, completed a holding company reorganization and reincorporation from Nevada to Delaware (the "Reincorporation"). The Reincorporation was completed to take advantage of the benefits of Delaware corporate law and to provide a better organizational structure for our future acquisitions and the management of existing operations. To accomplish the Reincorporation, in late 2013, Signature Group Holdings, Inc. a Nevada corporation ("Signature Nevada") formed SGH Holdco, Inc., a Delaware corporation, and its subsidiary, SGGH. In the Reincorporation, following the approval of Signature Nevada's stockholders, Signature Nevada merged with and into SGGH, with Signature Nevada ceasing to exist and SGGH continuing as the surviving entity and as a wholly owned subsidiary of SGH Holdco, Inc. Concurrently with the merger, SGH Holdco, Inc. was renamed Signature Group Holdings, Inc. In the Reincorporation, each outstanding share of common stock of Signature Nevada was automatically converted into one share of common stock of Signature Delaware.

Signature Nevada was originally incorporated as Fremont in 1972. Fremont operated as a financial services holding company until its bankruptcy filing in June 2008. On June 11, 2010 (the "Reorganization Date"), Fremont completed a plan of reorganization and emerged from a nearly two-year reorganization under Chapter 11 bankruptcy proceedings (the "Bankruptcy Proceedings") as a renamed public company, with significant cash resources and a substantial amount of U.S. NOLs.

After the Reorganization Date, Signature Nevada was repositioned through the divestiture of non-core legacy assets and the settlement and resolution of a significant number of legacy legal actions. Additionally, Signature Nevada made select investments through a former specialty lending business segment and acquired NABCO.

In order to preserve the availability of our U.S. NOLs, our Amended and Restated Bylaws include trading restrictions (the "Tax Benefit Preservation Provision") that imposes on any persons who own, or as a result of a transaction would own, 4.9-percent or more of our common stock in order to reduce the risk that any change in ownership might limit our ability to utilize the U.S. NOLs under Section 382 of the Internal Revenue Code of 1986, as amended (the "Tax Code"), and thereby suffer limitations on our ability to utilize our U.S. NOLs in the future. For more information on the Tax Benefit Preservation Provision, see "Risk Factors—Risks Related to Our Business—Our ability to use our U.S. NOLs to offset future U.S. taxable income may be limited as a result of past events, the Real Alloy Acquisition, the financings related to the Real Alloy Acquisition, or as the result of future acquisitions, financings or other issuances or transfers of our common stock." Additionally, we have a Rights Agreement, dated October 23, 2007, as amended, between Fremont and Computershare NA, as successor to Mellon Investor Services LLC, as Rights Agent (the "Rights Agreement"), which was adopted to protect the value of our U.S. NOLs and continues to remain in effect. The Rights Agreement was approved by the Company's stockholders through the Reincorporation.

Business Strategy

Our business strategy is to create a consistently profitable enterprise by allocating capital to improve the value of our existing businesses and to execute accretive acquisitions with a disciplined approach to value and structure. We seek to take meaningful ownership positions in operating companies that leverage the strengths of our platform, including our status as a public company with permanent capital enabling a long term holding philosophy, our sizable tax assets, and the experience and focus of our executive management team. In considering acquisition opportunities, we seek businesses with sustainable competitive advantages and defensible market positions, led by management teams that have shown success through business cycles, and have financial profiles where our tax assets can be used to increase free cash flow. We regularly consider acquisitions in what we view as undervalued industries, as well as businesses with values we believe to be misunderstood by the marketplace. In all cases, we seek opportunities that will be accretive to our earnings per share.

Real Alloy's acquisition of Beck Alloys is an example of allocating capital to increase the value of our existing businesses as we believe the geographic expansion will enable Real Alloy to better optimize its production capacity while the business' focus on high-purity alloys and access to primary aluminum sourcing better positions Real Alloy to service its customer base. Beyond the Real Alloy and Beck acquisitions, we expect to continue to evaluate acquisition opportunities as permitted by the terms of the financings associated with the Real Alloy Acquisition, and these may or may not have a strategic relationship with Real Alloy. Potential transactions are typically identified by our chief executive officer ("CEO") and management team, but may be sourced by any member of our Board or others connected with the Company. Acquisition opportunities are routinely received from Wall Street investment banks, as well as regional firms, and other organizations around the country. Our CEO and management team screen such ideas and determine whether to engage in a process. During 2016, we reviewed numerous opportunities before and after closing the Beck Acquisition and incurred approximately $1.2 million of diligence and advisory costs and expenses, unrelated to the Beck Acquisition, during the year ended December 31, 2016.

Similar to the Real Alloy Acquisition, we expect that most, if not all of our future acquisitions will be separately financed in the credit markets and we anticipate structuring any such financings to minimize the impact on our other businesses. We structured the financings associated with the Real Alloy Acquisition, including our stapled rights offering (the "Rights Offering"), with a view to minimizing ownership shift in our common stock and allowing our existing stockholders the ability to avoid dilution as we grow. At the holding company level, we may enter into financing arrangements, take strategic investment partners, issue securities in secondary offerings, rights offerings or private placements, or provide other financial support under terms that could limit us from additional acquisitions.

In conjunction with our business strategy of making acquisitions, as described above, our management strategy involves proactive strategic, financial and operational support for the oversight and operations of our business units. Particular areas in which we may provide assistance to our business units include:

- recruiting and retaining talented managers to lead our businesses;
- monitoring financial and operational performance, instilling consistent financial discipline, and supporting management in the development and implementation of information systems to effectively achieve these goals;
- assisting management in the development of their analyses and pursuit of prudent organic growth strategies;
- evaluating capital investments to expand geographic reach, increase capacity, or otherwise grow service or product offerings;
- identifying and working with management to execute attractive acquisition opportunities in their respective sector or industry; and
- implementing our Six Sigma, lean operations framework across all subsidiaries.

Since the February 2015 acquisition, our management team has worked closely with the Real Alloy management team to integrate and incorporate the Real Alloy Business into the Company, even as a largely stand-alone business unit. While the integration was completed in April 2016, and our management team continues to work closely with Real Alloy management to accomplish the ongoing business objectives and operating strategies of Real Alloy.

As part of our business and operating strategy, we may dispose of businesses or assets we own from time to time via sale, liquidation or other means when attractive opportunities arise that outweigh the potential future value we believe such businesses or assets can bring to us. As such, our decision to dispose of businesses or assets is based on our belief that doing so will increase stockholder value. In January 2015, we completed the sale of our NABCO subsidiary, and at the end of 2016, we determined to wind down our Cosmedicine subsidiary and begin its liquidation.

As an entity seeking to acquire well-performing companies, we compete in a diverse market with a wide spectrum of capital providers, including private equity funds, investment banks, public and private funds, hedge funds, and high net worth individuals and their family offices. Additionally, we compete with operating companies who seek to make acquisitions for strategic purposes. Real Industry's existing and potential competitors for acquisitions may be larger, may have easier access to financing sources and a greater ability to issue equity capital in the market generally, may have greater technical and marketing resources, may possess industry-specific overlaps with potential targets, and may have longer standing reputations in the marketplace for acquisitions.

Our Reportable Segments – RANA and RAEU

We have two reportable segments, both related to the Real Alloy Business: Real Alloy North America (“RANA”) and Real Alloy Europe (“RAEU”). As we acquired the Real Alloy Business on February 27. 2015, our results of operations and any other performance metric noted as “for the year ended December 31, 2015” for these two reportable segments in this Annual Report only reflect for the fiscal year ended December 31, 2015, the period from the acquisition date, February 27, 2015, to December 31, 2015, or approximately ten months.

RANA includes aluminum melting, processing, recycling, and alloying activities conducted in twenty-one facilities located in the U.S., Canada and Mexico, with customers serving end-uses primarily related to automotive, consumer packaging, construction, transportation, and steel. Similar to RANA, RAEU’s operations primarily convert aluminum scrap, dross and other alloying agents, as needed, and deliver the recycled metal in solid or molten form to customers from six facilities located in Germany, Norway and Wales. RAEU supplies the European automobile industry, as well as other aluminum producers and manufacturers serving other European aluminum industries.

In both RANA and RAEU, Real Alloy conducts business with its customers primarily through tolling arrangements and buy/sell arrangements. Under tolling arrangements, customers deliver their own aluminum scrap and by-products and pay Real Alloy a fee to convert the material into usable recycled metal. Tolling arrangements provide Real Alloy benefits through commodity price risk reduction, earnings stability, and consistent returns on invested capital given the reduced working capital needs associated with tolling arrangements. Under buy/sell arrangements, scrap units are purchased in the open market, including from scrap dealers, customers, and other producers, and are then processed and sold as wrought or cast alloys to customer specifications. The buy/sell portion of Real Alloy’s business has a much more significant impact on reported revenues and cost of sales compared to tolling arrangements, as the cost of metal is included in both revenues and cost of sales.

RANA and RAEU are trusted partners in the aluminum recycling industry and have long-standing relationships with diverse customer bases, including many blue-chip multinational companies. Many of Real Alloy’s customers, and all of its top ten customers, have closed-loop arrangements under which customers provide Real Alloy their aluminum scrap and by-products generated by their operations or scrap purchased by them, and we convert customer-owned metal units and by-products into usable recycled aluminum metal that is returned to them for further processing. Typically, closed-loop arrangements utilize tolling arrangements, though they can also be facilitated through buy/sell arrangements. Closed-loop arrangements benefit customers by enabling them to maximize utilization of their own metal (which is usually their lowest cost alternative), optimize operational efficiencies, and minimize by-product waste. The closed-loop business model also allows Real Alloy to be highly integrated into its customers’ supply chains, further strengthening customer relationships.

Real Alloy’s well-maintained facilities have been equipped with a broad range of pre-processing equipment, such as shredders, dryers and mills, thereby increasing flexibility and enabling it to process multiple grades of scrap and by-products to optimize metal purchases and minimize input costs. Increased flexibility in raw material input mix improves margins and is expected to help insulate Real Alloy in periods of unfavorable market conditions while creating significant benefits during upcycles. Additionally, we believe that Real Alloy’s centralized purchasing function within each of its operating regions, combined with Real Alloy’s broad geographic footprint, allow it to leverage its scale and purchasing expertise to secure the lowest cost aluminum scrap available.

With its extensive footprint and strategically located facilities in North America and Europe, Real Alloy effectively and efficiently serves both its global blue-chip customers and its regional and local customers. Most of its operations are located near customers' facilities, allowing for the closed-loop arrangements discussed above, and making Real Alloy an integral part of its customers' supply chain. At thirteen facilities, this close proximity allows Real Alloy to deliver "just-in-time" molten metal for direct use in customers' operations, which differentiates Real Alloy from many of its competitors. During the years ended December 31, 2016 and 2015, 37% and 41%, respectively, of Real Alloy's volume was delivered in molten metal form. This capability is a significant competitive advantage as it enables maximum production efficiency, reduces costs, and reinforces the integrated nature of its customer relationships. With its multi-location operation, aluminum scrap or by-products can be taken from a customer in one location, with recycled metal delivered back to that same customer in a different location and/or as a different alloy.

Unlike other metals, aluminum is infinitely recyclable without any loss of quality, thus making recycled, or secondary aluminum, just as desirable and usable as primary aluminum for many uses. This characteristic, coupled with increasing global demand for aluminum and long-term secular growth in key end-markets, provides a positive macro environment for Real Alloy's growth plans. According to CRU, global aluminum demand has demonstrated a 5.6% compound annual growth rate from 2000 through 2016. This growth in demand is greater than Lead (3.5%), Nickel (3.5%), Zinc (2.6%) and Copper (2.5%) during that same period. More specifically, in the automotive sector, which represented approximately 59% and 60% of Real Alloy's volumes for the years ended December 31, 2016 and 2015, respectively, aluminum consumption is expected to represent 40% of global growth in aluminum semis demand from 2015 to 2010, largely driven by the "light-weighting" of vehicles to meet new regulatory standards. In addition to growing demand in Real Alloy's key end-markets, demand for recycled aluminum is expected to grow at a faster rate than primary aluminum production in North America and Europe, which is largely driven by the cost and energy efficiency of recycling aluminum. By 2022, secondary aluminum production is expected to comprise nearly 50% of all aluminum production in North America and Europe.

Real Alloy's operations have been shaped through a series of acquisitions, including, most recently, the Beck Acquisition, organic growth, and divestitures over the past 30-plus years. Prior to ownership by Real Industry and Aleris, much of the recycling and specification alloys business was part of IMCO Recycling Inc. From 2005 through 2007, Aleris completed purchases of several companies, including Alumitech, Inc. and Wabash Alloys, LLC, to enhance its recycling and specification alloys portfolio. The Beck Acquisition is Real Alloy's first acquisition following Real Industry's purchase of Real Alloy in 2015 and the integration of the Real Alloy operations into the Company.

Real Alloy's margins for its buy/sell arrangements are significantly impacted by scrap spreads and conversion costs, and margins for tolling arrangements are principally impacted by the fees charged to customers to process their metal and conversion costs. "Scrap spreads" represent the difference between the cost of the aluminum scrap purchased by Real Alloy for processing and the selling prices of the aluminum alloys Real Alloy produces in buy/sell arrangements. Real Alloy strives to maximize scrap spreads by utilizing all grades of aluminum scrap and optimizing metal blends and recovery. Aluminum scrap prices tend to be determined regionally and are typically impacted by supply and demand dynamics. While prices for aluminum scrap and processed secondary alloy may each trend in a similar direction as prices for primary aluminum, the extent of these price movement is not highly correlated, and the sales price for secondary alloy may lag behind increases in scrap prices. As a result, these market fluctuations can cause unpredictable movements in metal spreads. Further, recycling operations are labor intensive and require a significant amount of energy (primarily natural gas and electricity) to melt aluminum, which are the two largest components of conversion costs.

The buy/sell portion of Real Alloy's business has a much more significant impact on reported revenues and cost of sales compared to tolling arrangements, which only includes processing fees and conversion costs. Accordingly, in addition to scrap spreads, two of the most important drivers of the financial performance of Real Alloy is the volume of metal processed and invoiced; and the mix of its business between tolling and buy/sell arrangements. Increased production volume will normally result in lower per unit costs, while higher invoiced volumes will normally result in additional revenue and associated margins. Increased processing under such tolling arrangements results in lower revenues and generally also results in higher gross profit margins compared to buy/sell arrangements. Tolling arrangements reduce exposure to the risk of changing metal prices and working capital requirements. Although tolling agreements are beneficial in these ways, the percentage of Real Alloy's capacity under these arrangements is limited by the amount of metal their customers own and the extent to which they are willing to enter into such arrangements.

In addition to focusing on tolling relationships and carefully managing the size of its commercial inventory position related to its buy/sell business, Real Alloy also utilizes various derivative financial instruments designed to reduce the impact of changing aluminum prices on these net physical purchases and sales, particularly in its European operations. While aluminum scrap is typically priced in relation to prevailing aluminum index prices (LME, Platts, Metal Bulletin, etc.), certain scrap types used in Real Alloy's operations are not highly correlated to an underlying 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 may limit exposure to unfavorable aluminum price changes, they also limit Real Alloy's ability to benefit from favorable price changes.

Customers

Real Alloy serves the automotive, consumer packaging, aerospace, building and construction, steel, and durable goods industries, as well as wrought alloy producers, foundries and casters. For the years ended December 31, 2016 and 2015, 12% and 14%, respectively, of our consolidated revenues were attributable to Nemak who is serviced from our RANA and RAEU segments, and 11% and 10%, respectively, of our consolidated revenues were attributable to Honda Motor Company who is serviced from our RANA segment.

Competition

The third-party aluminum recycling industry is highly fragmented, with a few participants in North America and in Europe operating multiple facilities, and many smaller aluminum recyclers that are single plant, family-owned businesses. We believe Real Alloy is the largest third-party aluminum recycler in both North America and Europe. Historically, Real Alloy has competed effectively because of its extensive global footprint, significant production flexibility, superior range of products and services, operational efficiency, knowledgeable and experienced management team, well-invested and strategically located facilities, and operational economies of scale. Real Alloy's main competitors in North America are Scepter Inc., Smelter Service Corporation, Tennessee Aluminum Processors, Inc., Owl's Head Alloys Inc., Imperial Aluminum, Superior Aluminum Alloys, LLC, Allied Metal Company, Audubon Metals LLC, Spectro Alloys Corporation, and Timco, a division of TST Inc. Main competitors in Europe are Oetinger Aluminum, AMAG Austria Metall AG, Raffmetal SpA, Trimet Aluminum, and Befesa. Additionally, many of Real Alloy's customers and potential customers also recycle their own scrap. In the future, some customers may increase the amount of scrap they recycle, and other customers may recycle their own scrap in lieu of using third-party recycling services, which accounted for a modest reduction in volume in 2016. Suppliers of primary aluminum can also act as competition under certain market conditions, which Real Alloy experienced in 2016.

Real Alloy volumes may be impacted by factors other than competition within its own industry. Because Real Alloy serves the automotive, consumer packaging, aerospace, building and construction, steel, and durable goods industries, as well as wrought alloy producers, foundries and casters, changes in the competitive profile of its customers can rapidly change the volume of secondary aluminum purchased from Real Alloy under both tolling and buy/sell arrangements. In 2016, Real Alloy saw a reduction in volume from wrought alloy tolling customers choosing to purchase more prime aluminum instead of secondary alloys.

Raw Materials and Supplies

The buy/sell portion of Real Alloy's business requires the purchase of aluminum scrap, primary aluminum, and hardeners. Metallics (primary aluminum metal, aluminum scrap, and aluminum dross) represent the largest component of Real Alloy's cost of sales. The availability and price of these raw materials depends on a number of factors outside of the control of Real Alloy, including general economic conditions, international demand for metallics and internal recycling activities by primary aluminum producers and other consumers of aluminum. Real Alloy purchases its raw materials from a wide spectrum of aluminum scrap dealers, primary aluminum producers, aluminum fabricators, casters and processors, and other intermediaries, and the diffuse nature of these suppliers requires that Real Alloy maintain constant procurement efforts, and generally is unable to lock in long-term scrap pricing. During the years ended December 31, 2016 and 2015, no supplier provided more than 10% of Real Alloy's metal purchases. The top ten suppliers represented approximately 25% and 22% of total metal purchases in the years ended December 31, 2016 and 2015, respectively.

Energy Supplies

Real Alloy's operations are dependent on natural gas and electricity, which represent the third largest component of cost of sales after metal and labor costs. Real Alloy purchases the majority of its natural gas and electricity on a spot-market basis. In an effort to acquire the most favorable energy costs, Real Alloy secures a portion of its natural gas and electricity at fixed price commitments. Real Alloy uses forward contracts, as well as contractual price escalators, and pass-through mechanics in customer contracts, to reduce the risks associated with natural gas price volatility.

Patents and Other Intellectual Property

Real Alloy holds patents registered in the U.S. and other countries relating to its business. In addition to patents, it also possesses other intellectual property, including trademarks, trade names, know-how, developed technology and trade secrets. Although we believe these intellectual property rights are important to the operations of Real Alloy, we do not consider any single patent, trademark, trade name, know-how, developed technology, trade secret or any group of patents, trademarks, trade names, know-how, developed technology or trade secrets to be material to Real Alloy as a whole.

Seasonality

Demand for certain of Real Alloy's products can be seasonal, depending on market demand related to its automotive customers and rolling mill customers that serve automotive manufacturers. Additionally, Real Alloy's margins can be influenced by weather due to its impact on scrap availability. Specifically, in regions subject to freezing temperatures and snowfall, the aluminum scrap supply can become temporarily limited during the winter months, putting pressure on margins.

Employees

As of December 31, 2016, Real Alloy had a total of approximately 1,800 employees, including approximately 1,200 in North America and 600 in Europe. Approximately 22% of our U.S. employees and substantially all of our non-U.S. employees are covered by collective bargaining agreements. We believe employee relations are satisfactory.

Environmental

Real Alloy's operations are subject to U.S. federal, state, local, and foreign environmental laws and regulations, which govern, among other things, air emissions, wastewater discharges, the handling, storage, and disposal of hazardous substances and wastes, the investigation or remediation of contaminated sites, and employee health and safety. These laws can impose joint and several liability for releases, or threatened releases, of hazardous substances upon statutorily defined parties, including Real Alloy, regardless of fault or the lawfulness of the original activity or disposal. Given the changing nature of environmental legal requirements, Real Alloy may be required, from time to time, to install additional pollution control equipment, make process changes, or take other environmental control measures at some of its facilities to meet future requirements. Currently, and from time to time, Real Alloy is a party to notices of violation brought by environmental agencies concerning laws governing air emissions.

From time to time, environmental issues can prompt the temporary closure of a Real Alloy facility. In June 2016, Norwegian regulatory authorities informed Real Alloy that odor emissions at its salt slag processing facility in Norway were in excess of permitted levels and halted operations. As of February 2017, after remediating the issues, Real Alloy has been issued a permit to operate and test the odor emissions through the summer.

Our aggregate accrual for environmental matters was $15.6 million as of December 31, 2016, including $4.0 million classified in accrued liabilities in the consolidated balance sheets. See Note 22—Commitments and Contingencies in the notes to consolidated financial statements included in Part IV, Item 15 for additional information about environmental obligations assumed in the Real Alloy Acquisition and environmental matters as of December 31, 2016, respectively.

In addition, we have asset retirement obligations of $5.3 million as of December 31, 2016, for costs related to the future removal of asbestos, ongoing monitoring of landfill closures, and underground storage tanks at various facilities, all of which were assumed in the Real Alloy Acquisition. Asset retirement costs identified after the acquisition date are capitalized as long-lived assets (asset retirement cost), and are amortized over the remaining useful life of the related asset. See Note 2—Presentation, Summary of Significant Accounting Policies and Recent Accounting Standards Updates and Note 10—Asset Retirement Obligations in the notes to consolidated financial statements included in Part IV, Item15 of this Annual Report for additional information about asset retirement obligations.

In the Real Alloy Acquisition, Aleris provided a special environmental indemnity for its Goodyear, Arizona facility, which is secured by an escrow of the Redeemable Preferred Stock (as defined below).

Processing scrap aluminum generates solid waste in the form of salt cake and baghouse dust. For RANA, salt cake is further processed for recycling at milling operations, or disposed of in landfills with baghouse dust. For RAEU, salt cake is processed for recycling and baghouse dust is disposed of in underground deposits in Europe. If salt cake was ever classified as a hazardous waste in the U.S., the costs to manage and dispose of salt cake would increase, which could result in significant increased expenditures.

Financial Information about Segments and Geographic Areas

The chief operating decision-maker ("CODM"), our CEO, evaluates Real Alloy largely by geographic area. Our reporting segments of RANA and RAEU have, accordingly, been created representing the Real Alloy businesses in North America and Europe. In addition to analyzing our consolidated operating performance based on volumes, our CODM measures the financial performance of our reportable segments utilizing adjusted EBITDA ("Segment Adjusted EBITDA"). Segment Adjusted EBITDA is a non-GAAP financial measure that has limitations as an analytical tool and should be considered in addition to, and not in isolation, or as a substitute for, or as superior to, our measures of financial performance prepared in accordance with GAAP. Management, including our CODM, uses Segment Adjusted EBITDA to manage and assess the performance of our business segments and overall business, and believes that Segment Adjusted EBITDA provides investors and other users of our financial information with additional useful information regarding the ongoing performance of the underlying business activities of our segments, as well as comparisons between our current results and results in prior periods. For additional information regarding non-GAAP financial measures, see "Non-GAAP Financial Measures" in Part II, Item 7 of this Annual Report.

Corporate and Other

As a holding company, we report the administrative, financial and human resource activities related to the oversight of our operating segments, implementation of our acquisition strategies, maintenance of our public company status and management of our discontinued operations as "Corporate and Other." The holding company expects to charge its operating segments management fees for providing oversight and for certain direct and indirect expenses incurred on their behalf. In the case of Real Alloy, $3.0 million and $2.5 million of management fees were charged in the years ended December 31, 2016 and 2015, respectively, although no cash has been transferred. Such charges are excluded from Segment Adjusted EBITDA, as management excludes such costs when assessing segment performance. As of December 31, 2016, our corporate staff was comprised of nine individuals, none of which are under a collective bargaining agreement and management believes its relationships are good.

Corporate and Other also includes the assets, liabilities, and results of operations of operating segments that do not meet the criteria of a reportable segment, generally as a result of the size of the segment, and which include Cosmedicine and Signature Credit Partners, Inc. ("SCP"). As noted above, in September 2016, with authorization from the Board of Directors, management initiated a process to sell Cosmedicine or liquidate its assets. As of December 31, 2016, Cosmedicine had finished goods inventory with a carrying value of $0.1 million held for sale, which is classified in prepaid expenses, supplies and other current assets. The potential sale or liquidation of Cosmedicine does not represent a strategic shift in operations and will not have a significant effect on the consolidated financial results of Real Industry.

SCP was the primary component of a former reportable segment, Special Situations. As of December 31, 2016, SCP has assets of approximately $1.7 million, including $0.8 million of cash and $0.9 million of a participation interest in a pool of commercial mortgage loans.

Discontinued Operations

Discontinued operations presents the financial condition and results of operations of the businesses and operations of 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, primarily with homeowners seeking to avoid foreclosure on loans originated by FIL. During the first quarter of 2015, NABCO was sold for a pretax gain of $39.7 million and, as a result of a strategic shift in operations, its results of operations have been reclassified to discontinued operations for all periods presented.

As of December 31, 2016, discontinued operations had no assets or liabilities. See Note 19—Discontinued Operations in Part IV, Item 15 of this Annual Report for additional information about our discontinued operations.

Available Information: Website Access to Periodic Reports

The following information can be found on Real Industry's website at www.realindustryinc.com:

- the most recent Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), as soon as reasonably practicable after the reports have been filed with the Commission. Copies of all of Real Industry's Form 10-Ks, Form 10-Qs and other reports filed with the Commission can also be obtained from the Commission's website at https://www.sec.gov;
- information relating to corporate governance at Real Industry, including our Code of Conduct (for directors and all employees, including executive officers), which also complies with the definition of a "code of ethics" set forth in Section 406(c) of the Sarbanes-Oxley Act of 2002, as required by NASDAQ's corporate governance requirements. We intend to disclose any amendments to or waivers from these governance documents on our website, in lieu of disclosure on Form 8-K in accordance with Item 5.05(c) of Form 8-K;
- information about membership on Board committees, as well as the charters of standing committees of the Board; and
- information relating to transactions in Real Industry's securities by its directors, executive officers and significant stockholders reportable on Forms 3, 4 and 5, and Schedules 13D and 13G.

The information contained on our website is not incorporated herein.

Additionally, copies of any of this information will be provided, free of charge, upon written request to the Company's principal executive offices, Real Industry, Inc., Investor Relations, 15301 Ventura Boulevard, Suite 400, Sherman Oaks, California 91403 (until March 31, 2017) or to Real Industry, Inc. Investor Relations, 9 West 57th Street, 26th Floor, New York, NY 10019 (after April 1, 2017), or by email request to investor.relations@realindustryinc.com. Our telephone number is (805) 435-1255.

Item 1A. Risk Factors
Before deciding to purchase, hold or sell our common stock, you should carefully consider the risks described below in addition to other information contained in this Annual Report and in our other filings with the SEC, including our subsequent reports on Forms 10-Q and 8-K. The risks and uncertainties described below are in addition to risks that apply to most businesses and are not the only ones we face. The order in which the risks appear is not intended as an indication of their relative weight, likelihood or importance. Additional risks and uncertainties that are not presently known to us or that we currently deem immaterial may also affect our business. If any of these known or unknown risks or uncertainties actually occurs, our business, financial condition, results of operations and/or liquidity could be materially and adversely affected. In that event, the market price for our common stock will likely decline and you may lose all or part of your investment.

Risks Related to Real Industry as a Holding Company

Our financial condition and results of operations will depend on our ability to acquire and integrate businesses that perform and meet expectations after closing. A key element of our business strategy involves the acquisition and integration of profitable operating businesses. We may experience challenges identifying, financing, consummating and integrating such acquisitions. Competition exists in the market for the acquisition of profitable operating companies. We may not be able to find suitable acquisition opportunities that are available at attractive valuations, if at all. Even if we do find suitable acquisition opportunities, we may not be able to consummate the acquisitions on commercially acceptable terms, as suitable financing arrangements may not be available on acceptable terms, on a timely basis, or at all.

Even if we are successful in completing additional acquisitions, these could require significant investments of capital, management attention, and integration effort. We may also encounter difficulties in assimilating and integrating the operations, personnel, technologies, products, and information systems of acquired companies, and retaining key personnel. These risks are applicable even for businesses we intend to run on a stand-alone basis. We recorded a noncash goodwill impairment charge of $61.8 million in the fourth quarter of 2016 and we may incur additional significant goodwill impairment charges in the future. Acquisitions could disrupt relationships with existing customers, suppliers, and strategic partners of the newly acquired entities and may create other contractual, intellectual property, or employment issues. The acquisition of another company or business may also require us to enter into a business, industry or geographic market in which we have little or no prior experience. These challenges could disrupt our ongoing business, distract our management and employees, harm our reputation and increase our operating costs, and these challenges could be magnified as the size of the acquisition increases.

There can be no assurance that we will be able to consummate any future acquisitions or that, if consummated, we will successfully integrate the businesses or otherwise realize the benefits anticipated from these acquisitions. Even if we are able to grow and build our operations, any failure to manage our growth effectively could have a material adverse effect on our business, financial condition, results of operations and prospects.

We may never realize the full value of our intangible assets or for other assets we sell. We may never realize the full value of our intangible assets, consisting primarily of goodwill and customer relationships from our acquisitions. Goodwill and other intangible assets with indefinite lives are not amortized, but are tested annually or upon the occurrence of certain events that indicate that the assets may be impaired. Definite-lived identifiable intangible assets are amortized over their estimated useful lives and are tested for impairment upon the occurrence of certain events that indicate that the assets may be impaired. We may not receive the recorded value for our intangible assets if we sell or liquidate our business or assets.

Based on our 2016 goodwill impairment test, we identified and recorded a $61.8 million impairment charge in our RANA segment. Following the impairment charge, we have $42.2 million of goodwill, including $33.6 million in

RANA, which is subject to further impairment. In addition, we impaired the remaining $0.1 million of Cosmedicine's unamortized product formulations. The remaining $12.5 million of unamortized customer relationships with definite lives as of December 31, 2016, will continue to be amortized. We incurred total amortization expenses relating to these intangible assets of $2.4 million in 2016. These expenses will reduce our future earnings or increase our future losses. Should additional impairment charges be recognized in the future, the market price of our common stock could be adversely affected.

Further, we may from time to time decide to sell operating subsidiaries or assets based on any number of factors, including a desire to monetize an asset to finance working capital or other strategic plans or because such operations may not perform as expected. There can be no assurance that we will be successful in completing such future transactions. If such a transaction is completed, it may reduce the size of our business or our cash flow. There is also no assurance that we will receive adequate consideration in the disposition of any operating subsidiary or asset. As a result, any future disposition of operating subsidiaries or assets could have a material adverse effect on our business, financial condition, and results of operations.

We have experienced substantial losses from continuing operations in recent years and may experience losses in the future. Although we reported net earnings for the year ended December 31, 2014, primarily as a result of NABCO's operations (which are classified in discontinued operations as of December 31, 2016), for the years ended December 31, 2016, 2015, 2014, 2013, 2012 and 2011, we reported losses from continuing operations of $103.2 million, $31.7 million, $0.1 million, $14.2 million, $7.4 million and $9.9 million, respectively. While we believe we made significant progress in reducing our operating costs at corporate since summer 2013, following the sale of NABCO and the consummation of the Real Alloy Acquisition, the nature of our operations and our operating costs have changed significantly. The Real Alloy Acquisition has not yet been accretive to earnings, and unless its financial performance improves, it may cause additional dilution to our earnings per share. We may experience operating losses and net losses in the future, which could make it difficult to fund our operations, finance acquisitions and achieve our business plan, any of which could cause the market price of our common stock to decline.

Our debt agreements as of December 31, 2016 and future debt financing arrangements into which we or our subsidiaries may enter, may contain various covenants that limit our ability to take certain actions and also require us to meet financial maintenance tests. Failure to comply with these covenants could have a material adverse effect on our operations, business and financial results. As of December 31, 2016, we had approximately $368.1 million of indebtedness outstanding under the Senior Secured Notes, the Asset-Based Facility, a $1.5 million term loan (the "Term Loan"), and various capital leases, which was entirely related to Real Alloy. Further, Real Alloy has additional borrowing capacity under the Asset-Based Facility and its German subsidiary's €50 million nonrecourse Factoring Facility. Interest costs related to this indebtedness, together with the dividends on the Redeemable Preferred Stock, are substantial. The Senior Secured Notes, the Asset-Based Facility, the Factoring Facility and the Redeemable Preferred Stock contain, and the instruments governing our other future indebtedness may contain, certain customary restrictions, covenants, and provisions for mandatory repayment upon the occurrence of certain events, and provisions for events of default that will require us, Real Alloy or other acquired entities to satisfy certain financial tests and maintain certain financial ratios, restrict the ability to engage in specified types of transactions, and otherwise limit the distributions of funds from Real Alloy or other entities acquired in the future to us. This overall leverage and the terms of our financing arrangements could:

- limit the ability to pay dividends or management fees, to make distributions or to repay intercompany loans, especially from Real Alloy, and future subsidiaries, to us;
- make it more difficult to satisfy obligations under the terms of this indebtedness;
- limit the ability to refinance this indebtedness on terms acceptable to Real Alloy, us, or at all;
- limit the flexibility to plan for and adjust to changing business and market conditions in the industries in which we or Real Alloy operate and increase the vulnerability to general adverse economic and industry conditions;
- require the dedication of a substantial portion of cash flow to make interest and principal payments on this indebtedness, thereby limiting the availability of cash flow to distribute to us or to fund future acquisitions, working capital, capital expenditures, business activities, and other general corporate requirements;
- restrict sales of key assets;
- limit the ability to substantially change our business or enter into new lines of business;
- limit the ability to obtain additional financing for working capital, to fund growth or acquisitions or for general corporate purposes, even when necessary to maintain adequate liquidity, particularly if any ratings assigned to our debt securities by rating organizations were revised downward; or
- cause a competitive disadvantage and may reduce our flexibility in responding to increased competition.

In addition, the restrictive covenants in the Senior Secured Notes and Asset-Based Facility and certain other indebtedness require us or could require us to maintain specified financial ratios and satisfy other financial conditions and tests. Our ability to meet those financial ratios, conditions and tests will depend on our ongoing financial and operating performance, which, in turn, will be subject to economic conditions and to financial, market, and competitive factors, many of which are beyond our control. A breach of any of these covenants could result in a default under the instruments governing our indebtedness.

Upon the occurrence of an event of default under any such financing arrangement, the relevant lenders could assess increased interest rates, accelerate the maturity of the debt or foreclose upon any collateral securing the debt, and events of default could be triggered under other financing arrangements with cross-default provisions. In this event, we may lack sufficient funds or other resources to satisfy all of our obligations. In addition, any limitations imposed by financing agreements on our ability to incur additional debt or to take other actions could significantly impair our ability to obtain other financing.

Our ability to use our U.S. NOLs to offset future U.S. taxable income may be limited as a result of past events, the Real Alloy Acquisition, the financings related to the Real Alloy Acquisition, or as the result of future acquisitions, financings or other issuances or transfers of our common stock. As of December 31, 2016, we reported U.S. NOLs of approximately $916.0 million, which will begin to expire if not used before the tax year ending December 31, 2027. For accounting purposes, a valuation allowance is required to reduce our potential deferred tax assets if it is determined that it is more likely than not that all or some portion of such assets will not be realized due to the lack of sufficient taxable income. As a result of uncertainties about the timing and amount of future U.S. taxable income, we have a full valuation allowance of $400.6 million recorded against our U.S. deferred tax assets as of December 31, 2016, and expect to continually review and evaluate the valuation allowance in future periods.

Our ability to fully utilize our existing U.S. NOLs could be limited or eliminated as a result of changes in U.S. federal tax laws and regulations or should we: i) be found by the Internal Revenue Service (“IRS”) to not be able to avail ourselves of Section 382(l)(5) of the Tax Code in connection with the plan of reorganization following the Bankruptcy Proceedings; ii) undergo an “ownership change” as described under Section 382 of the Tax Code; iii) be deemed to have abandoned an active business; or iv) not return to profitability or be only marginally profitable in the future.

Although we cannot assure you that the IRS will agree with our position, we believe that, as of Fremont’s emergence from Bankruptcy Proceedings through the Real Alloy Acquisition until the present time, Real Industry has met the criteria under Section 382(l)(5) of the Tax Code to be able to utilize its U.S. NOLs to offset future taxable income, if any.

Our ability to utilize our U.S. NOLs, however, will be subject to significant limitation for U.S. federal income tax purposes if the Company undergoes an “ownership change” as defined in Section 382 of the Tax Code. For this purpose, an “ownership change” is generally defined as greater than a 50% change in equity ownership by value, over a rolling three-year period. We may experience an ownership change in the future as a result of changes in our common stock ownership, which would result in a limitation on our ability to utilize our U.S. NOLs. Separately, any changes to tax rules or the interpretation of tax rules could negatively impact our ability to recognize benefits from our U.S. NOLs.

While there is no guarantee that the IRS will agree with our position, we believe that the Real Alloy Acquisition and related financings did not result in an ownership change for purposes of Section 382 of the Tax Code. The Company received an opinion letter (the “Section 382 Opinion Letter”) from its U.S. tax counsel, Blank Rome LLP, substantially to the effect that the Real Alloy Acquisition and related financings should not result in an “ownership change” for U.S. federal income tax purposes and that the Company may use its U.S. NOLs to offset future U.S. taxable income generated by Real Alloy. The Section 382 Opinion Letter is restricted to the precise terms described therein and the Company or its stockholders may engage in subsequent transactions that would result in an “ownership change.” Additionally, the Company adopted the Tax Benefit Preservation Provision in order to protect stockholder value by preserving our U.S. NOLs. There is no guarantee, however, that the Tax Benefit Preservation Provision will be effective in protecting our U.S. NOLs and other tax assets.

The amount of our U.S. NOLs has not been audited or otherwise validated by the IRS. The IRS could challenge the amount of our U.S. NOLs and other tax assets, which could result in an increase in our liability for income taxes in the future. Further, our U.S. NOLs only have value to the extent we generate U.S. taxable income. If we are unable to generate U.S. taxable income prior to the expiration of the U.S. NOLs, or if we are only marginally profitable during such period, we will be limited in our ability to utilize the tax benefits related to our U.S. NOLs. There can be no assurance that we will have sufficient U.S. taxable income to be able to utilize our U.S. NOLs prior to their expiration. Finally, the use of U.S. NOLs is subject to various tax laws and regulations and any changes in such or the interpretations thereof.

Funding for our future acquisitions and operations could increase our liabilities, trigger negative tax consequences or dilute, or rank preferentially to, our stockholders. We intend to fund any future acquisition through a mix of our available cash, the sale of equity securities in private placements or in registered offerings under our shelf registration statement declared effective on October 21, 2015, rights offerings to existing stockholders, and debt financings. Utilizing these funding sources can result in increased debt or contingent liabilities, adverse tax consequences, substantial capital commitments, loss of some of our U.S. NOLs, or dilution. Any of these events could negatively impact our financial condition and results of operations and could cause the price of our common stock to decline.

We currently have 9,235,000 shares of blank check preferred stock available for issuance and $700.0 million of securities available for issuance under the shelf registration statement. In order to fund our future operations or acquisitions, we may sell preferred equity securities or convertible debt securities with rights, preferences and privileges senior to our existing stockholders. In such event, future security holders could be entitled to dividends, liquidation or other transaction preferences, or voting rights that are not provided to our existing common stockholders. Further, with or without preferential terms, future issuances of securities could result in dilution to our stockholders.

Our Redeemable Preferred Stock issued as partial consideration in the Real Alloy Acquisition has superior rights to our common stock. In connection with the Real Alloy Acquisition, we issued $25.0 million, or 25,000 shares, of Series B Non-Participating Preferred Stock of Real Industry (the “Redeemable Preferred Stock”) to Aleris to be held in an escrow to secure Aleris’ indemnification obligations in connection with the Real Alloy Acquisition. The Redeemable Preferred Stock generally has no voting rights, except, among other customary matters, for any merger (unless the Redeemable Preferred Stock remains outstanding or is purchased at the liquidation preference), for any acquisition valued at more than 5% of the consolidated assets of the Company (so long as at least $10.0 million in aggregate principal amount of Redeemable Preferred Stock remain outstanding). We currently pay quarterly dividends on the Redeemable Preferred Stock at a rate of 8% per annum, which will increase to 9% in August 2017; after being payable in-kind for the first two years, dividends are payable in cash. Other than dividends or distributions payable on our common stock in shares of common stock, the Redeemable Preferred Stock ranks 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. The Redeemable Preferred Stock could have a material impact on the rights of our common stockholders in terms of dividends, repurchases and redemptions by, or in the event of a liquidation of, the Company.

Real Industry’s operations staff is lean, and we depend on key personnel to achieve our business and strategic objectives. As a holding company that seeks to identify, acquire and maintain operating companies with functioning management teams and operational support departments, Real Industry maintains a more lean management and operations team. The size of this staff may limit how many strategic and operations opportunities that we may pursue in depth at any given time. In addition, we may from time to time need to consult with third party strategic, financial, legal or other business advisors in order to assess and pursue operational matters, strategic objectives, transactions or financings, which may increase our general and administrative expense.

Further, we depend on the members of our senior management team to execute our business plan and strategy and to manage our business and day-to-day operations, including identifying, structuring, closing and monitoring business acquisitions. These members of our senior management team have critical industry experience and relationships that we rely upon to implement our business plan. If we lose the services of one or more of these individuals, it may take us significant time, effort and cost to identify and hire suitable executives with the appropriate experience and expertise to join the Company, and in the meantime, we may not be able to operate our business or identify and manage our business as we planned. As a result, our ability to compete could be harmed. All of these consequences could have a material adverse effect on our business, financial condition and results of operations.

We have certain continuing indemnity obligations in connection with the NABCO Sale. In connection with the sale of NABCO in January 2015, we and SGGH each entered customary indemnification obligations related to our representations, warranties, covenants and other obligations. As of December 31, 2016, the survival period for most of these indemnification obligations has terminated, but certain indemnification obligations, including for environmental, tax, employee and employee benefits matters, remains. While the indemnification is capped at an aggregate of $7.8 million for breaches of most representations and warranties, certain other indemnification obligations are not limited. Should a significant claim arise, we could be required to pay a material amount of our available cash to fund or address any such indemnified liability, including the costs of negotiating or defending claims from the purchasers of NABCO or third-parties and the final costs of the underlying liability.

As of December 31, 2015, we reported a material weakness in our internal control over financial reporting. If we experience other material weaknesses in our system of internal control, we may not be able to report our financial results accurately or on a timely basis and may not be able to detect fraud, any of which could materially and adversely affect our business and our common stock price. As disclosed in our quarterly report on Form 10-Q for the period ended June 30, 2015, our CEO and CFO identified a material weakness in our internal control over financial reporting pertaining to control deficiencies in our financial close process. This specifically related to the 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.

As described in our annual report on Form 10-K for the year ended December 31, 2015, we took steps to remediate a number of the aspects of this material weakness; however, our CEO and CFO 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 the material weakness in 2015, our CEO and CFO concluded that the unaudited quarterly financial information for 2015, included in this Annual Report, present fairly, in all material respects, our financial position, results of operations and cash flows for the periods presented in conformity with GAAP.

As of December 31, 2016, our CEO and CFO have determined that our internal controls over financial reporting were operating effectively.

If we fail to maintain or enhance our internal control over financial reporting or fail to properly maintain an effective system of internal control over financial reporting, we may be unable to detect fraud or to report our financial results accurately and on a timely basis. The existence of any such deficiencies and/or weaknesses, even if cured, could also lead to the loss of investor confidence in the reliability of our financial statements, which could negatively impact the price of our common stock. Such deficiencies or material weaknesses may also subject us to litigation, investigations and other penalties.

In addition, our business strategy contemplates the further acquisition of businesses and the operation of subsidiaries whose financial results will be consolidated into our financial statements and reporting. We maintain an operations staff at a lean level that we believe is appropriate for our current business. However, this environment could result in future challenges with our business combination process, as we experienced with the Real Alloy Acquisition. Additionally, as a result of these business activities and our future growth, the scope of our internal control over financial reporting will have to expand, which may subject us to increased internal control risks, especially as new businesses are integrated into our processes. Effective internal control over financial reporting must be established and maintained in connection with these acquisitions, if any, in order for us to produce accurate and timely financial reports. Failure to do so would result in our inability to report our financial results accurately and on a timely basis, and possibly lead to other deficiencies, which would likely have a negative impact on the market value of our common stock.

Furthermore, Section 404 of the Sarbanes-Oxley Act currently requires us to evaluate the effectiveness of our internal control over financial reporting at the end of each fiscal year and to include a management report assessing the effectiveness of our internal control over financial reporting in our Annual Report. We are also subject to the auditor attestation requirement under Section 404(b) of the Sarbanes-Oxley Act. We may not be able to complete the work required for such attestations on a timely basis and, even if we timely complete such requirements, we cannot assure you that our independent registered public accounting firm will conclude that our internal control over financial reporting is effective. The inability to obtain such attestation could lead to the loss of investor confidence in the reliability of our financial statements, which could negatively impact the price of our common stock and may impair our ability to raise capital under our $700.0 million shelf registration statement.

Our holding company organizational structure makes Real Industry largely dependent on funding from and highly subject to the risks and uncertainties of its operating subsidiaries. This holding company structure may not provide the benefits we expect. Real Industry is a holding company with no current business operations of its own. Beyond the companies that we have either formed or acquired, Real Industry’s only significant assets are our cash and our equity interests in and our obligations from our subsidiaries. As a result, we largely rely on funding from Real Alloy, and may in the future largely rely on our other operating subsidiaries, to meet our obligations. If our subsidiaries need to retain their funds to meet their financial obligations or experience other restrictions on their ability to fund Real Industry, that may limit our access to funds, available working capital, or ability to pursue our acquisition strategy or other strategic objectives.

While we intend to operate Real Alloy and other future operating subsidiaries largely as stand-alone businesses, to the extent that we operate operating subsidiaries that are substantially larger entities than our holding company, we are subject to the business, industry, geographic, and market risks, regulations and uncertainties of such subsidiaries. The impact of these may be significant to Real Industry and could have a negative effect on our financial condition, results of operations and stock price.

Further, we completed the Reincorporation and our past acquisitions to establish and maintain a holding company organizational structure, and we plan to make future acquisitions within this structure, because of the strategic, business and financing flexibility that we believe it affords us. Our holding company structure may not keep the assets and liabilities of the Company and any new businesses we acquire legally separate. In such case, the increased costs of maintaining a separate holding company, including the administrative costs and expenses associated with keeping separate records and separate corporate or regulatory filings, may be incurred without realizing the possible benefits.

Changes in the tax provisions that are applicable to the Company or our subsidiaries may create additional tax liabilities for us, may reduce our NOLs, increase tax analysis and compliance costs and trigger other consequences with a material effect on our financial results. We are subject to income taxes in the United States and certain non-U.S. jurisdictions, and our tax liabilities are based on the distribution of income across these jurisdictions. The determination of the Company's provision for income taxes and other tax liabilities requires judgment and is based on legislative and regulatory structures that exist in the jurisdictions in which we operate. As a result of the change in the U.S. presidential administration, there may be changes in U.S. tax policy, and the nature and outcome of those potential changes is uncertain at this time. Given the uncertainty surrounding the final outcome of the U.S. tax reform, it is not possible to predict the impact any changes would have on the Company's financial results. If there is a change in, re-interpretation of or re-application of, these tax regulations in ways that are applicable to our operations and businesses, our tax liabilities and tax compliance costs could materially increase.

Pending legal proceedings and other contingent liabilities may impact our financial condition and results of operations, lowering our stock price, and limiting our ability to use our common stock as consideration in future transactions. Our subsidiary, SGGH, is subject to a number of lawsuits seeking monetary damages or injunctive relief and it has potential other contingent liabilities, including repurchase claims, which relate to Fremont's prior businesses and are presented in discontinued operations. For a summary of our material legal proceedings, see "Legal Proceedings" in Note 22—Commitments and Contingencies in the notes to consolidated financial statements, included in Part IV, Item 15 of this Annual Report. Additional litigation may be filed against us, or our subsidiaries, or disputes may arise in the future concerning matters involving the discontinued operations. We and SGGH have been and intend to continue to vigorously defend ourselves in all legal proceedings in which we are involved, however, the outcome of litigation and other legal matters is always uncertain and could materially adversely affect our liquidity, financial condition and results of operations. Furthermore, the costs to defend SGGH or the Company in these matters may be significant. In turn, these could have a material impact on the price of our common stock, which may limit our ability to utilize our common stock as consideration for potential future acquisitions and other transactions in which we may engage.

SGGH has received repurchase claims relating to certain residential mortgage loans sold by our discontinued operations, and may receive additional claims in the future that, unless withdrawn or settled within the limits of the established repurchase reserve, could adversely affect our financial condition and results of operations. As of December 31, 2016, SGGH had $101.7 million of outstanding repurchase claims associated with claims of breaches of certain representations and warranties related to the residential real estate loans sold by Fremont Investment & Loan ("FIL"), largely from 2002 through 2007. While management believes no repurchase reserve liability is appropriate as of December 31, 2016, the amount of the reserve is subjective and is based on management's current expectations based on facts currently known.

Although the last mortgage loan purchase agreement was executed in mid-2007, there is no certainty that other claims will not also be asserted against SGGH or us. Changing or new facts and circumstances could cause us to increase the repurchase reserve in future periods or may cause us to experience losses in excess of any repurchase reserve liability. Any material increase in, or change in the nature of, repurchase claim activity and payout amounts, the repurchase reserve, or changes in our ability to object to, defend or settle such claims, could have a material adverse effect on our financial condition and results of operations. See Note 19—Discontinued Operations in the notes to consolidated financial statements included in Part IV, Item 15 of this Annual Report for additional information about the repurchase reserve.

SGGH is subject to residential mortgage-backed securities defense, indemnity and contribution claims. 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 mortgage loan purchase agreements, underwriting agreements, and indemnification and contribution agreements, which contained 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 neither FIL, nor its subsidiary, are a named defendant. FIL and its subsidiary have received demands for defense, indemnity and contribution from defendants in various RMBS Actions. Each of these demands has been rejected as we believe the demanding parties are being sued for conduct not chargeable to FIL or its subsidiary. There is no assurance that FIL or its subsidiary will not be named as a defendant in additional RMBS Actions or receive additional demands for defense, indemnity and contribution. We intend to vigorously defend any claims seeking defense, indemnity or contribution, but we cannot presently predict whether such claims will be pursued or what the outcome would be. However, if the investment banks suffer losses in connection with RMBS Actions and successfully pursue claims against FIL, its subsidiary or SGGH, this could have a material adverse effect on our consolidated financial position, results of operations and cash flows.

Our data and information systems and network infrastructure may be subject to hacking or other cyber-security threats, giving unauthorized persons access to and the ability to misappropriate our customer data, and proprietary business information. In our operations, we store and transmit proprietary information for ourselves and for our customers. We have offices, operations and employees in various locations throughout the U.S., Europe, Canada and Mexico. Our operations are dependent upon the connectivity and continuity of our facilities and operations. Despite our security measures, our information systems and network infrastructure may be vulnerable to cyber-attacks or could be breached due to an employee error or other disruption that could result in unauthorized disclosure of sensitive information or an interruption of our networks that has the potential to significantly interfere with our business operations. Breaches of our security measures could expose us to a risk of loss or misuse of this information, litigation, and potential liability. Since techniques used to obtain unauthorized access or to sabotage information systems change frequently and generally are not recognized until launched against a target, we may be unable to anticipate these techniques or to implement adequate preventive measures in advance of such an attack on our systems. In addition, although we attempt to validate the security of such services, because of vendors that use cyber or "cloud" storage of information as part of their service or product offerings, our proprietary information may be misappropriated by third-parties. In the event of an actual or perceived breach of our security, or the security of one of our vendors, the market perception of the effectiveness of our security measures and our attractiveness as a business partner could be harmed and we could suffer damage to our reputation or our business, or lose existing customers and lose our ability to obtain new customers. Additionally, misappropriation of our proprietary business information could prove competitively harmful to our business.

Compliance with laws or regulations governing our current or future operations may adversely affect our business or cause us to alter our business strategy. We and Real Alloy are subject to statutes and regulations at the U.S. federal, state and local, and foreign level, as may be any entity we acquire. The inability to comply with these statutes and regulations in the business segments, geographic regions and jurisdictions in which we, Real Alloy or future subsidiaries operate could result in substantial costs, including fines, civil penalties, and criminal sanctions or costs associated with upgrades to improve facilities or changes in manufacturing or other processes in order to achieve and maintain regulatory compliance, which could, depending on their magnitude, individually or in the aggregate have a material adverse impact on our financial condition, results of operations and our stock price. Further, new legislation may be enacted or new interpretations, rulings or regulations could be adopted, potentially with retroactive effect, any of which could harm us, our operations, our plans and our stockholders. We may seek to acquire new businesses subject to legislation or regulations with which we are not currently familiar. Compliance with existing laws and regulations, changes to laws and regulations or entering into new regulated industries may cause us to alter our operations or business strategy in order to minimize the adverse impact on our business and financial performance or to avail ourselves of new or different opportunities. Such changes could result in material differences in the strategies and plans set forth in this Annual Report. Thus, any such changes, if they occur, could have a material adverse effect on our financial condition and results of operations.

Risks Related to Real Alloy

The cyclical nature of the metals industry, Real Alloy's end-use segments, and the industries of Real Alloy's customers could limit operating flexibility and could negatively affect Real Alloy's financial condition and results of operations. The metals industry is generally cyclical in nature. It tends to reflect and be amplified by changes in general macro and local economic conditions. These conditions include, but are not limited to, the level of economic growth, financing availability, the availability of affordable energy sources, employment levels, interest rates, consumer confidence, and demand for automobiles and housing. Historically, in periods of recession or periods of minimal economic growth, metals companies have tended to underperform other sectors. Real Alloy is particularly sensitive to trends in the automobile industry, which can be seasonal, highly cyclical, and dependent upon general economic conditions. For example, during recessions or periods of low growth, the automobile industry typically experiences major cutbacks in production, resulting in decreased demand for inputs such as aluminum. This may lead to significant fluctuations in demand and pricing for Real Alloy’s products and services. Because Real Alloy generally has certain fixed costs, its near-term profitability can be significantly affected by decreased processing volume. Accordingly, reduced demand and pricing pressures may significantly reduce its profitability and adversely affect its financial condition. Economic downturns in regional and global economies or a prolonged recession in its principal industry segments have had a negative impact on the operations of Real Alloy and could have a negative impact on Real Alloy’s future financial condition or results of operations. In addition, global economic and commodity trends have been increasingly correlated in recent years. Although Real Alloy will continue to seek to diversify its business on a geographic and industry end-use basis, there can be no assurance that diversification will significantly mitigate the effect of cyclical downturns.

Real Alloy requires substantial amounts of capital to operate; failure to maintain sufficient liquidity will have a material adverse effect on its financial condition and results of operations. Real Alloy requires substantial amounts of capital to operate, and its liquidity can be adversely affected by a number of factors outside its control. Fluctuations in aluminum prices, even at modest levels, may result in increased cash costs for aluminum scrap, and increase the need for working capital. In addition, if aluminum price movements result in a negative valuation of current financial derivative positions, counterparties may require the posting of cash collateral. Furthermore, in an environment of falling aluminum prices, the borrowing base and availability under Real Alloy’s then-current borrowing facilities may shrink and constrain Real Alloy’s liquidity. If Real Alloy fails to maintain adequate liquidity, ratings agencies could downgrade Real Alloy, Real Alloy’s suppliers could change the commercial terms on which they are willing to sell to Real Alloy (including requiring quick pay terms) or otherwise reduce the level of business they are willing to do with Real Alloy, and credit insurers could cut the level of insurance they will extend, further impacting liquidity and forcing Real Alloy to use more cash to conduct its operations. While Real Alloy monitors these liquidity levels closely and would endeavor to work closely with ratings agencies and its lenders and suppliers to address tight liquidity issues, there can be no assurance that such efforts will be sufficient to address a material liquidity issue should one arise.

Real Alloy requires substantial capital investments that it may be unable to fulfill. The operations of Real Alloy are capital intensive. Under Aleris, total capital expenditures were $60.5 million, $55.7 million, $37.4 million and $31.9 million for the years ended December 31, 2011, 2012, 2013 and 2014, respectively. During the years ended December 31, 2016 and 2015, the amount was approximately $30.8 million and $34.2 million, respectively, including $26.0 million spent under Real Industry’s ownership in the year ended December 31, 2015. Real Alloy may not generate sufficient operating cash flows and its external financing sources may not be available in amounts sufficient to enable it to make anticipated capital expenditures, service or refinance indebtedness or fund other liquidity needs. If Real Alloy is unable to make upgrades or purchase new equipment, its financial condition and results of operations could be affected by higher maintenance costs, lower sales volumes due to the impact of reduced product quality, and other competitive influences.

The loss of certain members of the management team of Real Alloy may have an adverse effect on its operating results. The success of Real Alloy will depend, in part, on the efforts of senior management and other key employees. These individuals possess sales, marketing, engineering, manufacturing, financial, and administrative skills that are critical to the operation of its business. If Real Alloy loses or suffers an extended interruption in the services of one or more of its senior officers, its financial condition and results of operations may be negatively affected. Moreover, the pool of qualified individuals may be highly competitive and Real Alloy may not be able to attract and retain qualified personnel to replace or succeed members of senior management or other key employees, should the need arise.

Real Alloy may be unable to effectively manage its exposure to commodity price fluctuations, and its hedging activities may affect profitability in a changing metals price environment and subject its earnings to greater volatility from period-to-period. Significant increases in the price of primary aluminum, aluminum scrap, alloys, hardeners, commodity inputs, or energy would cause the cost of sales for Real Alloy to increase significantly and, if not offset by product price increases, would negatively affect its financial condition and results of operations. Real Alloy is a substantial consumer of raw materials, and by far the largest input cost in producing its goods is the cost of aluminum and aluminum scrap. In the case of buy/sell arrangements, customers pay for products based on the indexed prices or based on a fixed price. Under tolling arrangements, customers pay Real Alloy a processing fee. In general, Real Alloy uses these pricing mechanisms to pass changes in the price of aluminum and aluminum scrap, and, sometimes, energy, through to its customers. Buy/sell arrangements may require Real Alloy to purchase raw materials in future periods, exposing it to the risk that increased aluminum or energy prices will increase the cost of its products, thereby reducing or eliminating the margin Real Alloy receives when it delivers the product. These risks may be exacerbated by the failure of customers to pay for products on a timely basis, or at all.

Similarly, as Real Alloy maintains substantial quantities of raw material and finished goods inventories, significant decreases in the price of aluminum and aluminum scrap would reduce the realizable value of its inventory, negatively affecting its financial condition and results of operations. In addition, a drop in aluminum prices between the date of purchase and the final settlement date on derivative contracts used to mitigate the risk of price fluctuations may require Real Alloy to post additional margin, which, in turn, can be a significant demand on liquidity.

Real Alloy purchases and sells LME forwards, futures and options contracts to reduce its exposure to changes in aluminum prices in its European operations. The ability to realize the benefit of a hedging program is dependent upon factors beyond its control, such as counterparty risk, as well as its receiving timely payments from customers. The cost of energy used, however, is also substantial. In addition, at certain times, hedging options may be unavailable or not available on terms acceptable to Real Alloy. In certain scenarios when market price movements result in a decline in value of its current derivatives position, its mark-to-market expense may exceed its credit line and counterparties may request the posting of cash collateral. Despite the use of LME forwards, futures and options contracts, Real Alloy remains exposed to the variability in prices of aluminum scrap. While aluminum scrap is typically priced in relation to prevailing aluminum index prices (LME, Platts, Metal Bulletin, etc.), certain scrap types used in Real Alloy's operations are not highly correlated to an underlying index and, therefore, are not hedged. Aluminum scrap is also priced at a discount to selling prices. This discount is referred to in the industry as the "scrap spread" and fluctuates depending upon industry conditions. In addition, Real Alloy purchases forwards, futures or options contracts to reduce exposure to changes in natural gas prices. It does not account for forwards, futures, or options contracts as hedges of the underlying risks. As a result, unrealized gains and losses on these derivative financial instruments are reported in the consolidated statements of operations as current period earnings or loss. The inclusion of such unrealized gains and losses in earnings may produce significant period-to-period earnings volatility that is not necessarily reflective of underlying operating performance.

Real Alloy may encounter increases in the cost, or limited availability, of raw materials and energy, which could cause the cost of sales to increase thereby reducing operating results and limiting operating flexibility. Real Alloy requires substantial amounts of raw materials and energy in its business, consisting principally of aluminum scrap, primary aluminum, alloys, and other materials, and natural gas and electricity. Any substantial increases in the cost of raw materials or energy could cause operating costs to increase and negatively affect Real Alloy's financial condition and results of operations.

Aluminum scrap, primary aluminum, and hardener prices are subject to significant cyclical price fluctuations. Metallics (primary aluminum metal, aluminum scrap, and aluminum dross) represent the largest component of cost of sales. Real Alloy purchases aluminum primarily from aluminum scrap dealers, primary aluminum producers and other intermediaries. Real Alloy has limited control over the price or availability of these supplies.

The availability and price of aluminum scrap depends on a number of factors outside of the control of Real Alloy, including general economic conditions, international demand for metallics and internal recycling activities by primary aluminum producers and other consumers of aluminum. Increased regional and global demand for aluminum scrap can have the effect of increasing the prices that Real Alloy pays for these raw materials thereby increasing the cost of sales. Real Alloy may not be able to adjust its selling prices to recover the increases in aluminum scrap prices. If aluminum scrap and dross prices were to increase significantly without a commensurate increase in the traded value of the primary metals or of the indices on which sales are made, the future financial condition and results of operations of Real Alloy could be affected by higher costs and lower profitability. In addition, a significant decrease in the pricing spread between aluminum scrap and primary aluminum could make recycling less attractive compared to primary production, and thereby reduce customer demand for Real Alloy's recycling services.

After raw material and labor costs, energy represents the third largest component of the cost of sales. The price of natural gas, and therefore the costs, can be particularly volatile. Price and volatility can differ by global region based on supply and demand, political issues, and government regulation, among other things. As a result, Real Alloy's natural gas costs may fluctuate dramatically, and it may not be able to reduce the effect of higher natural gas costs on its cost of sales. If natural gas costs increase, Real Alloy's financial condition and results of operations may be adversely affected. Although Real Alloy attempts to mitigate volatility in natural gas costs through the use of hedging and the inclusion of price escalators and pass-through mechanisms, it may not be able to eliminate the effects of such cost volatility. Furthermore, in an effort to offset the effect of increasing costs, it may have also limited its potential benefit from declining costs.

If Real Alloy were to lose order volumes from any of its largest customers, its revenues, earnings, and cash flows could be reduced. Real Alloy is exposed to risks related to customer concentration. Its ten largest customers were responsible for approximately 46% and 58% of its volume invoiced for the years ended December 31, 2016 and 2015, with one customer accounting for approximately 12% in 2016, and one customer accounting for approximately 13% of those volumes in 2015. A loss of order volumes from, or a loss of industry share by, any major customer could negatively affect the financial condition and results of operations of Real Alloy by lowering sales volumes and lowering profitability. In addition, Real Alloy's strategy of having dedicated facilities and arrangements with customers subject it to the inherent risk of increased dependence on a single or a few customers with respect to these facilities. In such cases, the loss of such a customer, or the reduction of that customer's business at one or more of its facilities, could negatively affect its financial condition and results of operations, and Real Alloy may be unable to timely replace, or replace at all, lost order volumes. Certain Real Alloy customers have decided to reduce their dependence on single suppliers and have reduced the volume of their orders from Real Alloy. In addition, several of Real Alloy's customers have become involved in bankruptcy or insolvency proceedings and have defaulted on their obligations to Real Alloy in the last ten years. Similar incidents in the future would adversely impact the financial condition and results of operations of Real Alloy.

Real Alloy does not have long-term contractual arrangements with a substantial number of its customers, and sales volumes and revenues could be reduced if those customers switch their suppliers. A substantial amount of Real Alloy's volume is sold to customers under contractual arrangements of one year or less or on a purchase order basis. Customers may choose not to continue to purchase products and services from Real Alloy. Any significant loss of these customers or a significant reduction in their purchase orders could have a material negative impact on the sales volume and business of Real Alloy.

Real Alloy may not be able to compete successfully in the industries it serves and secondary aluminum may become less competitive with alternative materials, which could reduce Real Alloy's share of industry sales, sales volumes, and selling prices. Aluminum competes with other materials such as steel, plastic, composite materials, and glass for various applications, and recycled aluminum may also compete with prime aluminum. Higher aluminum prices tend to make aluminum products less competitive with these alternative materials. Lower aluminum prices can make prime aluminum more attractive than secondary aluminum in certain applications.

Real Alloy competes with other aluminum recyclers in segments that are highly fragmented and characterized by smaller, regional operators. The principal factors of competition in the aluminum recycling business include price, metal recovery rates, proximity to customers, customer service, molten metal delivery capability, environmental and safety regulatory compliance, and types of services offered. Many of Real Alloy's customers also have the capability to recycle scrap and may choose to bring more of their recycling volumes within their own operations.

With its international business, Real Alloy encounters the risk that non-U.S. governments could take actions to enhance local production or local ownership at its expense. Recently, there have been increased volumes of prime aluminum from China.

Additional competition could result in a reduced share of industry sales or reduced prices for Real Alloy's products and services, which could decrease revenues or reduce volumes, either of which could have a negative effect on our financial condition and results of operations.

Real Alloy has been shaped by acquisitions, including the Beck Acquisition, and divestitures under former owners, and we will continue to evaluate future acquisitions and divestitures. Future acquisitions or divestitures may not be successful, which could adversely affect Real Alloy's financial condition. The future financial performance and success of Real Alloy will depend in part on its ability to successfully implement its business strategy on a stand-alone basis. Part of the business strategy for Real Alloy has been, and will continue to be, the opportunistic pursuit of strategic acquisitions and dispositions. However, there can be no assurance that any such growth efforts will be successful, or that if successful, Real Alloy will be able to effectively manage expanded or acquired operations. The ability of Real Alloy to achieve its expansion and acquisition needs and objectives and to effectively manage its growth depends on numerous risks commonly encountered in business combinations, including the following:

- its ability to identify appropriate acquisition targets and to negotiate acceptable terms for their acquisition;