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REUNION INDUSTRIES INC
Form 10-Q
May 17, 2004

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549-1004

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
----- EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2004

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 33-64325

REUNION INDUSTRIES, INC.

(Exact name of Registrant as specified in its charter)

DELAWARE

06-1439715

(State of Incorporation)

(I.R.S. Employer Identification No.)

11 STANWIX STREET, SUITE 1400
PITTSBURGH, PENNSYLVANIA 15222

(Address of principal executive offices, including zip code)

(412) 281-2111

(Registrant's telephone number, including area code)

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

At April 30, 2004, 16,278,579 shares of common stock, par value \$.01 per
share, were outstanding.

Page 1 of 32 pages.

FORWARD-LOOKING STATEMENTS AND ASSOCIATED RISKS

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This report contains certain forward-looking statements within the meaning of Section 27A of the Securities Act and Section 21E of the Exchange Act which are intended to be covered by the safe harbors created thereby. The forward-looking statements contained in this report are enclosed in brackets [] for ease of identification. All forward-looking statements involve risks and uncertainties which could cause the future results and shareholder values to differ materially from those expressed in the forward-looking statements. Although the Company believes that the assumptions underlying the forward-looking statements contained in this report are reasonable, any of the assumptions could be inaccurate and, therefore, there can be no assurances that the forward-looking statements included or incorporated by reference in this report will prove to be accurate. Factors that could cause actual results to differ materially from those described in the forward-looking statements include, without limitation, the strengths/weaknesses of the Company's primary markets, the Company's ability to negotiate trade terms with its vendors and the continued compliance of the Company's with the financial and other covenants contained in its current financing agreements. In light of the significant uncertainties inherent in the forward-looking statements included or incorporated by reference herein, the inclusion of such information should not be regarded as a representation by the Company or any other person that the Company's objectives and plans will be achieved. In addition, the Company does not intend, and is not obligated, to update these forward-looking statements after filing and distribution of this report, even if new information, future events or other circumstances have made them incorrect or misleading as of any future date.

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REUNION INDUSTRIES, INC.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

REUNION INDUSTRIES, INC.
CONDENSED CONSOLIDATED BALANCE SHEET
AT MARCH 31, 2004 AND DECEMBER 31, 2003
(in thousands)

	At March 31, 2004 ----- (unaudited)	At December 31, 2003 -----
ASSETS:		
Cash and cash equivalents	\$ 1,318	\$ 755
Receivables (net of allowance of \$483 and \$485, respectively)	10,920	10,031
Advances to employees	48	56
Inventories, net	10,463	8,207
Other current assets	1,268	1,427
	-----	-----
Total current assets	24,017	20,476
Property, plant and equipment, net	13,696	14,197
Due from related parties	1,041	1,405
Goodwill, net	11,007	11,007
Other assets, net	4,511	4,438
	-----	-----
Total assets	\$ 54,272 =====	\$ 51,523 =====
LIABILITIES AND STOCKHOLDERS' DEFICIT:		
Current maturities of debt	\$ 670	\$ 683
Trade payables	11,672	9,463
Accrued interest	3,002	2,119
Due to related parties	109	3,276
Other current liabilities	7,568	7,973
Notes payable	4,161	4,161
Notes payable - related parties	500	5,115
	-----	-----
Total current liabilities	27,682	32,790
Long-term debt	46,496	41,129
Other liabilities	5,402	5,359
	-----	-----
Total liabilities	79,580	79,278
Minority interests	98	-
Commitments and contingent liabilities	-	-
Stockholders' deficit	(25,406)	(27,755)

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Total liabilities and stockholders' deficit	----- \$ 54,272 =====	----- \$ 51,523 =====
---	-----------------------------	-----------------------------

See accompanying notes to condensed consolidated financial statements.

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REUNION INDUSTRIES, INC.
CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS
AND COMPREHENSIVE INCOME (LOSS)
FOR THE THREE MONTHS ENDED MARCH 31, 2004 AND 2003
(in thousands, except per share information) (unaudited)

	Three Months Ended	
	March 31, 2004	March 31, 2003
	-----	-----
Operating revenue:		
Sales	\$ 18,847	\$ 21,263
Cost of Sales	15,085	17,072
	-----	-----
Gross profit	3,762	4,191
Selling, general & administrative	2,687	2,801
Gain on debt extinguishment	(3,070)	-
Other (income) expense, net	(81)	28
	-----	-----
Operating profit	4,226	1,418
Interest expense, net	1,779	1,509
	-----	-----
Income (loss) from continuing operations before minority interests and income taxes	2,447	(91)
Provision for income taxes	-	-
	-----	-----
Income (loss) from continuing operations before minority interests	2,447	(91)
Minority interests	98	-
	-----	-----
Net and comprehensive income (loss)	\$ 2,349	\$ (91)
	=====	=====
Earnings (loss) applicable to common stockholders	\$ 2,349	\$ (91)
	=====	=====
Earnings (loss) per common share - basic	\$ 0.14	\$ (0.01)
	=====	=====
Weighted average shares outstanding - basic	16,279	16,279
	=====	=====
Earnings (loss) per common share - diluted	\$ 0.12	\$ (0.01)
	=====	=====
Weighted average shares outstanding - diluted	18,826	16,279
	=====	=====

See accompanying notes to condensed consolidated financial statements.

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REUNION INDUSTRIES, INC.
 CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
 FOR THE THREE MONTHS ENDED MARCH 31, 2004 AND 2003
 (in thousands)
 (unaudited)

	Three Months Ended	
	March 31, 2004	March 31, 2003
	-----	-----
Cash used in operating activities	\$ (72)	\$ (384)
	-----	-----
Cash flow from investing activities:		
Capital expenditures	(122)	(133)
	-----	-----
Cash used in investing activities	(122)	(133)
	-----	-----
Cash flow from financing activities:		
Net change in revolving credit facility	1,203	1,646
Repayments of debt	(175)	(1,146)
Payments of deferred financing costs	(271)	-
	-----	-----
Cash provided by financing activities	757	500
	-----	-----
Net increase (decrease) in cash and cash equivalents	563	(17)
Cash and cash equivalents, beginning of period	755	807
	-----	-----
Cash and cash equivalents, end of period	\$ 1,318	\$ 790
	=====	=====
Interest paid	\$ 580	\$ 550
	=====	=====
Non-cash financing activity:		
Debt extinguishment	\$ 3,070	-
	=====	=====

See accompanying notes to condensed consolidated financial statements.

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REUNION INDUSTRIES, INC.
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
 MARCH 31, 2004

NOTE 1: CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements. In the opinion of management, all normal recurring adjustments considered necessary for a fair statement of the results of operations have been included. The results of operations for the three month period ended March 31, 2004 are not necessarily indicative of the results of operations for the full year. When reading the financial information contained in this

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Quarterly Report, reference should be made to the financial statements, schedule and notes contained in Reunion's Annual Report on Form 10-K for the year ended December 31, 2003, as amended by Form 10-K/A as filed on April 29, 2004.

Going Concern

These condensed consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. At March 31, 2004, the Company had a negative working capital position of \$3.1 million net of related party obligations and a deficiency in assets of \$25.4 million. These conditions raise substantial doubt about the Company's ability to continue as a going concern. These condensed consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

We successfully refinanced our bank debt, extinguished a significant portion of our obligations under the senior notes and removed all previously existing defaults on our debt. These steps were taken to improve liquidity and defer the principal maturities on a significant portion of our debt. The Company is investigating other recapitalization scenarios in an effort to provide additional liquidity and extinguishments or deferrals of debt obligations. Although we believe we can accomplish these plans, no assurances exist that we will. Failure to accomplish these plans could have an adverse impact on the Company's liquidity, financial position and future operations.

Recent Accounting Pronouncements

On December 17, 2003, the Staff of the Securities and Exchange Commission (SEC or the Staff) issued Staff Accounting Bulletin No. 104, "Revenue Recognition" (SAB 104), which supercedes Staff Accounting Bulletin No. 101 "Revenue Recognition in Financial Statements" (SAB 101). SAB 104 rescinds accounting guidance contained in SAB 101 related to multiple element revenue arrangements, superceded as a result of the issuance of Emerging Issues Task Force Issue No. 00-21 (EITF 00-21), "Accounting for Revenue Arrangements with Multiple Deliverables." Additionally, SAB 104 rescinds the SEC's Revenue Recognition in Financial Statements Frequently Asked Questions and Answers (the FAQ) issued with SAB 101 that had been codified in SEC topic 13, "Revenue Recognition". While the wording of SAB 104 has changed to reflect the issuance of EITF 00-21, the revenue recognition principles of SAB 101 remain largely unchanged by the issuance of SAB 104. Reunion does not expect the adoption of SAB 104 to have a material effect on its financial condition or results of operations.

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Stock-Based Compensation

The Company has elected to follow Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" and related interpretations in accounting for stock options and awards. Accordingly, no compensation costs for stock options is included in operating results since all awards were made at exercise prices at or above their fair value on the dates of grants. The following table illustrates the effect on results of operations if the Company had applied fair value recognition provisions of SFAS No. 123.

	Quarter Ended March 31,	
	2004	2003
	-----	-----
Net income (loss) as reported	\$ 2,349	\$ (91)
Deduct: Total stock-based employee compensation		

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determined under fair value method for stock options, net of tax	-	-
	-----	-----
Pro forma income (loss) applicable to common stockholders	\$ 2,349	\$ (91)
	=====	=====
Earnings (loss) per share, as reported	\$ 0.14	\$ (0.01)
	=====	=====
Basic earnings (loss) per share, pro forma	\$ 0.14	\$ (0.01)
	=====	=====
Diluted earnings (loss) per share, as reported	\$ 0.12	\$ (0.01)
	=====	=====
Diluted earnings (loss) per share, pro forma	\$ 0.12	\$ (0.01)
	=====	=====

NOTE 2: RECENT DEVELOPMENTS

SFSC Litigation Settlement

The Company had been named as one of several defendants in fifteen consolidated lawsuits filed in December 2000 or early 2001 in the Superior Court for Los Angeles County, California. The plaintiffs in these suits, except one, are structured settlement payees to whom Stanwich Financial Services Corp. (SFSC) is indebted. The Company and SFSC were related parties. The plaintiffs alleged that the Company received loans from SFSC that have not been repaid. On May 25, 2001, SFSC filed a Chapter 11 Bankruptcy Petition in the U.S. Bankruptcy Court for the District of Connecticut.

A settlement was reached in the Superior Court action among the plaintiffs, Bankers Trust Co. and certain other financial institution defendants. In the settlement, Bankers Trust Co. and the other settling financial institution defendants paid the plaintiffs an amount specified in the settlement agreement, and Bankers Trust Co. received an assignment of the claims of the plaintiffs and such other settling defendants against the Company and other defendants. In the SFSC bankruptcy proceeding, the Company and certain other defendants entered into a settlement with SFSC and Bankers Trust Co. Under this settlement (1) the Company is obligated to pay SFSC a settlement amount by December 31, 2006 in the sum of \$4.29 million, plus interest at the rate of 10% per annum, in full satisfaction of the Company's indebtedness to SFSC under notes payable totaling \$4.6 million, plus interest, and for certain credit support fees payable, which settlement amount is net of an offset against SFSC's note payable to the Company in the amount of \$310,000 plus interest, and (2) provided it makes such settlement payment, the Company is released from all claims that have been or could have been asserted against the Company by the plaintiffs or the settling financial institution defendants.

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in the California Superior Court suits or by SFSC in the bankruptcy proceeding. The settlement amount does not constitute a new liability of the Company, as it relates to indebtedness and a note receivable that had previously been recorded on the Company's balance sheet. The settlement resulted in a \$3.1 million gain on debt extinguishment.

NOTE 3: LONG-TERM DEBT

Long-term debt consists of the following (in thousands):

At March 31,	At December 31,
2004	2003

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	(unaudited)	
Congress revolving credit facility	\$ 10,417	\$ 9,214
Congress term loan facility	3,016	3,175
Note payable due December 1, 2006	4,200	4,200
Note payable due December 5, 2006 (net of warrant value of \$75 and \$83, respectively)	3,425	3,417
13% senior notes (net of warrant value of \$288 and \$315, respectively)	21,777	21,750
Notes payable	8,451	4,161
Notes payable - related parties	500	5,115
Capital leases and other	41	56
	-----	-----
Total long-term debt	51,827	51,088
Classified as current	(5,331)	(9,959)
	-----	-----
Long-term debt	\$ 46,496	\$ 41,129
	=====	=====

Certain notes payable - related parties totaling \$4.6 million were settled in the first quarter of 2004, offset against a related party note receivable of \$364,000 and reclassified to a note payable totaling \$4.29 million. See NOTE 2: RECENT DEVELOPMENTS, "SFSC Litigation Settlement", above.

NOTE 4: INVENTORIES

Inventories are comprised of the following (in thousands):

	At March 31, 2004	At December 31, 2003
	(unaudited)	
Raw material	\$ 3,693	\$ 3,206
Work-in-process	3,464	2,077
Finished goods	3,306	2,924
	-----	-----
Inventories	\$ 10,463	\$ 8,207
	=====	=====

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NOTE 5: STOCKHOLDERS' DEFICIT AND EARNINGS PER SHARE

The following represents a reconciliation of the change in stockholders' deficit for the three month period ended March 31, 2004 (in thousands):

	Par Value of Common Stock	Capital in Excess of Par Value	Accum- ulated Deficit	Accum- ulated Other Compre- hensive Loss	Total
	-----	-----	-----	-----	-----
At January 1, 2004	\$163	\$25,609	\$(51,548)	\$ (1,979)	\$(27,755)
Activity (unaudited):					
Net income	-	-	2,349	-	2,349
	----	-----	-----	-----	-----
At March 31, 2004	\$163	\$25,609	\$(49,199)	\$ (1,979)	\$(25,406)
	=====	=====	=====	=====	=====

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The computations of basic and diluted earnings (loss) per common share EPS (LPS) for the three month periods ended March 31, 2004 and 2003 are as follows (in thousands, except per share amounts) (unaudited):

	Net Income (Loss)	Shares	EPS (LPS)
	-----	-----	-----
Three months ended March 31, 2004:			
Income available to common stockholders, weighted average shares outstanding and basic EPS	\$ 2,349	16,279	\$ 0.14
			=====
Dilutive effect of stock options and warrants		2,547	
	-----	-----	
Income available to common stockholders, shares outstanding and diluted EPS	\$ 2,349	18,826	\$ 0.12
	=====	=====	=====
Three months ended March 31, 2003:			
Loss applicable to common stockholders, weighted average shares outstanding and basic and diluted LPS	\$ (91)	16,279	\$ (0.01)
	=====	=====	=====

At March 31, 2004, the Company's stock options outstanding totaled 614,000. Such options included a dilutive component of 198,400 shares. At March 31, 2004, outstanding warrants to purchase the Company's common totaled 2,896,238. Such warrants included a dilutive component of 2,348,313 shares. At March 31, 2003, the Company's stock options outstanding totaled 44,000, none of which were at exercise prices below the average market price of the underlying security during the first quarter 2003.

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NOTE 6: COMMITMENTS AND CONTINGENT LIABILITIES

The Company is and has been involved in a number of lawsuits and administrative proceedings, which have arisen in the ordinary course of business of the Company and its subsidiaries. A summary of such legal proceedings follows.

Louisiana Environmental

In connection with the sale of its former oil and gas operations, pre-merger Reunion retained certain oil and gas properties in Louisiana because of litigation concerning environmental matters. The Company is in the process of environmental remediation under a plan approved by the Louisiana Department of Natural Resources Office of Conservation (LDNROC). The Company has recorded an accrual for its proportionate share of the remaining estimated costs to remediate the site based on plans and estimates developed by the environmental consultants hired by the Company. During 1999, the Company conducted remediation work on the property. The Company paid \$172,000 of the total cost of \$300,000. Regulatory hearings were held in January 2000 and 2001 to consider the adequacy of the remediation conducted to date. In August 2001, LDNROC issued its order for the Company to complete the soil remediation under the plan approved in 1999 and to perform additional testing to determine to what extent groundwater contamination might exist. No remediation was performed in 2000, 2001 or 2002 pending the decision. However, the Company has paid \$434,000 for its share of consulting services in connection with the hearings. Most recently, the Company's environmental consultants filed with

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the LDNROC updated amendments to the prior approved plan for sampling and remediation. If approved, the plan will be implemented. At March 31, 2004, the balance accrued for these remediation costs is approximately \$831,000. The Company believes that future remediation costs will not exceed the amount accrued and will be funded by net production revenues of the producing wells on the property as part of the settlement agreement discussed below.

Litigation on this matter had been stayed pending the determination by the LDNROC as to the extent of remediation that would be required. Such stay was lifted and the District Court had established a jury trial for September 22, 2003 to determine the necessity for any further remediation and the extent of damages, if any, suffered by the plaintiff owners of the property. However, an agreement to settle the litigation between the plaintiff owners of the property and the other involved parties, including the Company, has been reached and finalized. The Company's share of the settlement costs were funded by the other defendants to the litigation. The terms of the agreement are that the Company must reimburse the other defendants to the litigation at least \$120,000 per year for ten years, but that such amount can be paid from net production revenues from operation of the producing wells owned by the Company on the property. However, this is a non-recourse agreement such that, should the wells be depleted before all such costs are reimbursed, the Company is not required to fund the unreimbursed balance. During 2003 and 2002, net production revenues totaled \$248,000 and \$181,000, respectively. Based on past operation results of the producing well, the Company believes that future net production revenues will be sufficient to fund the minimum required under the settlement agreement.

Gambonini Environmental

On May 16, 2002, the Company, as the successor to Buttes Gas & Oil Company (BGO), received from the United States Environmental Protection Agency (USEPA) a notice of potential liability and demand for payment of \$3,909,614.37 for reimbursement of costs related to the USEPA's removal and environmental restoration efforts at the Gambonini Mine Site (Site) initiated in 1998 pursuant to the Comprehensive Environmental Response, Compensation and Liability Act (CERCLA).

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BGO, predecessor by merger to the Company, leased the Site for mining purposes and operated a mercury mine there from 1965 to 1970. BGO's mining operations were terminated in 1970. Subsequently, under the supervision of the environmental and planning representatives of Marin County, BGO completed closure and environmental restoration activities at the Site, including stabilization and re-vegetation of the Site. BGO then quitclaimed the mining lease to the Site owners, the Gambonini's, in 1973. Because of apparent overgrazing at the Site subsequent to BGO's restoration efforts, a storm in 1982 caused severe flooding, which resulted in the failure of a dam built to retain mining materials. Runoff from the flood released mining materials into the creek below and, ultimately, into the Tomales Bay, a local recreation and fishing area.

In March 2003, the Company and the USEPA reached an agreement in principle to settle the USEPA's claim for payment by the Company of \$100,000 plus interest at the Superfund rate (which is currently 1.27%), payable in three installments over a two-year period. On May 8, 2004, the United States District Court for the Northern District of California entered a Consent Decree in accordance with the settlement. The settlement amount was accrued by The Company in 2002. This settlement agreement will resolve the USEPA's claims for reimbursement of past environmental response costs under CERCLA, but does not resolve all possible claims the United States may have with respect to the Gambonini mine site, which could include, but not be limited

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to, claims for future costs or natural resource damages. The United States has given no indication as to whether or not it will pursue such claims. The Company has agreed to toll the statute of limitations with respect to any natural resource damages claims, if any, from August 30, 2002 to April 1, 2008.

Asbestos (Hanna)

During 2003, Reunion Industries was named as defendant in 32 actions in the state of Georgia and one action in the state of Alabama. Such actions claim that cylinders manufactured by the Hanna division of Reunion Industries contained asbestos that caused severe illness. Since most of the plaintiffs exposure occurred prior to the purchase of the assets of this business by Reunions predecessor in 1980, and since there is no evidence that asbestos was used in Hanna products after 1980, the Companys position is that it has no liability in these suits. The plaintiffs attorney has tentatively agreed to dismiss Reunion from these suits, subject to his review of certain information we have provided to him about our predecessor and if Reunion will assist the plaintiffs in their case against the pre-1980 owner of the business. Reunion has agreed to and is currently providing the requested assistance to plaintiffs attorney.

Asbestos (ORC)

Since July 10, 2001, various legal actions, some involving multiple plaintiffs, alleging personal injury/wrongful death from asbestos exposure have been filed in multiple states, including California, Oregon, Washington, New York and Mississippi, against a large number of defendants, including Oneida Rostone Corporation (ORC), pre-merger Reunion's Plastics subsidiary and the Company's Plastics segment. In October 2001, Allen-Bradley Company, a former owner of the Rostone business of ORC, accepted Reunion Industries' tender of its defense and indemnification in the first such lawsuit filed, pursuant to a contractual obligation to do so. Subsequent to the acceptance of the tender of defense and indemnification in the first lawsuit, Allen-Bradley Company has accepted the Company's tender of defense and indemnification in a total of 124 separate actions, all of which have been or will be defended by Allen-Bradley Company.

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SFSC Litigation

The settlement of the litigation involving or relating to Stanwich Financial Services Corp. (SFSC) as described in Item 3 of the Companys Annual Report on Form 10-K for the year ended December 31, 2003 as filed on March 30, 2004, has been settled as described in NOTE 2: RECENT DEVELOPMENTS, "SFSC Litigation Settlement."

LTV Preference Claims

In connection with the Chapter 11 bankruptcies of LTV Steel Company, Inc. (LTV), et al, pending in the United States Bankruptcy Court for the Northern District of Ohio, Youngstown Division, LTV has filed a complaint for avoidance and recovery of preferential transfers against Alliance Machine Division, a former division of the Company. Pursuant to an adversary proceeding filed in the LTV Case on December 17, 2002, LTV seeks recovery of \$385,000 in alleged preferential transfers, together with costs and attorney's fees. On April 7, 2004, the Company and LTV entered into a Stipulation and Agreed Order resolving this matter for \$1,000 and a waiver by the Company of its administrative counterclaim of \$14,200. A hearing is set for May 18, 2004 for entry of an order approving the settlement. No amount has been accrued for this matter in the Company's financial statements.

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U.S. Customs Service

In June 1993, the U.S. Customs Service (Customs) made a demand on Chatwins Group's former industrial rubber distribution division for \$612,948 in marking duties pursuant to 19 U.S.C. Sec. 1592. The duties are claimed on importations of "unmarked" hose products from 1982 to 1986. Following Chatwins Group's initial response raising various arguments in defense, including expired statute of limitations, Customs responded in January 1997 by reducing its demand to \$370,968 and reiterating that demand in October 1997. Chatwins Group restated its position and continues to decline payment of the claim. Should the claim not be resolved, Customs threatens suit in the International Courts of Claims. The Company continues to believe, based on consultation with counsel, that there are facts which raise a number of procedural and substantive defenses to this claim, which will be vigorously defended. There has been no activity related to this matter since 1997.

Shareholder Suit

In December 1999, a stockholder of Reunion filed a purported class-action lawsuit in Delaware Chancery Court alleging, among other things, that Reunion's public stockholders would be unfairly diluted in the merger with Chatwins Group. The lawsuit sought to prevent completion of the merger and, the merger having been completed, seeks rescission of the merger or awarding of damages. The lawsuit remains in the initial stages of discovery. Reunion intends to vigorously contest the suit.

Asbestos (Alliance)

The Company has been named in approximately 1,600 separate asbestos suits filed since January 1, 2001 by three plaintiffs' law firms in Wayne County, Michigan; Kanawah County, West Virginia; Cuyahoga County, Ohio; and Cambria and Northhampton Counties in Pennsylvania. The claims allege that cranes from the Company's former crane manufacturing location in Alliance, Ohio were present in various parts of steel mills and heavy industrial sites in the aforementioned counties, and that those cranes contained asbestos to which plaintiffs were exposed over a 40 year span. Counsel for the Company has filed an answer to each complaint, denying liability by the Company and

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asserting all affirmative defenses permitted under the Court's Case Management Order. Counsel for the Company has successfully resolved over 650 cases with little or no cost to the Company. Cases that are not dismissed typically are settled for modest amounts, paid in large part through applicable insurance coverage. The Company denies that it manufactured any products containing asbestos. It has been further denied that the Company was otherwise advised by component part manufacturers that component parts could be hazardous, or otherwise constitute a health risk. The Company intends to continue to vigorously defend against these lawsuits.

Putman Properties

In the 2002 fourth quarter, in the Court of Common Pleas of Stark County, Ohio, Putman Properties, Inc. filed a complaint against the Company asserting breach of an exclusive listing contract in connection with the sale of certain property ancillary to the divestiture of the Company's Alliance Machine division in Alliance, Ohio. The plaintiff is a broker who claims entitlement to a commission in the amount of \$230,000. A jury trial in this matter took place beginning on April 1, 2004 and concluded on April 2, 2004. The jury found in favor of Reunion. Nothing is owed to Putman Properties, Inc.

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Suit Against Paquet and Paquet Counterclaim

In the 2002 fourth quarter, the Company filed suit in the District Court for New Jersey against Paquet, a general contractor doing business in the state of New Jersey. The Company contends that it is owed approximately \$1.5 million in overdue payments and backcharges related to the supply of structural steel for the construction of a bridge in New Jersey. The defendant has asserted a counterclaim against the Company in the amount of \$2.5 million. Discovery is in process. The Company intends to vigorously pursue its suit against the defendant and defend against its counterclaim. No amount has been accrued for this matter in the Company's financial statements.

Dick Corporation

In the 2002 fourth quarter, Dick Corporation (Dick) filed an action against the Company in the Court of Common Pleas of Allegheny County, PA. Dick alleges that the Company breached a contract to supply it with structural steel for use in a construction project for the PA Department of Transportation. Dick seeks damages of approximately \$351,000, representing the extra costs allegedly incurred by Dick for Dick to secure structural steel from another vendor. The Company has filed an answer to Dick's complaint in which it denies any liability. Pleadings are closed and discovery has begun. The Company believes it has meritorious defenses against Dick's suit and intends to vigorously defend against it. No amount has been accrued for this matter in the Company's financial statements.

NAPTech Suit

On or about March 16, 2004, Shaw NAPTech, Inc. ("NAPTech"), as successor by merger to NAPTech, Inc. and NAPTech PS Corporation, filed a suit against the Company in state court in Baton Rouge, Louisiana, to collect payment on a subordinated note issued to NAPTech and assumed by the Company in a January 2001 acquisition. NAPTech claims the amounts due under this note are \$3,145,403 in principal plus \$1,207,875 in unpaid interest through November 30, 2003 plus interest at 15% per annum on the unpaid principal thereafter. Such amounts are consistent with amounts recorded as payable to NAPTech by the Company in the accompanying consolidated balance sheet. The Company has filed an answer to the complaint, in which the Company claims, among other things,

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that the suit is currently barred by a subordination agreement to which NAPTech is a party and that the Court lacks personal jurisdiction over the Company. Also named as defendants in the suit are Charles E. Bradley, Sr., as guarantor of the subordinated note, and KSB Acquisition Corp. and Hanna Investment Corp. (both of whom are affiliates of Mr. Bradley), as pledgors of certain assets securing the note.

Product Warranties

The Company provides for warranty claims at its cylinders segment. Amounts accrued are estimates of future claims based on historical claims experience or a management estimate related to a specifically identified issue. The Company reevaluates its product warranty reserve quarterly and adjusts it based on changes in historical experience and identification of new or resolution of prior specifically identified issues. A tabular reconciliation of the product warranty reserve for the three month periods ended March 31, 2004 and 2003 follows (in 000's):

Description	March 31, 2004	March 31, 2003
-----	-----	-----

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Beginning balance	\$ 211	\$ 379
Add: Provision for estimated future claims	36	51
Deduct: Cost of claims	(30)	(90)
	-----	-----
Ending balance	\$ 217	\$ 340
	=====	=====

NOTE 7: OPERATING SEGMENT DISCLOSURES

The following represents the disaggregation of financial data (in thousands) (unaudited):

	Net Sales	EBITDA(1)	Capital Spending	Total Assets(2)
	-----	-----	-----	-----
Three months ended and at March 31, 2004:				

Metals:				
Pressure vessels and springs	\$ 5,184	\$ 945	\$ 8	\$ 14,833
Cylinders	4,875	299	50	8,602
Grating	2,061	185	-	537
	-----	-----	-----	-----
Subtotal Metals	12,120	1,429	58	23,972
Plastics	6,727	770	64	15,067
Corporate and other	-	(420)	-	15,233
	-----	-----	-----	-----
Totals	\$ 18,847	1,779	\$ 122	\$ 54,272
	=====		=====	=====
Gain on debt extinguishment		3,070		
Depreciation		(623)		
Interest expense, net		(1,779)		

Income from continuing operations before income taxes and minority interests		\$ 2,447		
		=====		

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Three months ended March 31, 2003
and at December 31, 2003:

Metals:				
Pressure vessels and springs	\$ 7,530	\$ 1,763	\$ -	\$ 13,407
Cylinders	5,590	529	57	7,877
	-----	-----	-----	-----
Subtotal Metals	13,120	2,292	57	21,284
Plastics	8,143	651	75	14,516
Corporate and other	-	(840)	-	15,723
	-----	-----	-----	-----
Totals	\$ 21,263	2,103	\$ 133	\$ 51,523
	=====		=====	=====
Depreciation		(685)		
Interest expense, net		(1,509)		

Loss from continuing operations before income taxes		\$ (91)		
		=====		

(1) EBITDA is presented as it is the primary measurement used by management

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in assessing segment performance and not as an alternative measure of operating results or cash flow from operations as determined by accounting principles generally accepted in the United States, but because it is a widely accepted financial indicator of a company's ability to incur and service debt.

- (2) Corporate and other assets at March 31, 2004 and December 31, 2002 includes \$8.0 million of goodwill that relates to the Company's pressure vessel and springs segment. For evaluation purposes under SFAS No. 142, this goodwill is included in the carrying value of the pressure vessels and springs segment. At March 31, 2004 and December 31, 2003, goodwill of \$1.5 million is recorded at each of pressure vessels and springs and cylinders.

NOTE 8: DISCONTINUED OPERATIONS - CHANGE IN PLAN

In December 1995, the Company entered into a joint venture agreement with China Metallurgical Import & Export Shanghai Company and Wanggang Township Economic Development Corporation. The Company has a 65% interest in the joint venture. During 1996, the Company capitalized its investment in the joint venture by contributing cash of \$150,000 and machinery and equipment with an estimated fair market value of \$1.9 million to the joint venture. The joint venture manufacturers grating panels and is located in Wangang Township, Pudong New Area, Shanghai in the Peoples Republic of China.

In 1999, the Company adopted a plan to exit the grating manufacturing business through the disposition of its grating businesses, including its Chinese joint venture investment. Upon adoption of the plan, the grating businesses and assets were classified and accounted for as discontinued operations, including a provision for estimated loss on disposal of the Chinese joint venture of \$2.0 million, and ceased consolidating the joint venture as control of its daily operations was given to our joint venture partners and our then expatriate management was removed.

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In the four years since adopting this plan, the Company has made several unsuccessful attempts to dispose of its investment in the joint venture but now perceives that a presence in China is consistent with its future plans for certain of its continuing operations. As a result and in connection with our Chinese partners expressed desire to return control of the business to the Company for various reasons, the Company has decided to retain its investment in the Chinese joint venture and return it to continuing operations resulting in consolidation of the joint ventures results of operations beginning on January 1, 2004. As a result of the assumption of control, the Company will continue to consolidate the joint venture's results of operations. Certain information related to the joint ventures results of operations for the three month period ended March 31, 2004 is as follows (in 000s):

Three months ended March 31, 2004

Net sales	\$ 2,061
Income before taxes	182
EBITDA	185

NOTE 9: RESTRUCTURING

In the fourth quarter of 2001, we developed and adopted a restructure plan for our continuing businesses and certain other businesses were identified for disposal. By the end of 2002, this plan was substantially

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completed except for continuing commitments under leases for two idle facilities and certain equipment. The Company recorded restructuring costs, including lease termination costs, related to the plan. The following represents a summary of first quarter 2004 cash activity of the remaining lease termination reserves (in thousands):

Description	At 12/31/03	Cash Activity	At 03/31/04
-----	-----	-----	-----
Lease termination costs	\$ 474	\$ (73)	\$ 396
	=====	=====	=====

Of the remaining lease termination costs, \$382 relates to idle manufacturing facilities in Milwaukee, Wisconsin and Clearfield, Utah. The remainder relates to lease commitments under idle machinery in the Plastics Group.

PART I. FINANCIAL INFORMATION

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis is provided to assist readers in understanding financial performance during the periods presented and significant trends which may impact future performance. It should be read in conjunction with the consolidated financial statements and accompanying notes included elsewhere in this Form 10-Q and in conjunction with our annual report on Form 10-K for the year ended December 31, 2003, as amended by Form 10-K/A as filed on April 29, 2004.

GENERAL

The Company owns and operates industrial manufacturing operations that design and manufacture engineered, high-quality products for specific customer requirements, such as large-diameter seamless pressure vessels, hydraulic and pneumatic cylinders, grating, leaf springs and precision plastic components.

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RESULTS OF OPERATIONS

Three Months Ended March 31, 2004 Compared to
Three Months Ended March 31, 2003

Net sales, gross margins and EBITDA percentages for the three months ended 2004 and 2003 are as follows:

	Net Sales		Gross Margin		EBITDA	
	2004	2003	2004	2003	2004	2003
-----	-----	-----	-----	-----	-----	-----
Pressure vessels and springs	\$ 5,184	\$ 7,530	23.4%	28.3%	18.2%	23.4%
Cylinders	4,875	5,590	18.4%	18.7%	6.1%	9.5%
Grating	2,061	-	25.3%	-	9.0%	-
Plastics	6,727	8,143	16.8%	12.4%	11.4%	8.0%
-----	-----	-----	-----	-----	-----	-----
Totals	\$ 18,847	\$ 21,263	20.0%	19.7%	11.7%	13.8%
	=====	=====	=====	=====	=====	=====

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Net sales for the first quarter of 2004 were down 11.4% from the first quarter of 2003, and were down 21.1% for the U.S. operations only, due primarily to low order levels in later 2003 and early 2004. Such low orders were partially attributable to the Company's liquidity difficulties prior to its refinancing in December 2003 and partially attributable to the general economy and year-end holiday shut-downs at our customers. However, order levels have increased from a backlog of \$17.2 million for the U.S. operations at the end of 2003 to a backlog of \$23.4 million as of March 31, 2004, an increase of 36%. The inclusion of the Grating sales in the first quarter of 2004 reflects the operations of the Company's 65% owned Chinese subsidiary. Such operation had been treated as a discontinued operation. See "Minority Interests" and "Discontinued Operations - Change in Plan" below.

Pressure vessels and springs sales and Cylinder sales were lower in the first quarter of 2004 compared to the first quarter of 2003 due primarily to the lower backlog at year-end 2003 compared to year-end 2002. The decrease in Plastics revenues in 2004 compared to 2003 is a continuation of a trend that began several years ago and is primarily the result of a continued reluctance and lag in customers' decisions on newly quoted programs due to the uncertainty surrounding our financial condition. Although the Plastics segment has recently been awarded some new customer programs, [this segment may continue to be affected by an overall lag in new program starts.]

The increase in gross margin as a percentage of sales in the first quarter of 2004 compared to 2003 is attributable to the inclusion of the Grating sales and margin in 2004. Excluding such sales and margin, the U.S. operations gross margin percentage decreased from 19.7% in the first quarter of 2003 to 19.3% in the first quarter of 2004. Both the Pressure vessels and springs and Cylinders segments had lower gross margin percentages in 2004 compared to 2003 and this decrease is primarily attributable to the decrease in sales as discussed above. The Plastics segment increased its gross profit margin percentage even with reduced sales as a result of increased productivity and a lower cost structure resulting from prior year cost reduction efforts.

Management evaluates the Company's segments based on EBITDA, a measure of cash generation, which is presented, not as an alternative measure of operating results or cash flow from operations as determined by accounting principles generally accepted in the United States, but because it is a widely accepted financial indicator of a company's ability to incur and service debt

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and due to the close relationship it bears to Reunion's financial covenants in its borrowing agreements. EBITDA and EBITDA as a percentage of sales decreased during the first quarter of 2004 compared to 2003 primarily due to the same factors affecting gross profit margin discussed above. A reconciliation of EBITDA to operating income for the three months ended March 31, 2004 and 2003 by segment and corporate and other is as follows (000's):

	Operating Profit	Deprec- iation	Amortiz- ation	EBITDA
2004:				

Pressure vessels and springs	\$ 789	\$ 156	\$ -	\$ 945
Cylinders	250	49	-	299
Grating	185	-	-	185
Plastics	363	407	-	770
Corporate and other(1)	(431)	11	-	(420)
	-----	-----	-----	-----
Totals	\$ 1,156	\$ 623	\$ -	\$ 1,779

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	=====	=====	=====	=====
2003:				

Pressure vessels and springs	\$ 1,584	\$ 179	\$ -	\$ 1,763
Cylinders	458	71	-	529
Plastics	234	417	-	651
Corporate and other	(858)	18	-	(840)
	-----	-----	-----	-----
Totals	\$ 1,418	\$ 685	\$ -	\$ 2,103
	=====	=====	=====	=====

(1) - Excludes gain on debt extinguishment of \$3,070,000. See "Gain on Debt Extinguishment" below.

Selling, General and Administrative

Selling, general and administrative (SGA) expenses for the first quarter of 2004 were \$2.7 million, compared to \$2.8 million for the 2003 first quarter. This decrease in SGA is due to continued cost cutting measures and payroll reductions due to voluntary departures of personnel not being replaced. SGA as a percentage of sales increased to 14.3% for the first quarter of 2004 compared to 13.2% in the 2003 first quarter primarily due to the effects of the decrease in sales.

Gain on Debt Extinguishment

The Company had been named as one of several defendants in fifteen consolidated lawsuits filed in December 2000 or early 2001 in the Superior Court for Los Angeles County, California. The plaintiffs in these suits, except one, are structured settlement payees to whom Stanwich Financial Services Corp. (SFSC) is indebted. The Company and SFSC were related parties. The plaintiffs alleged that the Company received loans from SFSC that have not been repaid. On May 25, 2001, SFSC filed a Chapter 11 Bankruptcy Petition in the U.S. Bankruptcy Court for the District of Connecticut.

A settlement was reached in the Superior Court action among the plaintiffs, Bankers Trust Co. and certain other financial institution defendants. In the settlement, Bankers Trust Co. and the other settling financial institution defendants paid the plaintiffs an amount specified in the settlement agreement, and Bankers Trust Co. received an assignment of the

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claims of the plaintiffs and such other settling defendants against the Company and other defendants. In the SFSC bankruptcy proceeding, the Company and certain other defendants entered into a settlement with SFSC and Bankers Trust Co. Under this settlement (1) the Company is obligated to pay SFSC a settlement amount by December 31, 2006 in the sum of \$4.29 million, plus interest at the rate of 10% per annum, in full satisfaction of the Company's indebtedness to SFSC under notes payable totaling \$4.6 million, plus interest, and for certain credit support fees payable, which settlement amount is net of an offset against SFSC's note payable to the Company in the amount of \$310,000 plus interest, and (2) provided it makes such settlement payment, the Company is released from all claims that have been or could have been asserted against the Company by the plaintiffs or the settling financial institution defendants in the California Superior Court suits or by SFSC in the bankruptcy proceeding. The settlement amount does not constitute a new liability of the Company, as it relates to indebtedness and a note receivable that had previously been recorded on the Company's balance sheet. The settlement resulted in a \$3.1 million gain on debt extinguishment.

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[The Company is currently investigating other recapitalization scenarios that include, among other things, the use of additional private capital fund financing to repurchase at discounts some portion or all of our senior and unsecured subordinated notes payable.]

Other Income

Other income for the first quarter of 2004 was \$81,000, compared to other expense of \$28,000 for the first quarter of 2003. There were no significant offsetting items of other income and expenses in either period.

Minority Interests

Minority interests of \$0.1 million represents income during the first quarter of 2004 allocated to the minority ownerships of the Company's consolidated foreign grating joint venture. Minority interests are calculated based on the percentage of minority ownership. See "Discontinued Operations" below.

Interest Expense

Interest expense for the first quarter of 2004 was \$1.8 million compared to \$1.5 million for the first quarter of 2003. This increase is primarily due to the higher level of amortization of deferred financing costs and estimated warrant value in the 2004 first quarter than the 2003 first quarter.

Income Taxes

There was no tax provision from continuing operations in the first quarters of 2004 or 2003. The Company has net operating loss carryforwards for Federal tax return reporting purposes totaling \$115.2 million at December 31, 2003, \$53.1 million of which expire by the end of 2004. [The Company may be able to utilize its loss carryforwards against possible increased future profitability.] However, management has determined to fully reserve for the total amount of net deferred tax assets as of December 31, 2003 [and to continue to do so during 2004 until management can conclude that it is more likely than not that some or all of our loss carryforwards can be utilized.]

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Discontinued Operations - Change in Plan

In December 1995, the Company entered into a joint venture agreement with China Metallurgical Import & Export Shanghai Company and Wanggang Township Economic Development Corporation. The Company has a 65% interest in the joint venture. During 1996, the Company capitalized its investment in the joint venture by contributing cash of \$150,000 and machinery and equipment with an estimated fair market value of \$1.9 million to the joint venture. The joint venture manufacturers grating panels and is located in Wangang Township, Pudong New Area, Shanghai in the Peoples Republic of China.

In 1999, the Company adopted a plan to exit the grating manufacturing business through the disposition of its grating businesses, including its Chinese joint venture investment. Upon adoption of the plan, the grating businesses and assets were classified and accounted for as discontinued operations, including a provision for estimated loss on disposal of the Chinese joint venture of \$2.0 million, and ceased consolidating the joint venture as control of its daily operations was given to our joint venture partners and our then expatriate management was removed.

In the four years since adopting this plan, the Company has made several unsuccessful attempts to dispose of its investment in the joint venture and

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now perceives that a presence in China is consistent with its future plans for certain of its continuing operations. As a result and in connection with our Chinese partners expressed desire to return control of the business to the Company for various reasons, the Company has decided to retain its investment in the Chinese joint venture and return it to continuing operations resulting in consolidation of the joint ventures results of operations for the quarter ended March 31, 2004.

LIQUIDITY AND CAPITAL RESOURCES

General

The Company manages its liquidity as a consolidated enterprise. The operating groups of the Company carry minimal cash balances. Cash generated from group operating activities generally is used to repay borrowings under revolving credit arrangements, as well as other uses (e.g. corporate headquarters expenses, debt service, capital expenditures, etc.). Conversely, cash required for group operating activities generally is provided from funds available under the same revolving credit arrangements.

Recent Events

Refinancing

On December 3, 2003, the Company completed the refinancing its bank loan facilities and restructuring its 13% senior notes. On that date, the Company entered into a new \$25.0 million revolving and term loan bank credit facility with Congress Financial Corporation (Congress) that replaced its then existing revolving and term loan facility with Bank of America (BOA). At the same time, the Company also entered into \$5.2 million of new loan facilities with two private capital funds through a \$4.2 million secured term loan and a \$1.0 million increase in a then existing subordinated note payable. Proceeds from these refinancing activities totaled \$13.0 million, including \$4.6 million under the revolving credit facility, \$3.2 million under the term loan facility and \$5.2 million of financing from the private capital funds. At the time of the refinancing, the Company's indebtedness to BOA totaled \$11.7 million, including \$10.8 million of revolving credit debt and a term loan of \$0.9 million. Proceeds from the refinancing were used to repay our then existing

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BOA facilities, fund \$0.7 million of consent fees payable to our 13% senior noteholders and pay \$0.6 million of transaction related fees and expense to our new lenders. All defaults that existed under the BOA facilities at the time of the refinancing were removed as the result of the full repayment of amounts then outstanding.

Congress Financial Corporation Revolving and Term Loan Credit Facility

On December 3, 2003, the Company entered into a new revolving and term loan bank credit facility with Congress Financial Corporation. This credit facility consists of revolving credit, term loan and letter of credit accommodations up to a maximum credit of \$25.0 million. At December 31, 2003, the Company had outstanding borrowings under this facility totaling \$12.4 million, including \$9.2 million of revolving credit and a term loan of \$3.2 million. The \$3.2 million term loan amortizes to the revolving credit availability at a rate of \$53,000 per month beginning on January 31, 2004 until fully paid. This facility has a three-year initial term and automatically renews for additional one-year increments unless either party gives the other notice of termination at least 90 days prior to the beginning of the next one-year term.

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Interest on loans outstanding under the Congress facility is payable monthly at a variable rate tied to the prime rate publicly announced from time to time by Wachovia Bank, National Association, plus 2.50%. The facility also provides for a default interest rate of the prime rate plus 4.50%.

The Congress facility is collateralized by a continuing security interest and lien on substantially all of the current and after-acquired assets of Reunion including, without limitation, all accounts receivable, inventory, real property, equipment, chattel paper, documents, instruments, deposit accounts, contract rights and general intangibles.

The Congress facility requires Reunion to comply with financial covenants and other covenants, including a minimum amount of earnings before interest, taxes, depreciation and amortization (EBITDA) and a minimum fixed charge coverage ratio. The minimum EBITDA covenant began in 2004 and requires the Company to maintain minimum monthly amounts of EBITDA ranging from \$450,000 in January 2004 to \$600,000 in December 2004 with \$50,000 to \$100,000 increments or decrements occurring during the year. There are also minimum monthly EBITDA amounts required during 2005 and 2006. Through March 2004, the Company achieved the minimum monthly EBITDA required for compliance with this covenant. The minimum fixed charge coverage ratio covenant requires the Company to maintain a minimum fixed charge coverage ratio to be tested as of the last day of each fiscal quarter beginning with the quarter ended March 31, 2004, for the year-to-date period starting on January 1, 2004. For quarters ended on and after December 31, 2004, the components of the calculation are on a rolling, twelve-month basis. The ratio is defined as EBITDA divided by fixed charges (defined as interest expense, capital expenditures, regularly scheduled or required principal payments on debt and taxes paid). For the ratio calculation period ended March 31, 2004 and for each year-to-date period during 2004 ended on quarters thereafter, the required minimum fixed charge coverage ratio is 0.65:1, 0.77:1, 0.77:1 and 0.80:1, respectively. There are also minimum fixed charge coverage ratio amounts required during 2005 and 2006. The Company was in compliance with the minimum fixed charge coverage ratio covenant for the period ended March 31, 2004.

In addition, the facilities contain various other affirmative and negative covenants. As of the date of this report, the Company was in compliance with all other covenants. The facilities require Reunion to pay the reasonable expenses incurred by Congress in connection with the facilities. Available borrowings under the revolving credit portion are based upon a percentage of eligible receivables and inventories.

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Private Capital Fund Financing

On August 11, 2003, Reunion borrowed \$2.5 million from a private capital fund by executing a senior subordinated secured promissory note payable in the amount of and with cash proceeds of \$2.5 million. The note bears interest at 10% per annum, such interest being payable on the last day of every month in arrears commencing on August 31, 2003. The principal amount of \$2.5 million was due on August 11, 2005 with voluntary prepayments permitted but was extended to December 5, 2006 as discussed below. The note is secured by a majority of the assets of Reunion, provided that such security interest is subordinated to the security interest of Congress. In addition to its subordinated security interest, the fund received a warrant to purchase 625,000 shares of the Company's common stock, together with related registration rights. The cash proceeds were used for working capital and other general corporate purposes.

In connection with the refinancing on December 3, 2003, this same private

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capital fund amended and restated its senior subordinated secured promissory note to evidence an additional \$1.0 million of financing provided to the Company at the same interest rate but with the maturity date extended from August 11, 2005 to December 5, 2006.

In connection with the refinancing on December 3, 2003, a separate private capital fund provided the Company with a \$4.2 million loan evidenced by a senior subordinated secured promissory note payable with net cash proceeds of \$4.0 million after fees and expenses. The note bears interest at a rate of the greater of 12%, or the prime rate as published in the Wall Street Journal plus 8%. Interest is payable on the first day of every month and commenced on January 1, 2004. The principal amount of \$4.2 million is due on December 1, 2006. Prepayments in whole or in part are permitted without penalty commencing in May 2004. The note is secured by mortgage liens and/or deed of trust security interests totaling \$4.2 million encumbering all premises owned by the Company. In addition to its security interest, the fund received a warrant to purchase 500,000 shares of the Company's common stock and registration rights with respect to the warrant and shares issuable thereto at a price of \$0.50 per share.

13% Senior Notes

We had a total of \$24.855 million of 13% senior notes outstanding. The senior notes required semi-annual interest payments every November 1st and May 1st and sinking fund payments of \$12.5 million on May 1, 2002 and \$12.355 million on May 1, 2003. Since November 1, 2001, we were unable to make the required semi-annual interest payments or the sinking fund payments due May 1, 2002 and 2003. As a result, an event of default, as defined in the indenture governing the 13% senior notes, had existed since December 1, 2001 as we were not able to make the November 1, 2001 semi-annual interest payment within the 30-day cure period provided for in the indenture.

In November 2003, we solicited the consent of our noteholders to certain provisions and waivers of the indenture governing the 13% senior notes in an effort to facilitate the refinancing. The significant provisions of the solicitation requested that the noteholders consent to permanently waive all then existing defaults under the indenture, cancel all accrued and unpaid interest, cancel 12% of the principal amount of senior notes and extend the maturity of the notes to December 2006. In order for the consent to be effective, we needed noteholders comprising at least 90% of the principal amount of outstanding senior notes to consent. As of December 1, 2003, the end of the consent period, \$23,250,700 of the \$24,855,000 principal amount of senior notes, or 93.55%, had consented.

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In exchange for their consent, each consenting noteholder received a consent fee of \$27.625 per \$1,000 principal amount of senior notes owned, warrants to purchase 76.18 shares of the Company's common stock at \$0.01 per share for each \$1,000 principal amount of notes owned and a junior priority lien on the Company's assets. In the refinancing that took place on December 3, we placed in escrow with the trustee of the senior notes, \$686,619 for payment of consent fees, of which \$642,301 has been or will be disbursed to consenting senior noteholders. Warrants to purchase the Company's common stock totaling 1,771,217 have been reserved for future issuance to consenting noteholders. Effective with having obtained the consents of holders of at least 90% of the principal amount of outstanding senior notes, all previously existing defaults under the indenture for the 13% senior notes have been permanently waived.

SUMMARY OF 2004 ACTIVITIES

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Cash and cash equivalents totaled \$1.3 million at March 31, 2004, compared to \$0.8 million at December 31, 2003, an increase of \$0.5 million. This resulted from \$0.1 million of cash used in operating activities and \$0.1 million used in investing activities being more than offset by almost \$0.8 million provided by financing activities. Cash and cash equivalents at the end of a period generally represents lockbox receipts from customers to be applied to our Congress revolving credit facility in the following one to two business days.

Operating Activities

Operating activities used only \$0.1 million in cash in the first quarter of 2004 as an increase in inventories excluding the consolidated foreign joint venture were partially funded by an increase in trade payables.

Investing Activities

Capital expenditures were \$0.1 million.

Financing Activities

The Company made scheduled repayments of the Congress term loan totaling \$159,000 and paid an additional \$271,000 in costs related to the December 2003 refinancing. Revolving credit facility borrowings increased \$1.2 million during the first quarter of 2004. Other debt repayments totaling \$16,000 represent payments on capital lease obligations and other debt.

Lease Termination Reserves

In the fourth quarter of 2001, we developed and adopted a restructure plan for our continuing businesses and certain other businesses were identified for disposal. By the end of 2002, this plan was substantially completed except for continuing commitments under leases for two idle facilities and certain equipment. The Company recorded restructuring costs, including lease termination costs, related to the plan. The following represents a summary of first quarter 2004 cash activity of the remaining lease termination reserves (in thousands):

Description	At 12/31/03	Cash Activity	At 03/31/04
Lease termination costs	\$ 474	\$ (73)	\$ 396

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Of the remaining lease termination costs, \$382 relates to idle manufacturing facilities in Milwaukee, Wisconsin and Clearfield, Utah. The remainder relates to lease commitments under idle machinery in the Plastics Group.

FACTORS THAT COULD AFFECT FUTURE RESULTS

Reunion's vendors may restrict credit terms

We have corrected many vendor-related problems with liquidity generated from the refinancing and from asset sales. However, another period of tight liquidity could result in key vendors restricting or eliminating the extension of credit terms to us. If this would happen, our ability to obtain raw materials would be strained significantly and our ability to manufacture

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products would be reduced.

Reunion's bank financing is subject to financial covenants

We have removed all defaults on our bank financing and senior notes. However, our new bank financing is subject to monthly financial and other covenants. If our operations do not improve during 2004, we may fail to meet one or more financial or other covenants. If this would happen, we would be in default on our bank obligations and, subject to the terms of the loan and security agreement, all of our bank loans would be due and payable. Although it may be possible to negotiate waivers of defaults, no assurances can be given that we would be able to do so.

Reunion is exposed to the risks of litigation and environmental matters

We have made significant progress in settling major exposures to litigation and environmental claims during 2003 and in the first quarter of 2004. However, we are still exposed to certain undecided litigation and environmental matters. An adverse outcome in one or more of these matters could have a significant negative effect on our financial position and results of operations.

Reunion operates in highly competitive mature, niche markets

Our products are sold in highly competitive mature, niche markets and we compete with companies of varying size, including divisions and subsidiaries of larger companies that have financial resources that exceed ours. This combination of competitive and financial pressures could cause us to lose market share or erode prices, which could negatively impact our financial position and results of operations.

Reunions past performance could impact future prospects

Our past performance has been poor. Because of this, potential or current customers may decide not to do business with us. If this were to happen, our sales may not increase or may decline. If sales do not increase or we experience a further decline in sales, our ability to cover costs would be further reduced, which could negatively impact our financial position and results of operations.

Reunion is a going concern

The financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. At March 31, 2004, the Company has a deficiency in working capital of \$3.1 million net of related party

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obligations and a deficiency in assets of \$25.4 million. These conditions raise substantial doubt about the Companys ability to continue as a going concern. The financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts and classifications of liabilities that may result from the outcome of this uncertainty.

We successfully refinanced our bank debt, extinguished a significant portion of our obligations under the senior notes and removed all previously existing defaults on our debt. These steps were taken to improve liquidity and defer the principal maturities on a significant portion of our debt. The Company is investigating other recapitalization scenarios in an effort to provide additional liquidity and extinguishments or deferrals of debt

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obligations. Although we believe we can accomplish these plans, no assurances exist that we will. Failure to accomplish these plans could have an adverse impact on the Company's liquidity, financial position and future operations.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

There have been no significant changes in the market risk factors which affect the Company since the end of the preceding fiscal year.

Item 4. Controls and Procedures

As required by Rule 13a-15(b) of the Securities Exchange Act of 1934, as amended, Reunions management, including its Chief Executive Officer and Chief Financial Officer, conducted an evaluation as of the end of the period covered by this report, of the effectiveness of Reunions disclosure controls and procedures as defined in Rule 13a-15(e). Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that Reunions disclosure controls and procedures were effective as of the end of the period covered by this report. As required by Rule 13a-15(d), Reunions management, including its Chief Executive Officer and Chief Financial Officer, also conducted an evaluation of Reunions internal control over financial reporting to determine whether any changes occurred during the quarter that have materially affected, or are reasonably likely to materially affect, Reunions internal control over financial reporting. Based on that evaluation, there has been no such change during the quarter.

It should be noted that any system of controls, however well designed and operated, can provide only reasonable, and not absolute, assurance that the objectives of the system will be met. In addition, the design of any control system is based in part upon certain assumptions about the likelihood of future events.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

The Company is involved in various legal proceedings and environmental matters. See "Item 1. Financial Statements, Note 6: Commitments and Contingent Liabilities."

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Item 6. Exhibits and Reports on Form 8-K

(b) Reports on Form 8-K

The Company filed a Current Report on Form 8-K dated May 4, 2004 on May 5, 2004 to set the record date of those shareholders entitled to vote at and to announce the time and place of the Company's 2004 annual meeting of the Company's stockholders.

(c) Exhibits

Exhibit No.	Exhibit Description
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31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

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- 31.2 Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 32.1 Certification pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- 32.2 Certification pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereto duly authorized.

Date: May 17, 2004

REUNION INDUSTRIES, INC.
(Registrant)

By: /s/ Charles E. Bradley, Sr.

Charles E. Bradley, Sr.
Chairman and Chief
Executive Officer

By: /s/ John M. Froehlich

John M. Froehlich
Executive Vice President, Finance
and Chief Financial Officer
(chief financial and accounting officer)

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EXHIBIT 31.1

CERTIFICATION

I, Charles E. Bradley, Sr., certify that:

1. I have reviewed this quarterly report on Form 10-Q of Reunion Industries, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined

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in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

- (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
- (b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
- (c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
- (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 17, 2004

/s/ Charles E. Bradley, Sr.

Chief Executive Officer

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EXHIBIT 31.2

CERTIFICATION

I, John M. Froehlich, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Reunion Industries, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant,

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including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
- (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
- (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 17, 2004

/s/ John M. Froehlich

Chief Financial Officer

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EXHIBIT 32.1

REUNION INDUSTRIES, INC.
SARBANES-OXLEY ACT SECTION 906 CERTIFICATION

In connection with this quarterly report on Form 10-Q of Reunion Industries, Inc. for the quarter ended March 31, 2004, I, Charles E. Bradley, Sr., Chief Executive Officer of Reunion Industries, Inc., hereby certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 Of the Sarbanes-Oxley Act of 2002, that:

1. this Form 10-Q for the quarter ended March 31, 2004 fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. the information contained in this Form 10-Q for the quarter ended March 31, 2004 fairly presents, in all material respects, the financial condition and results of operations of Reunion Industries, Inc. for the periods presented therein.

Date: May 17, 2004

/s/ Charles E. Bradley, Sr.

Chief Executive Officer

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REUNION INDUSTRIES, INC.
SARBANES-OXLEY ACT SECTION 906 CERTIFICATION

In connection with this quarterly report on Form 10-Q of Reunion Industries, Inc. for the quarter ended March 31, 2004, I, John M. Froehlich, Chief Financial Officer of Reunion Industries, Inc., hereby certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 Of the Sarbanes-Oxley Act of 2002, that:

1. this Form 10-Q for the quarter ended March 31, 2004 fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. the information contained in this Form 10-Q for the quarter ended March 31, 2004 fairly presents, in all material respects, the financial condition and results of operations of Reunion Industries, Inc. for the periods presented therein.

Date: May 17, 2004

/s/ John M. Froehlich

Chief Financial Officer