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REUNION INDUSTRIES INC  
Form 10-Q  
November 22, 2004

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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 September 30, 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 01-15739  
-----

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 October 31, 2004, 16,278,579 shares of common stock, par value \$.01 per  
share, were outstanding.

Page 1 of 37 pages.

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## FORWARD-LOOKING STATEMENTS AND ASSOCIATED RISKS

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, the continued forbearance of the Company's creditors with respect to indebtedness in default and the Company's ability to restructure and renegotiate the terms of the Company's indebtedness. 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 to, 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 SEPTEMBER 30, 2004 AND DECEMBER 31, 2003  
(in thousands)

	At September 30, 2004 ----- (unaudited)	At December 31, 2003 -----
<b>ASSETS:</b>		
Cash and cash equivalents	\$ 986	\$ 755
Receivables (net of allowance of \$365 and \$485, respectively)	12,842	10,031
Advances to employees	33	56
Inventories, net	11,013	8,207
Other current assets	1,677	1,427
	-----	-----
Total current assets	26,551	20,476
Property, plant and equipment, net	13,100	14,197
Due from related parties	1,041	1,405
Goodwill, net	11,007	11,007
Other assets, net	4,262	4,438
	-----	-----
Total assets	\$ 55,961	\$ 51,523
	=====	=====
<b>LIABILITIES AND STOCKHOLDERS' DEFICIT:</b>		
Current maturities of debt	\$ 651	\$ 683
Revolving credit facilities	14,029	-
Trade payables	11,247	9,463
Accrued interest	4,721	2,119
Due to related parties	226	3,276
Other current liabilities	6,169	7,973
Notes payable	4,161	4,161
Notes payable - related parties	500	5,115
	-----	-----
Total current liabilities	41,704	32,790

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Long-term debt	35,775	41,129
Other liabilities	4,897	5,359
	-----	-----
Total liabilities	82,376	79,278
Minority interests	326	-
Commitments and contingent liabilities	-	-
Stockholders' deficit	(26,741)	(27,755)
	-----	-----
Total liabilities and stockholders' deficit	\$ 55,961	\$ 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 AND NINE MONTHS ENDED SEPTEMBER 30, 2004 AND 2003  
(in thousands, except per share information) (unaudited)

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2004	2003	2004	2003
	-----	-----	-----	-----
Sales	\$ 20,438	\$ 14,707	\$ 59,921	\$ 54,046
Cost of sales	17,099	12,178	49,205	44,108
	-----	-----	-----	-----
Gross profit	3,339	2,529	10,716	9,938
Selling, general & administrative	2,498	2,523	7,785	7,987
Gains on debt extinguishments	-	-	(3,540)	-
Other income, net	(374)	(270)	(656)	(331)
	-----	-----	-----	-----
Operating profit	1,215	276	7,127	2,282
Interest expense, net	2,033	1,737	5,787	5,158
	-----	-----	-----	-----
Income (loss) from continuing operations before income taxes and minority interests	(818)	(1,461)	1,340	(2,876)
Provision for income taxes	-	-	-	-
	-----	-----	-----	-----
Income (loss) from continuing operations before minority interests	(818)	(1,461)	1,340	(2,876)
Minority interests	115	-	326	-
	-----	-----	-----	-----
Income (loss) from continuing operations	(933)	(1,461)	1,014	(2,876)
Loss from discontinued operations, net of tax of \$-0-	-	(592)	-	(592)
	-----	-----	-----	-----
Net and comprehensive income (loss)	\$ (933)	\$ (2,053)	\$ 1,014	\$ (3,468)
	=====	=====	=====	=====

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Income (loss) applicable to common stockholders	\$ (933)	\$ (2,053)	\$ 1,014	\$ (3,468)
	=====	=====	=====	=====
Basic income (loss) per share:				
Continuing operations	\$ (0.06)	\$ (0.09)	\$ 0.06	\$ (0.18)
Discontinued operations	-	(0.04)	-	(0.04)
	-----	-----	-----	-----
Income (loss) per share - basic	\$ (0.06)	\$ (0.13)	\$ 0.06	\$ (0.22)
	=====	=====	=====	=====
Weighted average shares outstanding - basic	16,279	16,279	16,279	16,279
	=====	=====	=====	=====
Diluted income (loss) per share:				
Continuing operations	\$ (0.06)	\$ (0.09)	\$ 0.05	\$ (0.18)
Discontinued operations	-	(0.04)	-	(0.04)
	-----	-----	-----	-----
Income (loss) per share - diluted	\$ (0.06)	\$ (0.13)	\$ 0.05	\$ (0.22)
	=====	=====	=====	=====
Weighted average shares outstanding - diluted	16,279	16,279	18,798	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 NINE MONTHS ENDED SEPTEMBER 30, 2004 AND 2003  
(in thousands)  
(unaudited)

	Nine Months Ended September 30,	
	2004	2003
	-----	-----
Cash used in operating activities	\$ (2,935)	\$ (237)
	-----	-----
Cash flow from investing activities:		
Capital expenditures	(717)	(207)
Proceeds from sale of property	-	305
	-----	-----
Cash (used in) provided by investing activities	(717)	98
	-----	-----
Cash flow from financing activities:		
Net change in revolving credit facility	1,815	(204)
Issuance of debt	3,000	2,500
Repayments of debt	(514)	(2,107)
Payments of deferred financing costs	(418)	-
	-----	-----
Cash provided by financing activities	3,883	190
	-----	-----
Net increase in cash and cash equivalents	231	51
Cash and cash equivalents, beginning of period	755	807
	-----	-----
Cash and cash equivalents, end of period	\$ 986	\$ 858
	=====	=====

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Interest paid	\$ 1,627	\$ 1,026
	=====	=====
Non-cash financing activity:		
Debt extinguishments	\$ 3,540	-
	=====	=====

See accompanying notes to condensed consolidated financial statements.

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REUNION INDUSTRIES, INC.  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
SEPTEMBER 30, 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 and nine month periods ended September 30, 2004 are not necessarily indicative of the results of operations for the full year. When reading the financial information contained in this 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 Amendment No. 1 as filed on April 29, 2004 and Form 10-K/A Amendment No. 2 as filed on October 6, 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 September 30, 2004, the Company had a negative working capital position of \$14.4 million net of related party obligations and a deficiency in assets of \$26.7 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.

Although the Company has obtained a waiver of its default under its revolving credit and term loan facility with Congress, it is investigating the sale of assets to service its debts and meet future obligations as part of a plan to continue in existence. Although we believe we can accomplish this plan, no assurances exist that we will. Failure to accomplish this plan would have an adverse impact on the Company's liquidity, financial position and future operations.

Recent Accounting Pronouncements

In January 2004 and May 2004, the FASB issued FASB Staff Position Nos. 106-1 and 106-2, respectively, regarding accounting and disclosure requirements related to the Medicare Prescription Drug, Improvement and

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Modernization Act of 2003 (Act). Recognition of the Act was permitted to be deferred under FASB Staff Position No. FAS 106-1, "Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003." Under the provisions of the Act, companies that provide prescription drug coverage to retirees over age 65 will be entitled to a government subsidy beginning in 2006 if the benefits provided under the company plan are at least actuarially equivalent to those that will otherwise be offered by the government. The FASB issued final accounting guidance in May 2004 with FASB Staff Position No. 106-2, "Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003", which requires that the effect of the Act to be

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reflected in third quarter 2004 financial statements. We are evaluating the impact of the Act on our benefit plan accounting but do not expect the Act will have a significant effect on our financial position or results of operations.

In December 2003, the FASB revised and reissued SFAS No. 132 (revised 2003), "Employer's Disclosures about Pensions and Other Postretirement Benefits - an amendment of FASB Statements No. 87, 88 and 106." While requiring certain new disclosures, the revised Standard does not change the measurement or recognition of employee benefit plans. We adopted the provisions of the revised Standard effective December 2003, except for certain provisions regarding disclosure of information about estimated future benefit payments, which are not required until the fourth quarter of 2004. See NOTE 10: COMPONENTS OF BENEFIT COSTS for the required interim disclosures.

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. The adoption of SAB 104 has not had, and is not expected to have, a material effect on Reunion's financial condition or results of operations.

### 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, if any, are 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 for the three and nine month periods ended September 30, 2004 and 2003 (in thousands, except for per share amount)(unaudited):

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	3-Mos. Ended		9-Mos. Ended	
	2004	2003	2004	2003
Net income (loss) as reported	\$ (933)	\$ (2,053)	\$ 1,014	\$ (3,468)
Deduct: Total stock-based employee compensation determined under fair value method for stock options, net of tax	-	-	-	-
Pro forma loss applicable to common stockholders	\$ (933)	\$ (2,053)	\$ 1,014	\$ (3,468)
Basic income (loss) per share, as reported	\$ (0.06)	\$ (0.13)	\$ 0.06	\$ (0.22)
Basic income (loss) per share, pro forma	\$ (0.06)	\$ (0.13)	\$ 0.06	\$ (0.22)
Diluted income (loss) per share, as reported	\$ (0.06)	\$ (0.13)	\$ 0.05	\$ (0.22)
Diluted income (loss) per share, pro forma	\$ (0.06)	\$ (0.13)	\$ 0.05	\$ (0.22)

NOTE 2: RECENT DEVELOPMENTS

Default and Waiver Under Congress Revolving and Term Loan Credit Facility

On December 3, 2003, the Company entered into a revolving and term loan credit facility with Congress Financial Corporation (Congress). 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 August 2004, the Company achieved the minimum monthly EBITDA required for compliance with this covenant. However, the Company was unable to achieve the required minimum monthly covenant of \$650,000 for September 2004, having generated only \$604,000 as calculated under the terms of the facility. In November 2004, Congress and the Company entered into an amendment of the revolving and term loan credit facility wherein Congress has waived the minimum EBITDA covenant for September 2004, eliminated the minimum EBITDA covenant for October 2004 and significantly reduced the monthly minimum EBITDA covenant going forward. The Company is now required to maintain minimum monthly amounts of EBITDA of \$280,000 in November 2004, \$290,000 in December 2004, \$350,000 in January 2005, \$280,000 in February 2005 and \$300,000 per month thereafter. The Company was in compliance with all other financial, affirmative and negative covenants in September 2004, including the required minimum fixed charge coverage ratio of 0.77:1 for the third quarter of 2004, having achieved a third quarter 2004 ratio of 1.17:1. Also as part of the amendment to the revolving and term loan credit facility, Congress eliminated the minimum fixed charge coverage ratio in all future quarters.



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### Sale of Assets

The Company's management, having reevaluated the Company's ability to service its debt and meet future obligations, is investigating the sale of certain assets in order to generate liquidity. These asset sales may take one or more forms including, but not limited to, the sale of one or more divisions or piecemeal sales of assets including real estate, buildings, machinery and equipment and/or intangibles. The Company's management cannot provide any assurances that any asset sales will occur or, if asset sales do occur, that such sales will generate sufficient liquidity for the Company.

### NOTE 3: LONG-TERM DEBT

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

	At September 30, 2004	December 31, 2003
	-----	-----
	(unaudited)	
Congress revolving credit facility	\$ 11,029	\$ 9,214
Congress supplemental revolving credit financing	3,000	-
Congress term loan	2,698	3,175
Note payable due December 1, 2006	4,200	4,200
Note payable due December 5, 2006 (net of warrant value of \$60 and \$83, respectively)	3,440	3,417
13% senior notes (net of warrant value of \$234 and \$315, respectively)	21,779	21,750
Notes payable	8,451	4,161
Notes payable - related parties	500	5,115
Capital leases and other	19	56
	-----	-----
Total long-term debt	55,116	51,088
Classified as current	(19,341)	(9,959)
	-----	-----
Long-term debt	\$ 35,775	\$ 41,129
	=====	=====

Pursuant to EITF 95-22, the Company has classified its Congress revolving credit obligations within current liabilities as of September 30, 2004 as the agreement contains language that implies that Congress has a subjective acceleration clause that it could invoke at any time to accelerate the debt and includes a required lock-box arrangement.

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In May 2004, the Company and Congress Financial entered an amendment to the loan and security agreement whereby Congress provided an additional \$3.0 million of supplemental revolving credit financing to the Company. Proceeds from the loan were used to pay trade payables and for other corporate purposes. See NOTE 2: RECENT DEVELOPMENTS, Congress Financial Corporation Supplemental Revolving Credit Facility."

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

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million. See NOTE 2: RECENT DEVELOPMENTS, "SFSC Litigation Settlement", above.

### NOTE 4: INVENTORIES

Inventories are comprised of the following (in thousands):

	At September 30, 2004	At December 31, 2003
	----- (unaudited)	-----
Raw material	\$ 4,844	\$ 3,206
Work-in-process	4,023	2,077
Finished goods	2,146	2,924
	-----	-----
Inventories	\$ 11,013	\$ 8,207
	=====	=====

### NOTE 5: STOCKHOLDERS' DEFICIT AND EARNINGS PER SHARE

The following represents a reconciliation of the change in stockholders' deficit for the nine month period ended September 30, 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	-	-	1,014	-	1,014
	-----	-----	-----	-----	-----
At September 30, 2004	\$163	\$25,609	\$(50,534)	\$ (1,979)	\$(26,741)
	=====	=====	=====	=====	=====

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The computations of basic and diluted earnings (loss) per common share EPS (LPS) for the three and nine month periods ended September 30, 2004 and 2003 are as follows (in thousands, except per share amounts) (unaudited):

	Net Income (Loss)	Shares	EPS (LPS)
	-----	-----	-----
Three months ended September 30, 2004:			
Loss applicable to common stockholders, weighted average shares outstanding and basic LPS	\$ (933)	16,279	\$ (0.06)
			=====
Dilutive effect of stock options and warrants		-	
	-----	-----	
Income available to common stockholders, shares outstanding and diluted LPS	\$ (933)	16,279	\$ (0.06)
	=====	=====	=====

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Three months ended September 30, 2003:  
 Loss applicable to common stockholders,  
 weighted average shares outstanding  
 and basic and diluted LPS

	\$ (2,053)	16,279	\$ (0.13)
	=====	=====	=====

Nine months ended September 30, 2004:  
 Income available to common stockholders,  
 weighted average shares outstanding  
 and basic EPS

	\$ 1,014	16,279	\$ 0.06
			=====
Dilutive effect of stock options and warrants		2,519	
		-----	
Income available to common stockholders, shares outstanding and diluted EPS	\$ 1,014	18,798	\$ 0.05
	=====	=====	=====

Nine months ended September 30, 2003:  
 Loss applicable to common stockholders,  
 weighted average shares outstanding  
 and basic and diluted LPS

	\$ (3,468)	16,279	\$ (0.22)
	=====	=====	=====

At September 30, 2004, the Company's stock options outstanding totaled 614,000. Such options included a dilutive component of 157,044 shares for the nine month period ended September 30, 2004. At September 30, 2004, outstanding warrants to purchase the Company's common totaled 2,429,323. Such warrants included a dilutive component of 2,375,330 shares for the nine month period ended September 30, 2004. Because the Company had a loss from operations for the three month period ended September 30, 2004, inclusion of options and warrants has an anti-dilutive effect on LPS. At September 30, 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 third quarter or first nine months of 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.

#### 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. The parties have agreed to a settlement, in principle, of all claims upon a payment by Paquet to the Company in the amount of \$825,000. Finalization of the settlement agreement is pending.

#### 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

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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 approximately the same as 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, 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. The trial court has denied motions concerning certain of the defenses asserted by the Company. However, the trial court's denial is not a final determination of the defenses, and the Company intends to continue to assert such defenses in the suit and can ultimately appeal such denial. Also named as defendants in the suit are Charles E. Bradley, Sr. (a director of the Company), as guarantor of the subordinated note, and KSB Acquisition Corp. and Hanna Investment Corp. (both of which 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 nine-month periods ended September 30, 2004 and 2003 follows (in 000's):

Description	September 30, 2004	2003
Beginning balance	\$ 211	\$ 379
Add: Provision for estimated future claims	82	47
Deduct: Cost of claims	(77)	(227)
Ending balance	\$ 216	\$ 199
	=====	=====

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### 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 September 30, 2004:				At 09/30
Metals:				
Pressure vessels and springs	\$ 6,625	\$ 1,074	\$ 77	\$ 16,510
Cylinders	4,473	(24)	29	8,479
Grating	2,449	331	-	1,052
Subtotal Metals	13,547	1,381	106	26,041
Plastics	6,891	587	23	14,323

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Corporate and other	-	(141)	-	15,597
	-----	-----	-----	-----
Totals	\$ 20,438	1,557	\$ 129	\$ 55,961
	=====	=====	=====	=====

Depreciation	(612)
Interest expense, net	(2,033)

Loss from continuing operations before income taxes and minority interests	\$ (818)
	=====

Three months ended September 30,  
2003 and at December 31, 2003:

				At 12/31
				-----
Metals:				
Pressure vessels and springs	\$ 4,933	\$ 719	\$ -	\$ 13,407
Cylinders	3,779	238	7	7,877
	-----	-----	-----	-----
Subtotal Metals	8,712	957	7	21,284
Plastics	5,995	620	35	14,516
Corporate and other	-	(643)	-	15,723
	-----	-----	-----	-----
Totals	\$ 14,707	934	\$ 42	\$ 51,523
	=====	=====	=====	=====

Depreciation	(658)
Interest expense, net	(1,737)

Loss from continuing operations before income taxes	\$ (1,461)
	=====

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Nine months ended September 30, 2004:

Metals:			
Pressure vessels and springs	\$ 18,429	\$ 3,160	\$ 285
Cylinders	13,750	463	198
Grating	7,092	939	-
	-----	-----	-----
Subtotal Metals	39,271	4,562	483
Plastics	20,650	1,875	223
Corporate and other	-	(992)	11
	-----	-----	-----
Totals	\$ 59,921	5,445	\$ 717
	=====	=====	=====

Gain on debt extinguishment	3,540
Depreciation	(1,858)
Interest expense, net	(5,787)

Income from continuing operations before income taxes and minority interests	\$ 1,340
	=====

Nine months ended September 30, 2003:

Metals:			
Pressure vessels and springs	\$ 18,713	\$ 3,842	\$ -

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Cylinders	14,087	835	69
	-----	-----	-----
Subtotal Metals	32,800	4,677	69
Plastics	21,246	1,917	137
Corporate and other	-	(2,296)	1
	-----	-----	-----
Totals	\$ 54,046	4,298	\$ 207
	=====		=====
Depreciation		(2,016)	
Interest expense, net		(5,158)	
		-----	
Loss from continuing operations before income taxes		\$ (2,876)	
		=====	

- (1) EBITDA is presented as it is the primary measurement used by management 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 September 30, 2004 and at December 31, 2003 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 September 30, 2004 and December 31, 2003, goodwill of \$1.5 million is recorded at each of pressure vessels and springs and cylinders.

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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 People's 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 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

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in consolidation of the joint venture's results of operations. Certain information related to the joint venture's results of operations for the three and nine month periods ended September 30, 2004 is as follows (in 000's):

3-months ended September 30, 2004		9-months ended September 30, 2004	
Net sales	\$ 2,449	Net sales	\$ 7,092
Income before taxes	330	Income before taxes	932
EBITDA	331	EBITDA	939

### 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 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 year-to-date September 30, 2004 cash activity of the remaining lease termination reserves (in thousands):

Description	At 12/31/03	Cash Activity	At 09/30/04
Lease termination costs	\$ 474	\$ (198)	\$ 276
	=====	=====	=====

Of the remaining lease termination costs, \$260,000 relates to idle manufacturing facilities in Milwaukee, Wisconsin and Clearfield, Utah. The remainder relates to lease commitments under idle machinery in the Plastics Group.

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### NOTE 10: COMPONENTS OF BENEFIT COSTS

The following tables present the components of net periodic benefit costs for Metals pension and Metals and Corporate Executive Payroll other postretirement plans for the three- and nine-month periods ended September 30, 2004 (000's) (unaudited):

	Pension		Postretirement	
	3-months ended		3-months ended	
	September 30,		September 30,	
	2004	2003	2004	2003
Benefits earned during year	\$ 35	\$ 35	\$ 6	\$ 19
Interest cost	53	52	9	26
Amortization of:				
Prior service cost	5	5	-	-
Unrecognized net loss (gain)	11	11	2	6
Unrecognized net obligation	-	-	4	12
Expected return on plan assets	(45)	(45)	-	-
	-----	-----	-----	-----

Defined benefit pension and  
total other postretirement

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benefits costs	\$ 59	\$ 58	\$ 21	\$ 63
	=====	=====	=====	=====
	Pension		Postretirement	
	9-months ended		9-months ended	
	September 30,		September 30,	
	2004	2003	2004	2003
	-----	-----	-----	-----
Benefits earned during year	\$ 105	\$ 105	\$ 18	\$ 57
Interest cost	158	156	27	78
Amortization of:				
Prior service cost	15	15	-	-
Unrecognized net loss (gain)	33	33	6	18
Unrecognized net obligation	-	-	12	36
Expected return on plan assets	(135)	(135)	-	-
	-----	-----	-----	-----
Defined benefit pension and total other postretirement benefits costs	\$ 176	\$ 174	\$ 63	\$ 189
	=====	=====	=====	=====

In May 2004, the Company made a required payment of \$397,214 associated with the Metals pension plan.

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The following tables present the components of net periodic benefit costs for Plastics pension and other postretirement plans for the three- and nine-month periods ended September 30, 2004 (000's):

	Pension		Postretirement	
	3-months ended		3-months ended	
	September 30,		September 30,	
	2004	2003	2004	2003
	-----	-----	-----	-----
Benefits earned during year	\$ -	\$ -	\$ 15	\$ 14
Interest cost	56	55	31	30
Amortization of:				
Unrecognized net loss (gain)	17	16	4	4
Expected return on plan assets	(43)	(43)	-	-
	-----	-----	-----	-----
Defined benefit pension and total other postretirement benefits costs	\$ 30	\$ 28	\$ 50	\$ 48
	=====	=====	=====	=====
	Pension		Postretirement	
	9-months ended		9-months ended	
	September 30,		September 30,	
	2004	2003	2004	2003
	-----	-----	-----	-----



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Benefits earned during year	\$ -	\$ -	\$ 45	\$ 42
Interest cost	168	165	93	90
Amortization of:				
Unrecognized net loss (gain)	51	48	12	12
Expected return on plan assets	(129)	(129)	-	-
	-----	-----	-----	-----
Defined benefit pension and total other postretirement benefits costs	\$ 90	\$ 84	\$ 150	\$ 144
	=====	=====	=====	=====

The Company made a payment of \$497,000 in October 2004 associated with the Plastics pension plan.

### 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 Amendment No. 1 as filed on April 29, 2004 and Form 10-K/A Amendment No. 2 as filed on October 6, 2004.

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### 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.

### RESULTS OF OPERATIONS

Three Months Ended September 30, 2004 Compared to  
Three Months Ended September 30, 2003

Net sales, gross margins and EBITDA percentages for the three months ended 2004 and 2003 are as follows. The percentages of EBITDA to net sales excludes corporate and other EBITDA. Including corporate and other EBITDA, the percentages of consolidated EBITDA to net sales for the three month periods ended September 30, 2004 and 2003 are 8.9% and 6.4%, respectively (\$'s in 000's):

	Net Sales		Gross Margin		EBITDA	
	2004	2003	2004	2003	2004	2003
	-----	-----	-----	-----	-----	-----
Pressure vessels and springs	\$ 6,625	\$ 4,933	21.2%	18.7%	16.2%	14.6%
Cylinders	4,473	3,779	9.5%	18.9%	(0.5%)	6.3%
Grating	2,449	-	24.9%	-	13.5%	-
Plastics	6,891	5,995	13.1%	14.9%	8.5%	10.3%

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	-----	-----	-----	-----	-----	-----
Totals	\$ 20,438	\$ 14,707	16.3%	17.2%	9.6%	10.7%
	=====	=====	=====	=====	=====	=====

Net sales for the third quarter of 2004 were up 38.9% from the third quarter of 2003. Such increase is the result of the inclusion of grating sales beginning in the second quarter of 2004, which reflects the operations of the Company's 65% owned Chinese subsidiary. Such operation had been treated as a discontinued operation. See "Minority Interests" and "Return of Discontinued Operations to Continuing Operations - Change in Plan" below. Excluding the \$2.4 million of grating sales, third quarter 2004 sales were up \$3.3 million, or 22.3%, compared to the third quarter of 2003.

Pressure vessels and springs sales were \$1.7 million higher in the third quarter of 2004 compared to the third quarter of 2003 primarily as the result of the fact that this segment has experienced a 100% increase in its backlog since year-end 2003 to the end of the third quarter of 2004, from \$5.8 million to \$11.6 million, and such backlog increase is beginning to have an increasing effect on this segment's sales. Also, second quarter 2003 sales to China were negatively affected by the overall adverse impact on the Asian economy due to the SARS crisis, which has since ended. Cylinder sales were \$0.7 million higher in the third quarter of 2004 compared to the third quarter of 2003. The Company completed the consolidation of its cylinder operations into a single facility in Libertyville, Illinois, in the 2004 second quarter, which caused some disruption in this segment's shipping activity but contributed to an increase in this segment's backlog. Such increase began to ship in the third quarter of 2004 as this segment returned to a more normalized level of operations. Plastics sales increased \$0.9 million in the third quarter of 2004 compared to the 2003 third quarter. Although there is a reluctance and lag in customers' decisions on newly quoted programs due to the uncertainty surrounding our financial condition, such negative affect was offset by some new customer programs and an increase in plastics' backlog of 18% since year-end 2003 to the end of the 2004 third quarter, from \$5.9 million to \$7.0

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million. Such backlog increase is beginning to have a favorable effect on sales. [Management anticipates the declining trend in sales will continue to reverse during the final quarter of 2004].

Gross margin as a percentage of sales in the third quarter of 2004 compared to the 2003 third quarter was down to 16.3% from 17.2%. Excluding the sales and gross margin of the Chinese grating joint venture, the U.S. operations gross margin percentage decreased from 17.2% in the third quarter of 2003 to 15.2% in the third quarter of 2004 as the favorable effect on gross margin due to increased pressure vessels and springs sales was more than offset by decreases at cylinders and plastics. Cylinder gross margin decreased in the third quarter of 2004 compared to the 2003 third quarter due primarily to the fact that unfavorable materials variances due to production errors and inefficiencies caused by the relocation of the cylinder operations into a single facility more than offset the favorable effect of having eliminated the redundant expenses of operating two facilities. Plastics gross margin was lower in the third quarter of 2004 compared to the 2003 third quarter primarily due to the fact that certain of the new customer programs discussed above carry lower profit margins than those they replaced.

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

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accepted financial indicator of a company's ability to incur and service debt and due to the close relationship it bears to Reunion's financial covenants in its borrowing agreements. Excluding the Chinese grating subsidiary and corporate and other EBITDA, EBITDA and EBITDA as a percentage of sales decreased during the third 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 September 30, 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	\$ 919	\$ 155	\$ -	\$ 1,074
Cylinders	(69)	45	-	(24)
Grating	331	-	-	331
Plastics	185	402	-	587
Corporate and other	(151)	10	-	(141)
	-----	-----	-----	-----
Totals	\$ 1,215	\$ 612	\$ -	\$ 1,827
	=====	=====	=====	=====
2003:				
-----				
Pressure vessels and springs	\$ 546	\$ 173	\$ -	\$ 719
Cylinders	167)	71	-	238
Plastics	224	396	-	620
Corporate and other	(661)	18	-	(643)
	-----	-----	-----	-----
Totals	\$ 276	\$ 658	\$ -	\$ 934
	=====	=====	=====	=====

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### Selling, General and Administrative

Selling, general and administrative (SGA) expenses for the third quarter of 2004 were \$2.5 million, compared to \$2.5 million for the 2003 third quarter. SGA in the third quarter of 2004 includes \$0.3 million from the Chinese grating joint venture. Excluding this, SGA decreased to \$2.2 million domestically, or by \$0.3 million. This decrease in SGA is due to continued cost cutting measures and payroll reductions. Excluding the sales and SGA of the Chinese grating joint venture, SGA as a percentage of sales decreased to 12.3% for the third quarter of 2004 compared to 17.2% in the 2003 third quarter primarily due to the effects of the cost savings described above.

### Other Income

Other income for the third quarter of 2004 was \$374,000, compared to other income of \$270,000 for the third quarter of 2003. The components are as follows:

	2004	2003	Change
Adjustment of environmental reserve	\$ (270)	\$ -	\$ (270)
Rental income on sublease	(11)	(14)	3
Repayment of advance previously written-off	(50)	-	(50)
Gain on sale of property	-	(138)	138
Reduction of the lease termination reserve	-	(117)	117

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Other (income) expense, net	(43)	(1)	(42)
	-----	-----	-----
Total other income, net	\$ (374)	\$ (270)	\$ (104)
	=====	=====	=====

The Company finalized the settlement of a Louisiana environmental litigation matter in 2004. Such settlement has resulted in new estimates of the required reserve, which resulted in a \$270,000 adjustment. In June 2003, the Company sublet its idle manufacturing facility in Clearfield, Utah and, therefore, has recorded rental income in both the 2004 and 2003 third quarters. The Company received repayment of an advance written-off in 1999. The Company sold idle property in the 2003 third quarter which resulted in a gain. The Company reevaluated and adjusted its lease termination reserve in the third quarter of 2003 based on the subletting of its idle manufacturing facility in Clearfield, Utah. There were no other significant offsetting items of other income or expenses in either of the second quarters of 2004 and 2003.

### Minority Interests

Minority interests of \$0.1 million represents income during the third 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 "Return of Discontinued Operations to Continuing Operations - Change in Plan" below.

### Interest Expense

Interest expense for the third quarter of 2004 was \$2.0 million compared to \$1.7 million for the third 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 third quarter than the 2003 third quarter.

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### Income Taxes

There was no tax provision from continuing operations in the third 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. The years in which such net operating losses expire are as follows (000's):

Year ending December 31:	Year ending December 31:
-----	-----
2004                   \$ 53,099	2017                   7,574
2006                   6,067	2018                   10,860
2007                   609	2019                   1,907
2008                   3,231	2020                   1,047
2009                   2,526	2021                   12,431
2011                   1,069	2022                   14,760

[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.]

Return of Discontinued Operations to Continuing Operations - Change in Plan

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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 People's 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 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 returned it to continuing operations effective at the beginning of 2004 resulting in consolidation of the joint venture's results of operations.

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Nine Months Ended September 30, 2004 Compared to  
Nine Months Ended September 30, 2003

Net sales, gross margins and EBITDA percentages for the nine months ended September 30, 2004 and 2003 are as follows. The percentages of EBITDA to net sales excludes corporate and other EBITDA. Including corporate and other EBITDA, the percentages of consolidated EBITDA to net sales for the nine month periods ended September 30, 2004 and 2003 are 9.1% and 8.0%, respectively (\$'s in 000's):

	Net Sales		Gross Margin		EBITDA	
	2004	2003	2004	2003	2004	2003
Pressure vessels and springs	\$ 18,429	\$ 18,713	21.8%	25.2%	17.1%	20.5%
Cylinders	13,750	14,087	15.0%	16.8%	3.4%	5.9%
Grating	7,092	-	24.2%	-	13.2%	-
Plastics	20,650	21,246	14.2%	13.5%	9.1%	9.0%
Totals	\$ 59,921	\$ 54,046	17.9%	18.4%	10.7%	12.2%

Net sales for the first nine months of 2004 were up \$5.9 million, or 10.9%, compared to the first nine months of 2003. First nine months 2004 sales includes \$7.1 million of sales from the consolidation of the Company's 65% owned Chinese grating manufacturing subsidiary. Such operation had been treated as a discontinued operation. See "Minority Interests" and "Return of

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Discontinued Operations to Continuing Operations - Change in Plan" below. Excluding such grating sales, first nine months 2004 sales were down \$1.2 million, or 2.3%, when compared to the first nine months of 2003. Such decreased sales was the result of slight decreases at all segments due to varying orders levels and not any identifiable negative trends.

Pressure vessels and springs sales and cylinder sales were each \$0.3 million lower in the first nine months of 2004 compared to the first nine months of 2003 due primarily to each having lower backlogs at year-end 2003 compared to year-end 2002. However, the backlogs for each have increased since year-end 2003 to the end of the third quarter of 2004, which is beginning to have an increasing effect on sales. Plastics sales decreased \$0.6 million in the first nine months of 2004 compared to the 2003 first nine months. Although there has been a reluctance and lag in customers' decisions on newly quoted programs due to the uncertainty surrounding our financial condition, such negative affect was offset by some new customer programs and an increase in plastics' backlog of 18% since year-end 2003 to the end of the 2004 third quarter, from \$5.9 million to \$7.0 million. Such backlog increase is beginning to have a favorable effect on sales. [Management anticipates the declining trend in sales will continue to reverse during the final quarter of 2004].

Gross margin as a percentage of sales in the first nine months of 2004 compared to the 2003 first nine months was down slightly, to 17.9% from 18.4%.

Excluding the sales and gross margin of the Chinese grating joint venture, the U.S. operations gross margin percentage decreased from 18.4% in the first nine months of 2003 to 17.0% in the first nine months of 2004. The decrease in pressure vessels and springs gross margin as a percentage of sales was due to a week-long interruption in June 2004 production caused by an electrical failure resulting in unanticipated costs and underabsorbed overheads. Cylinder gross margin decreased in the first nine months of 2004 compared to the 2003 first nine months due primarily to the fact that unfavorable materials variances due to production errors and inefficiencies caused by the

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relocation of the cylinder operations into a single facility more than offset the favorable effect of having eliminated the redundant expenses of operating two facilities. 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 and due to the close relationship it bears to Reunion's financial covenants in its borrowing agreements. Excluding the Chinese grating subsidiary and corporate and other EBITDA, EBITDA and EBITDA as a percentage of sales decreased during the first nine months 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 nine months ended September 30, 2004 and 2003 by segment and corporate and other is as follows (000's):

	Operating Profit	Deprec- iation	Amortiz- ation	EBITDA
	-----	-----	-----	-----
2004:				
-----				

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Pressure vessels and springs	\$ 2,694	\$ 466	\$ -	\$ 3,160
Cylinders	319	144	-	463
Grating	939	-	-	939
Plastics	658	1,217	-	1,875
Corporate and other	(1,023)	31	-	(992)
	-----	-----	-----	-----
Totals	3,047	\$ 1,858	\$ -	\$ 5,445
		=====	=====	=====
Gain on debt extinguishment	3,540			
	-----			
Operating profit	\$ 7,127			
	=====			

### 2003:

	-----			
Pressure vessels and springs	\$ 3,316	\$ 526	\$ -	\$ 3,842
Cylinders	620	215	-	835
Plastics	695	1,222	-	1,917
Corporate and other	(2,349)	53	-	(2,296)
	-----	-----	-----	-----
Totals	\$ 2,282	\$ 2,016	\$ -	\$ 4,298
	=====	=====	=====	=====

### Selling, General and Administrative

Selling, general and administrative (SGA) expenses for the first nine months of 2004 were \$7.8 million, compared to \$8.0 million for the 2003 first nine months. SGA in the first nine months of 2004 includes \$0.8 million from the Chinese grating joint venture. Excluding this, SGA decreased to \$7.0

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million domestically, or by \$1.0 million. This decrease in SGA is due to continued cost cutting measures and payroll reductions. Excluding the sales and SGA of the grating joint venture, SGA as a percentage of sales decreased to 13.3% for the first nine months of 2004 compared to 14.8% in the 2003 first nine months primarily due to the effects of the cost savings described above.

### Gains on Debt Extinguishments

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

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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 calculated as follows (000's):

Description	Payable (Receivable)	Interest and Fee Accruals	Totals
-----	-----	-----	-----
SFSC note receivable	\$ (310)	\$ (155)	\$ (465)
Reserve for interest receivable	-	101	101
SFSC collateral fee	-	690	690
SFSC credit support fee	-	294	294
SFSC note payable	2,999	1,501	4,500
SFSC note payable	500	290	790
SFSC note payable	100	53	153
SFSC note payable by assignment	1,017	280	1,297
	-----	-----	-----
Totals	\$ 4,306	\$ 3,054	7,360
	=====	=====	
Less: Note payable under settlement agreement			(4,290)
			-----
Gain on SFSC litigation settlement first quarter 2004			\$ 3,070
			=====

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The gain on debt extinguishment of \$3.1 million was recorded in the first quarter of 2004 as the settlement was reached in the Superior Court and the financial institution defendants paid the plaintiffs in January 2004. However, subsequent to the filing of our Form 10-Q for the quarter ended March 31, 2004, the parties to the settlement agreement set the effective date of the settlement as May 10, 2004. Accordingly, the Company recorded interest expense through May 10, 2004 under the terms of the prior SFSC notes payable and then recorded an additional gain on debt extinguishment of \$262,000 to reflect the effective date of the settlement as being May 10, 2004. The Company then adjusted interest expense under the terms of the new note payable as though it began accruing on May 10, 2004.

In January 2004, we solicited our noteholders for the second time to consent to certain provisions and waivers of the indenture governing the 13% senior notes. In the first consent in November 2003, \$23,250,700 of the \$24,855,000 principal amount of senior notes, or 93.55%, had consented. The second consent solicitation period ended on April 28, 2004 at which time holders of an additional \$434,300 principal amount of senior notes had consented. The significant provisions of the solicitation requested that the noteholders consent to 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. Accordingly, 12% of the \$434,300 principal amount of senior notes of noteholders that had consented to the various provisions and waivers in the second solicitation, or \$52,000, was extinguished pursuant to the provisions of the consent. As of April 28, 2004, accrued and unpaid interest related to



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the 13% senior notes consenting in the second solicitation totaled \$156,000. Such interest was extinguished pursuant to the provisions of the consent.

### Other Income

Other income for the first nine months of 2004 was \$656,000, compared to other income of \$331,000 for the first nine months of 2003. The components are as follows:

	2004	2003	Change
	-----	-----	-----
Costs to consolidate cylinder locations	\$ 288	\$ -	\$ 288
Adjustment of environmental reserve	(601)	-	(601)
Rental income on sublease	(33)	(41)	8
Repayment of advance previously written-off	(50)	-	(50)
Gain on sale of property	-	(138)	138
Reduction of the lease termination reserve	-	(117)	117
Other (income) expense, net	(260)	(35)	(225)
	-----	-----	-----
Total other income, net	\$ (656)	\$ (331)	\$ (325)
	=====	=====	=====

During May 2004, we completed the consolidation of our cylinder manufacturing operations into a single facility in Libertyville, Illinois. Costs totaling \$288,000 were incurred in 2004. The Company finalized the settlement of a Louisiana environmental litigation matter in 2004. Such settlement has resulted in a new estimate of the required reserve, which resulted in a \$601,000 adjustment. In June 2003, the Company sublet its idle manufacturing facility in Clearfield, Utah and, therefore, has recorded rental income in both 2004 and 2003. The Company received repayment of an advance

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written-off in 1999. The Company sold idle property in the 2003 third quarter which resulted in a gain. The Company reevaluated and adjusted its lease termination reserve in the third quarter of 2003 based on the subletting of its idle manufacturing facility in Clearfield, Utah. There were no other individually significant or offsetting items of other income or expenses in either of the first halves of 2004 and 2003.

### Minority Interests

Minority interests of \$0.3 million represents income during the first nine months 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 "Return of Discontinued Operations to Continuing Operations - Change in Plan" below.

### Interest Expense

Interest expense for the first nine months of 2004 was \$5.8 million compared to \$5.2 million for the first nine months 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 nine months than the 2003 first nine months.

### Income Taxes

There was no tax provision from continuing operations in the first halves of 2004 or 2003. The Company has net operating loss carryforwards for Federal

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tax return reporting purposes totaling \$115.2 million at December 31, 2003. The years in which such net operating losses expire are as follows (000's):

Year ending December 31:		Year ending December 31:	
2004	\$ 53,099	2017	7,574
2006	6,067	2018	10,860
2007	609	2019	1,907
2008	3,231	2020	1,047
2009	2,526	2021	12,431
2011	1,069	2022	14,760

[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.]

### Return of Discontinued Operations to Continuing 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 manufactures grating panels and is located in Wangang Township, Pudong New Area, Shanghai in the People's 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

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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 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 returned it to continuing operations effective at the beginning of 2004 resulting in consolidation of the joint venture's results of operations for the nine months ended September 30, 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

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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

#### Default and Waiver Under Congress Revolving and Term Loan Credit Facility

On December 3, 2003, the Company entered into a revolving and term loan credit facility with Congress Financial Corporation (Congress). 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 August 2004, the Company achieved the minimum monthly EBITDA required for compliance with this covenant. However, the Company was unable to achieve the required minimum monthly covenant of \$650,000 for September 2004, having generated only \$604,000 as calculated under the terms of the facility. In November 2004, Congress and the Company entered into an amendment of the revolving and term loan credit facility wherein Congress has waived the minimum EBITDA covenant for September 2004, eliminated the minimum EBITDA covenant for October 2004 and significantly reduced the monthly minimum EBITDA covenant going forward. The Company is now required to maintain minimum monthly amounts of EBITDA of \$280,000 in November 2004, \$290,000 in December 2004, \$350,000 in January 2005, \$280,000 in February 2005 and \$300,000 per month thereafter. The Company was in compliance with all other financial, affirmative and negative covenants in September 2004, including the required minimum fixed charge coverage ratio of 0.77:1 for the third quarter of 2004, having achieved a third quarter 2004 ratio of 1.17:1. Also as part of the amendment to the revolving and term loan credit facility, Congress eliminated the minimum fixed charge coverage ratio in all future quarters.

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### Sale of Assets

The Company's management, having reevaluated the Company's ability to service its debt and meet future obligations, is investigating the sale of certain assets in order to generate liquidity. These asset sales may take one or more forms including, but not limited to, the sale of one or more divisions or piecemeal sales of assets including real estate, buildings, machinery and equipment and/or intangibles. The Company's management cannot provide any assurances that any asset sales will occur or, if asset sales do occur, that such sales will generate sufficient liquidity for the Company.

### SUMMARY OF 2004 ACTIVITIES

Cash and cash equivalents totaled \$1.0 million at September 30, 2004, compared to \$0.8 million at December 31, 2003, an increase of \$0.2 million. This resulted from \$3.0 million of cash used in operating activities and \$0.7 million used in investing activities being more than offset by \$3.9 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

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days.

### Operating Activities

Operating activities used \$3.0 million in cash in the first nine months of 2004 as increases of \$2.8 million in receivables and inventories were only partially funded by an increase in trade payables and other liabilities.

### Investing Activities

Capital expenditures were \$0.7 million.

### Financing Activities

The Company made scheduled repayments of the Congress term loan totaling \$477,000 and paid an additional \$418,000 in costs related to the December 2003 refinancing. Revolving credit facility borrowings increased \$1.8 million during the first nine months of 2004. The Company and Congress entered into a supplemental revolving credit financing for \$3.0 million. Other debt repayments totaling \$37,000 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

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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 nine months 2004 cash activity of the remaining lease termination reserves (in thousands):

Description	At 12/31/03	Cash Activity	At 09/30/04
Lease termination costs	\$ 474	\$ (198)	\$ 276

Of the remaining lease termination costs, \$260,000 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 products would be reduced.

Reunion defaulted under its financing agreement

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The Company was unable to achieve the required minimum monthly covenant of \$650,000 for September 2004, having generated only \$604,000 as calculated under the terms of the facility. Congress has provided the Company with a waiver of the minimum EBITDA covenant for September 2004, eliminated the minimum EBITDA covenant for October 2004 and significantly reduced the minimum EBITDA covenant going forward. However, no assurances can be given that the Company will not default under its financing agreement in future periods.

Reunion is exposed to the risks of litigation

We have made significant progress in settling major exposures to litigation and environmental claims during 2003 and 2004. However, we are still exposed to certain undecided litigation. 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.

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Reunion's 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.

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 September 30, 2004, the Company has a deficiency in working capital of \$14.4 million net of related party obligations and a deficiency in assets of \$26.7 million. These conditions raise substantial doubt about the Company's 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.

The Company has defaulted under its revolving credit and term loan facility with Congress and has decided to sell assets to service its debts and meet future obligations as part of a plan to continue in existence. Although we believe we can accomplish this plan, no assurances exist that we will. Failure to accomplish this plan would 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

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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, Reunion's 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 Reunion's 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 Reunion's disclosure controls and procedures were effective as of the end of the period covered by this report. As required by Rule 13a-15(d), Reunion's management, including its Chief Executive Officer and Chief Financial Officer, also conducted an evaluation of Reunion's 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, Reunion's 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.

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## 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."

### Item 6. Exhibits and Reports on Form 8-K

#### (b) Reports on Form 8-K

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The Company filed a Current Report on Form 8-K/A dated May 4, 2004 on August 18, 2004 to announce that it had postponed its 2004 annual meeting of the Company's stockholders.

The Company filed a Current Report on Form 8-K dated August 18, 2004 on August 18, 2004 to announce its second quarter 2004 operating results and file the related press release as an exhibit thereto.

The Company filed a Current Report on Form 8-K dated October 29, 2004 on October 29, 2004 to announce the record date, time and place of its 2004 annual meeting of the Company's stockholders.

#### (c) Exhibits

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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
  - 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: November 20, 2004  
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REUNION INDUSTRIES, INC.  
(Registrant)

By: /s/ Charles E. Bradley, Sr.  
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Charles E. Bradley, Sr.  
Chairman and Chief  
Executive Officer

By: /s/ John M. Froehlich  
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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;

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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, 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: November 20, 2004

/s/ Charles E. Bradley, Sr.

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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



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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, 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: November 20, 2004

/s/ John M. Froehlich

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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 September 30, 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 September 30, 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

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September 30, 2004 fairly presents, in all material respects, the financial condition and results of operations of Reunion Industries, Inc. for the periods presented therein.

Date: November 20, 2004

/s/ Charles E. Bradley, Sr.

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Chief Executive Officer

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EXHIBIT 32.2

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 September 30, 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 September 30, 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 September 30, 2004 fairly presents, in all material respects, the financial condition and results of operations of Reunion Industries, Inc. for the periods presented therein.

Date: November 20, 2004

/s/ John M. Froehlich

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Chief Financial Officer

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