

Edgar Filing: REUNION INDUSTRIES INC - Form 10-Q

REUNION INDUSTRIES INC  
Form 10-Q  
August 20, 2007

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2007  
-----

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 X No  
-----

Indicate by check mark whether the Registrant is a  
Large accelerated filer Accelerated filer Non-accelerated filer X  
--- --- ---

Indicate by check mark whether the Registrant is a shell company Yes No X  
--- ---

At August 8, 2007, 17,419,019 shares of common stock, par value \$.01 per  
share, were outstanding.

=====

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 that 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. Note that all forward-looking statements involve risks and uncertainties. Factors which could cause the future results and shareholder values to differ materially from those expressed in the forward-looking statements include, but are not limited to, the strengths of the markets which the Company serves, the Company's ability to generate liquidity and the Company's ability to service its debts and meet financial covenants. 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. 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.

- 2 -

REUNION INDUSTRIES, INC.

INDEX

	Page No.
	-----
PART I. FINANCIAL INFORMATION	
Item 1. Financial Statements	
Condensed Consolidated Balance Sheets at June 30, 2007 (unaudited) and December 31, 2006	4
Condensed Consolidated Statements of Operations and Comprehensive Income (Loss) for the three and six months ended June 30, 2007 and 2006 (unaudited)	5
Condensed Consolidated Statements of Cash Flows for the six months ended June 30, 2007 and 2006 (unaudited)	7

## Edgar Filing: REUNION INDUSTRIES INC - Form 10-Q

Notes to Condensed Consolidated Financial Statements	8
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	18
Item 3. Quantitative and Qualitative Disclosures About Market Risk	24
Item 4. Controls and Procedures	25
PART II. OTHER INFORMATION	
Item 1. Legal Proceedings	25
Item 3. Defaults Upon Senior Securities	25
Item 6. Exhibits and Reports on Form 8-K	26
SIGNATURES	27
CERTIFICATIONS	28

- 3 -

### PART I. FINANCIAL INFORMATION

#### Item 1. Financial Statements

REUNION INDUSTRIES, INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED BALANCE SHEETS  
AT JUNE 30, 2007 AND DECEMBER 31, 2006  
(in thousands)

	At June 30, 2007 ----- (unaudited)	At December 31, 2006 -----
<b>ASSETS:</b>		
Cash and cash equivalents	\$ 1,569	\$ 1,571
Receivables (net of allowance of \$116 and \$98, respectively)	5,318	4,631
Inventories, net	2,143	2,918
Other current assets	561	921
Current assets of discontinued operations	19,997	13,551
	-----	-----
Total current assets	29,588	23,592
Property, plant and equipment, net	1,084	1,047
Property, plant and equipment, held for sale	5,303	5,485
Due from related parties	973	963
Goodwill, net	1,491	1,491
Other assets, net	2,320	2,337
Non-current assets of discontinued operations	9,503	9,503
	-----	-----
Total assets	\$ 50,262 =====	\$ 44,418 =====
<b>LIABILITIES AND STOCKHOLDERS' DEFICIT:</b>		
Debt in default	\$ 42,684	\$ 39,957

Edgar Filing: REUNION INDUSTRIES INC - Form 10-Q

Trade payables	1,672	1,932
Accrued interest	13,190	11,113
Due to related parties	463	365
Other current liabilities	3,558	4,064
Notes payable	-	-
Notes payable - related parties	500	500
Current liabilities of discontinued operations	7,350	4,079
	-----	-----
Total current liabilities	69,417	62,892
Other liabilities	785	784
Non-current liabilities of discontinued Operations	2,793	3,273
	-----	-----
Total liabilities	72,995	66,949
Minority interests	385	498
Commitments and contingent liabilities	-	-
Stockholders' deficit	(23,118)	(23,029)
	-----	-----
Total liabilities and stockholders' deficit	\$ 50,262	\$ 44,418
	=====	=====

882

See accompanying notes to condensed consolidated financial statements.

- 4 -

REUNION INDUSTRIES, INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS  
AND COMPREHENSIVE INCOME (LOSS)  
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2007 AND 2006  
(in thousands, except per share information) (unaudited)

	Three Months Ended		Six Months Ended	
	June 30, 2007	June 30, 2006	June 30, 2007	June 30, 2006
	-----	-----	-----	-----
Sales	\$ 6,986	\$ 6,452	\$ 12,597	\$ 12,322
Cost of sales	5,708	5,182	10,244	9,756
	-----	-----	-----	-----
Gross profit	1,278	1,270	2,353	2,566
Selling, general & administrative	1,234	1,336	2,462	2,670
Other (income), net	(4)	(2)	(3)	3
	-----	-----	-----	-----
Operating profit (loss)	48	(64)	(106)	(107)
Gain on debt extinguishments	-	(4,020)	-	(4,945)
Interest expense, net	1,941	1,996	3,713	4,156
	-----	-----	-----	-----
Income (loss) from continuing operations before income taxes and minority interests	(1,893)	1,960	(3,819)	682
Provision for income taxes	29	32	49	46
	-----	-----	-----	-----
Income (loss) from continuing operations before minority interests	(1,922)	1,928	(3,868)	636

Edgar Filing: REUNION INDUSTRIES INC - Form 10-Q

Minority interests	128	133	212	192
	-----	-----	-----	-----
Income (loss) from continuing operations	(2,050)	1,795	(4,080)	444
Discontinued operations, net of tax:				
Income from discontinued pressure vessel operations, net of tax of \$-0-	2,729	1,529	3,965	2,839
Gain on disposal of discontinued plastics operations, net of tax of \$-0-	-	-	-	4,319
Income from discontinued plastics operations, net of tax of \$-0-	-	-	-	161
	-----	-----	-----	-----
Net and comprehensive income (loss)	\$ 679	\$ 3,324	\$ (115)	\$ 7,763
	=====	=====	=====	=====
Earnings (loss) applicable to common stockholders	\$ 679	\$ 3,324	\$ (115)	\$ 7,763
	=====	=====	=====	=====

- 5 -

REUNION INDUSTRIES, INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS  
AND COMPREHENSIVE INCOME (LOSS)  
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2007 AND 2006  
(in thousands, except per share information) (unaudited)

	Three Months Ended		Six Months Ended	
	June 30, 2007	June 30, 2006	June 30, 2007	June 30, 2006
	-----	-----	-----	-----
Basic earnings (loss) per share:				
Continuing operations	\$ (0.12)	\$ 0.11	\$ (0.24)	\$ 0.03
Discontinued operations	0.16	0.09	0.23	0.43
	-----	-----	-----	-----
Income (loss) per share - basic	\$ 0.04	\$ 0.20	\$ (0.01)	\$ 0.46
	=====	=====	=====	=====
Weighted average shares outstanding - basic	17,419	17,067	17,419	16,863
	=====	=====	=====	=====
Diluted income (loss) per share:				
Continuing operations	\$ (0.12)	\$ 0.08	\$ (0.24)	\$ 0.02
Discontinued operations	0.16	0.07	0.23	0.33
	-----	-----	-----	-----
Income (loss) per share - diluted	\$ 0.04	\$ 0.15	\$ (0.01)	\$ 0.35
	=====	=====	=====	=====
Weighted average shares				

Edgar Filing: REUNION INDUSTRIES INC - Form 10-Q

outstanding - diluted	17,419	22,171	17,419	22,088
	=====	=====	=====	=====

See accompanying notes to condensed consolidated financial statements.

- 6 -

REUNION INDUSTRIES, INC. AND SUBSIDIARIES  
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
 FOR THE SIX MONTHS ENDED JUNE 30, 2007 AND 2006  
 (in thousands)  
 (unaudited)

	Six Months Ended June 30,	
	2007	2006
	-----	-----
Cash used in operating activities	\$ (992)	\$ (3,066)
	-----	-----
Cash flow from investing activities:		
Capital expenditures	(207)	(150)
Proceeds from asset sales	-	11,273
	-----	-----
Cash provided by investing activities	(207)	11,123
	-----	-----
Cash flow from financing activities:		
Net change in revolving credit facility	1,845	(3,119)
Repayments of debt	-	(4,612)
Proceeds from exercise of warrants		-
China dividend paid to minority interest		(325)
	-----	-----
Cash used in financing activities	1,520	(8,049)
	-----	-----
Net increase(decrease) in cash and cash equivalents	321	8
Less: Change in cash of discontinued operations	(323)	-
Cash and cash equivalents, beginning of period	1,571	1,923
	-----	-----
Cash and cash equivalents, end of period	\$ 1,569	\$ 1,931
	=====	=====
Interest paid	\$ 1,490	\$ 1,467
	=====	=====
Non-cash financing activities:		
Debt extinguishment, including accrued interest	\$ -	\$ 4,945
	=====	=====

See accompanying notes to condensed consolidated financial statements.

- 7 -

## Edgar Filing: REUNION INDUSTRIES INC - Form 10-Q

### REUNION INDUSTRIES, INC. AND SUBSIDIARIES NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2007

#### 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 six months ended June 30, 2007 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, 2006 ("Form 10-K").

#### 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 June 30, 2007, the Company had a deficiency in working capital of \$39.8 million, a loss from continuing operations for the first six months of 2007 of \$4.1 million and a deficiency in assets of \$23.1 million. Additionally, at June 30, 2007, the Company was in default on substantially all of its debt. 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.

Over the past several years, the Company has taken steps to improve its liquidity and defer the principal maturities of a significant portion of its debt. During 2006, the Company sold the remaining portion of its plastics segment and recognized a gain of \$4.3 million on this sale. Additionally, during 2006, the Company effected a settlement with the holder of a \$1.017 million note payable from the Company wherein the Company recognized a gain from this debt settlement of \$925,000. The Company is currently pursuing the sale of its pressure vessel business in an effort to provide additional liquidity to pay off its debt obligations. (See NOTE 2: RECENT DEVELOPMENTS - Sale of Business.) No assurances exist that the Company will be successful in its effort and failure to accomplish this plan could have an adverse impact on the Company's liquidity, financial position and future operations.

#### Foreign Currency Translation

The financial statements of the Company's 65% owned joint venture in China are measured using the local currency as the functional currency. Assets and liabilities of this entity are translated into U.S. dollars at the exchange rate in effect at the end of each reporting period. Income and expense items are translated into U.S. dollars at the weighted average exchange rates for the period. Due to the minimal movement in the rate of exchange for such functional currency, there was no significant translation adjustment in the period.

#### Recent Accounting Pronouncements

In September 2006 the FASB issued Statement No. 157, "Fair Value Measurements" ("SFAS 157"). SFAS 157 defines fair value, establishes a framework for measuring fair value under GAAP, and expands disclosures about fair value measures. SFAS 157 is effective for fiscal years beginning after November 15, 2007, with early adoption encouraged. The provisions of SFAS 157 are to be applied on a prospective basis, with the exception of certain financial instruments for which retrospective application is required. The adoption of SFAS 157 is not expected to materially affect the Company's financial position or results of operations.

In February 2007 the FASB issued Statement No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities-Including an Amendment of FASB Statement No. 115" ("SFAS 159"). SFAS 159 permits an entity to choose to measure many financial instruments and certain other items at fair value. Most of the provisions of SFAS 159 are elective, however, the amendment of SFAS 115, "Accounting for Certain Investments in Debt and Equity Securities", applies to all entities with available for sale or trading securities. SFAS 159 is elective as of the beginning of an entity's first fiscal year beginning after November 15, 2007. The Company is currently evaluating the impact adoption may have on the financial statements.

#### NOTE 2: RECENT DEVELOPMENTS

##### 13% Senior Notes

The Company's tender offer for its Senior Notes was not accepted by a holder of approximately 72% of the outstanding Senior Notes. As a result, the tender offer was terminated and withdrawn on January 10, 2007. The 13% restructured Senior Notes and accumulated interest, which totaled \$30.8 million at December 31, 2006, became due and payable on January 3, 2007. The Company did not make such payment and thus continued to be in default under the Indenture under which the Senior Notes were issued. However, under an Intercreditor and Subordination Agreement entered into in December 2003 among Wachovia Bank, the holders of the Senior Notes and certain other lenders, the Senior Note holders cannot commence any action to enforce their liens on any collateral for a 180 day period beginning after the date of receipt by Wachovia, the senior secured lender, of a written notice from the Senior Note holders informing Wachovia of its demand for payment. On February 2, 2007, Wachovia received written notice of such demand for payment. The standstill period thus expired as of August 2, 2007. As of June 30, 2007, the total amount due and payable on the 13% Senior Notes, including accumulated interest, was \$35.0 million.

##### Wachovia Loan Agreement

On January 22, 2007, the Company and Wachovia entered into a letter agreement to extend the term of the existing Loan Agreement and all other associated financing agreements from January 22, 2007 until April 23, 2007. On April 23, 2007, the Company and Wachovia entered into a letter agreement to extend the term of the existing Loan Agreement and all other associated financing agreements from April 23, 2007 until June 15, 2007. Since June 15, 2007, various letter agreements extended the Loan Agreement and all associated financing agreements to June 29, 2007, and then to July 30, 2007, and then to August 10, 2007 and the current extension runs to August 20, 2007.

Sale of Business

In late January 2007, management decided that it would actively market its pressure vessel business and, as a result, has presented the assets, liabilities and operations of the pressure vessel business as a discontinued operation. (See NOTE 9.) The Company intends to provide liquidity to pay off all, or the majority, of its debt through the sale of this pressure vessel business. On August 16, 2007, after failing to arrive at mutually acceptable terms for the sale of this pressure vessel business to a foreign company, the Company entered into a Letter of Intent ("LOI") for the sale of substantially all of the assets and liabilities of this business to a domestic private equity group at a price slightly higher than the prior offer from the foreign company. The Letter of Intent contemplates that the potential buyer will make a good faith deposit of \$3 million into escrow by August 21, 2007 and that the parties will enter into a definitive asset purchase agreement by August 29, 2007. If the parties do not enter into an agreement by that date, the escrow deposit will be returned to the potential buyer. If the parties do enter into such an agreement and the potential buyer fails to close "without cause" (as specified in the LOI), the escrow deposit would be paid over to the Company. The net proceeds from the sale of this pressure vessel business on the terms set forth in the LOI would be sufficient to pay off all of the Company's debt for borrowed money.

NOTE 3: INVENTORIES

Inventories are comprised of the following (in thousands):

	At June 30, 2007	At December 31, 2006
	-----	-----
	(unaudited)	
Raw material	\$ 555	\$ 766
Work-in-process	414	337
Finished goods	1,174	1,815
	-----	-----
Inventories	\$ 2,143	\$ 2,918
	=====	=====

Inventories are valued at the lower of cost or market, cost being determined on the first-in, first-out method. The above amounts are net of inventory reserves of \$193 and \$153 at June 30, 2007 and December 31, 2006, respectively.

NOTE 4: DEBT

At June 30, 2007 and December 31, 2006, the Company was in default on its Wachovia bank financing (including the junior participation portion thereof), its note payable to a private capital fund and its 13% senior notes. At June 30, 2007, the Company was also in default on a Note payable to another private capital fund that was due June 1, 2007.

Debt in default consists of the following (in thousands):

At June 30,	December 31,
-------------	--------------

Edgar Filing: REUNION INDUSTRIES INC - Form 10-Q

	2007 ----- (unaudited)	2006 -----
Wachovia revolving credit facility	\$ 10,189	\$ 8,344
Junior participation portion of the revolving credit facility	6,100	6,100
Note payable due December 5, 2006	3,500	3,500
13% senior notes	22,013	22,013
Note payable due June 1, 2007	882	-
	-----	-----
Total debt in default	\$ 42,684	\$ 39,957
	=====	=====

- 10 -

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

	At June 30, 2007 -----	December 31, 2006 -----
Note payable due June 1, 2007	\$ -	\$ 882
Note payable - related party	500	500
	-----	-----
Total long-term debt	500	1,382
Classified as current	(500)	(1,382)
	-----	-----
Long-term debt	\$ -	\$ -
	=====	=====

NOTE 5: STOCKHOLDERS' DEFICIT AND EARNINGS PER SHARE

The following represents a reconciliation of the change in stockholders' deficit for the six month period ended June 30, 2007 (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, 2007	\$174	\$28,127	\$(48,743)	\$ (2,587)	\$(23,029)
Activity (unaudited):					
Net loss	-	-	(115)	-	(115)
Stock based compensation	-	26	-	-	26
	-----	-----	-----	-----	-----
At June 30, 2007	\$174	\$28,153	\$(48,858)	\$ (2,587)	\$(23,118)
	=====	=====	=====	=====	=====

The computations of basic and diluted earnings (loss) per common share, EPS (LPS), for the three and six month periods ended June 30, 2007 and 2006 are as follows (in thousands, except per share amounts) (unaudited):

	Net Income (Loss)	Shares	EPS (LPS)
	-----	-----	-----
Three months ended June 30, 2007:			
Income applicable to common stockholders, weighted average shares outstanding and basic EPS	\$ 679	17,419	\$ 0.04
	=====	=====	=====

## Edgar Filing: REUNION INDUSTRIES INC - Form 10-Q

Dilutive effect of stock options and warrants	-----	-----	-	
Income applicable to common stockholders, shares outstanding and diluted EPS	\$	679	17,419	\$ 0.04
	=====	=====	=====	
Three months ended June 30, 2006:				
Income applicable to common stockholders, weighted average shares outstanding and basic EPS	\$	3,324	17,067	\$ 0.20
	=====	=====	=====	
Dilutive effect of stock options and warrants	-----	-----	5,104	
Income applicable to common stockholders, shares outstanding and diluted EPS	\$	3,324	22,171	\$ 0.15
	=====	=====	=====	

- 11 -

		Net Income (Loss)	Shares	EPS (LPS)
		-----	-----	-----
Six months ended June 30, 2007:				
(Loss) applicable to common stockholders, weighted average shares outstanding and basic LPS	\$	(115)	17,419	\$ (0.01)
	=====	=====	=====	
Dilutive effect of stock options and warrants	-----	-----	-	
(Loss) applicable to common stockholders, shares outstanding and diluted EPS	\$	(115)	17,419	\$ (0.01)
	=====	=====	=====	
Six months ended June 30, 2006:				
Income applicable to common stockholders, weighted average shares outstanding and basic EPS	\$	7,763	16,863	\$ 0.46
	=====	=====	=====	
Dilutive effect of stock options and warrants	-----	-----	5,225	
Income applicable to common stockholders, shares outstanding and diluted EPS	\$	7,763	22,088	\$ 0.35
	=====	=====	=====	

Because the Company had a loss from continuing operations for the three and six month periods ended June 30, 2007, inclusion of options and warrants has an anti-dilutive effect. At June 30, 2007 and 2006, the Company's stock options outstanding totaled 1,444,000 and 1,370,000, respectively. Such options included a dilutive component of 946,676 and 901,042 shares for the three and six month periods ended June 30, 2006, respectively. At June 30, 2007 and 2006, outstanding warrants to purchase the Company's common stock totaled 4,173,489. Such warrants included a dilutive component of 4,157,466 and 4,323,779 shares for the three and six month periods ended June 30, 2006, respectively.

#### NOTE 6: STOCK BASED COMPENSATION ARRANGEMENTS

The Company accounts for its stock-based employee compensation arrangements under SFAS No. 123 (revised 2004), "Share Based Payment" ("SFAS 123R"), which requires companies to recognize the cost of employee services received in exchange for awards of equity instruments, based on the grant date

## Edgar Filing: REUNION INDUSTRIES INC - Form 10-Q

fair value of those awards, in the financial statements.

At June 30, 2007, the Company had two stock option plans, stockholder approved, that permit the grants of share options and shares to its key employees, directors and consultants. As of June 30, 2007, 280,600 options remain available for grant under these plans, 1,444,000 options have been granted and 49,334 of the granted options are unvested. The Company believes that such awards better align the interests of its key employees, directors and consultants with those of its stockholders. Option awards are generally granted with an exercise price equal to the market value of the Company's stock on the date of grant, generally vest over a two to three year period and have exercise terms ranging from five to ten years.

There were no stock options granted during the first six months of 2007. The Company recognized approximately \$26,000 and \$20,000 for the six months ended June 30, 2007 and 2006, respectively, of non-cash compensation expense for the fair value of options granted to employees in prior years for the adoption of SFAS 123R.

- 12 -

### NOTE 7: 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. Since the Company's Annual Report filing on Form 10-K, the only significant change has been the receipt in July, 2007, of a Request for Payment of the United States Environmental Protection Agency ("EPA") Costs. This request is for \$490,400.67 and relates to costs incurred by the EPA at the Gambonini Mercury Site ("Site") in Petaluma, California from May 2004 through February 2007. This Site, which was leased by Buttes Gas & Oil, a predecessor by merger to the Company, and used for mining purposes and operated as a mercury mine from 1965 to 1970 was the subject of a prior settlement agreement in 2003 between the Company and the EPA. Under that prior agreement, the Company agreed to pay \$100,000, plus interest, to settle all past environmental response costs under the Comprehensive Environmental Response, Compensation and Liability Act. The Company is currently investigating this latest claim from the EPA and attempting to determine its validity.

#### Asbestos (ORC)

Since the end of 2006, there have been no new claims presented to the Company. All previously presented actions in which the Company has been named have been tendered to and accepted by Rockwell Automation. The Company has incurred no costs in these matters and is unaware of the number of such actions settled or dismissed.

#### Asbestos (Alliance)

Since the end of 2006, 203 new cases have been opened, 302 cases have been dismissed and 124 cases have been settled for a net reduction of 223 cases during the first half of 2007. The gross cost of the 124 case settlements was \$152,000 and the gross amount of legal fees and costs incurred during the first half of 2007 was \$449,000. The Company's insurance carriers cover the significant majority of these costs and the Company's total share of the \$601,000 in settlement and other costs in the first half of 2007 was

Edgar Filing: REUNION INDUSTRIES INC - Form 10-Q

\$86,000.

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 six-month periods ended June 30, 2007 and 2006 follows (in 000's):

Description	June 30,	
	2007	2006
Beginning balance	\$ 122	\$ 133
Add: Provision for estimated future claims	70	60
Deduct: Cost of claims	(41)	(55)
Ending balance	\$ 151	\$ 138

NOTE 8: OPERATING SEGMENT DISCLOSURES

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

- 13 -

	Net Sales	EBITDA(1)	Capital Spending	Total Assets(2)
Three months ended and at June 30, 2007:				At 6/30
Metals:				
Cylinders	\$ 4,399	\$ 151	\$ 84	\$ 6,769
Grating	2,587	424	-	4,309
Subtotal	6,986	575	84	11,078
Corporate and other	-	(479)	-	4,381
Discontinued operations	-	-	12	34,803
Totals	\$ 6,986	96	\$ 96	\$ 50,262
Depreciation		(48)		
Interest expense, net		(1,941)		
Income from continuing operations before income taxes and minority interests		\$ (1,893)		

Three months ended and at June 30, 2006:				At 6/30
Metals:				
Cylinders	\$ 4,304	\$ 133	\$ 18	\$ 7,327
Grating	2,148	416	13	4,008
Subtotal	6,452	549	31	11,335

Edgar Filing: REUNION INDUSTRIES INC - Form 10-Q

Corporate and other	-	(570)	-	13,766
Discontinued operations	-	-	25	23,923
	-----	-----	-----	-----
Totals	\$ 6,452	(21)	\$ 56	\$ 49,024
	=====	=====	=====	=====
Gain on extinguishment of debt		4,020		
Depreciation		(43)		
Interest expense, net		(1,996)		
		-----		
Income from continuing operations before income taxes and minority interests		\$ 1,960		
		=====		
Six months ended June 30, 2007:				
-----				
Metals:				
Cylinders	\$ 8,304	\$ 249	\$ 132	
Grating	4,293	685	9	
	-----	-----	-----	
Subtotal	12,597	934	141	
Corporate and other	-	(945)	-	
Discontinued operations	-	-	66	
	-----	-----	-----	
Totals	\$ 12,597	(11)	\$ 207	
	=====	=====	=====	
Depreciation		(95)		
Interest expense, net		(3,713)		
		-----		
(Loss) from continuing operations before income taxes and minority interests		\$ (3,819)		
		=====		

- 14 -

	Net Sales	EBITDA(1)	Capital Spending	Total Assets(2)
	-----	-----	-----	-----
Six months ended June 30, 2006:				
-----				
Metals:				
Cylinders	\$ 8,979	\$ 559	\$ 44	
Grating	3,343	604	32	
	-----	-----	-----	
Subtotal	12,322	1,163	76	
Corporate and other	-	(1,183)	1	
Discontinued operations	-	-	73	
	-----	-----	-----	
Totals	\$ 12,322	(20)	\$ 150	
	=====	=====	=====	
Gain on extinguishment of debt		4,945		
Depreciation		(87)		
Interest expense, net		(4,156)		
		-----		
Income from continuing operations before income taxes and minority interests		\$ 682		
		=====		

(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

## Edgar Filing: REUNION INDUSTRIES INC - Form 10-Q

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.

### NOTE 9: DISCONTINUED OPERATIONS

At June 30, 2007 and December 31, 2006, the assets and liabilities of discontinued operations are comprised primarily of the assets and liabilities of the pressure vessel business plus the remaining assets and liabilities of the Rostone business. Such assets and liabilities are as follows (in thousands):

	June 30 2007	December 31 2006
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 327	\$ 4
Receivables, net	6,101	4,610
Inventories, net	12,057	8,398
Other current assets	1,512	539
<b>Total current assets</b>	<b>\$ 19,997</b>	<b>\$ 13,551</b>
<b>CURRENT LIABILITIES:</b>		
Trade payables	\$ 1,102	\$ 1,125
Other current liabilities	6,248	2,954
<b>Total current liabilities</b>	<b>\$ 7,350</b>	<b>\$ 4,079</b>
<b>OTHER ASSETS:</b>		
Property, plant and equipment, held for sale	\$ 5,303	\$ 5,485
Goodwill	9,503	9,503
<b>Total other assets</b>	<b>\$ 14,806</b>	<b>\$ 14,988</b>
<b>OTHER LIABILITIES:</b>		
Pension and other post retirement benefit liabilities	\$ 2,793	\$ 3,272

- 15 -

Results of discontinued operations for the quarters ended June 30, 2007 and 2006 and for the six months ended June 30, 2007 relate solely to the pressure vessel business while the results of discontinued operations for six months ended June 30, 2006 relate both to the pressure vessel business and Oneida. A summarization of such results is as follows (in thousands):

3-months ended June 30, 2007		3-months ended June 30, 2006	
Net sales	\$10,844	Net sales	\$ 8,348
Income before taxes	2,729	Income before taxes	1,529
6-months ended June 30, 2007		6-months ended June 30, 2006	
Net sales	\$19,958	Net sales	\$ 19,282
Income before taxes	3,965	Income before taxes	3,000

### 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 six month periods ended June 30, 2007

Edgar Filing: REUNION INDUSTRIES INC - Form 10-Q

and 2006 (000's) (unaudited):

	Pension		Postretirement	
	3-months ended		3-months ended	
	June 30,		June 30,	
	2007	2006	2007	2006
Benefits earned during year	\$ 32	\$ 53	\$ 22	\$ 28
Interest cost	63	60	30	29
Amortization of:				
Prior service cost	4	4	-	-
Unrecognized net loss (gain)	8	8	11	18
Unrecognized net obligation	-	-	12	12
Expected return on plan assets	(82)	(72)	-	-
Defined benefit pension and total other postretirement benefits costs	\$ 25	\$ 53	\$ 75	\$ 87

	Pension		Postretirement	
	6-months ended		6-months ended	
	June 30,		June 30,	
	2007	2006	2007	2006
Benefits earned during year	\$ 64	\$ 106	\$ 44	\$ 56
Interest cost	126	120	60	58
Amortization of:				
Prior service cost	8	8	-	-
Unrecognized net loss (gain)	16	16	22	36
Unrecognized net obligation	-	-	24	24
Expected return on plan assets	(164)	(144)	-	-
Defined benefit pension and total other postretirement benefits costs	\$ 50	\$ 106	\$ 150	\$ 174

In May 2007, the Company made a required payment of \$540,000 to the Metals pension plan.

- 16 -

The following tables present the components of net periodic benefit costs for the discontinued plastics operation pension and other postretirement plans for the three and six month periods ended June 30, 2007 and 2006 (000's) (unaudited):

	Pension		Postretirement	
	3-months ended		3-months ended	
	June 30,		June 30,	
	2007	2006	2007	2006
Benefits earned during year	\$ -	\$ -	\$ -	\$ -
Interest cost	57	55	7	8
Amortization of:				
Unrecognized net loss (gain)	21	17	-	-

Edgar Filing: REUNION INDUSTRIES INC - Form 10-Q

Expected return on plan assets	(70)	(65)	-	-
	-----	-----	-----	-----
Defined benefit pension and total other postretirement benefits costs	\$ 8	\$ 7	\$ 7	\$ 8
	=====	=====	=====	=====
	Pension		Postretirement	
	-----		-----	
	6-months ended		6-months ended	
	-----		-----	
	June 30,		June 30,	
	-----		-----	
	2007	2006	2007	2006
	-----	-----	-----	-----
Benefits earned during year	\$ -	\$ -	\$ -	\$ -
Interest cost	114	110	14	16
Amortization of:				
Unrecognized net loss (gain)	42	34	-	-
Expected return on plan assets	(140)	(130)	-	-
	-----	-----	-----	-----
Defined benefit pension and total other postretirement benefits costs	\$ 16	\$ 14	\$ 14	\$ 16
	=====	=====	=====	=====

The Company expects that it will contribute \$101,000 to the discontinued plastics operation pension plan in 2007.

NOTE 11: INCOME TAXES

The Company currently files an income tax return in the U.S. federal jurisdiction as well as in Pennsylvania, Illinois and Indiana. Tax returns for the years 2004 through 2006 remain open for examination in various tax jurisdictions in which it operates or operated.

The Company adopted the provisions of FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes-An Interpretation of FASB Statement No. 109, Accounting for Income Taxes" ("FIN 48"), on January 1, 2007. As a result of the implementation of FIN 48, the Company recognized no material adjustment in the liability for unrecognized income tax benefits. At the adoption date of January 1, 2007, and at June 30, 2007, there were no unrecognized tax benefits. Interest and penalties related to uncertain tax positions will be recognized in income tax expense. As of June 30, 2007, no interest related to uncertain tax positions had been accrued.

- 17 -

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, 2006.

## Edgar Filing: REUNION INDUSTRIES INC - Form 10-Q

### GENERAL

The Company owns and operates industrial manufacturing operations that design and manufacture engineered, high-quality products for specific customer requirements, such as hydraulic and pneumatic cylinders and metal bar grating. Prior to 2007, the Company's continuing operations' products also included large-diameter seamless pressure vessels. Such pressure vessel business was reclassified to discontinued operations effective January 1, 2007. (See NOTE 2: Recent Events ? Sale of Business.)

### RESULTS OF OPERATIONS

Three Months Ended June 30, 2007 Compared to  
Three Months Ended June 30, 2006

Net sales, gross margins and EBITDA percentages for the three months ended June 30, 2007 and 2006 are as follows (\$ in thousands):

	Net Sales		Gross Margin	
	2007	2006	2007	2006
Cylinders	\$ 4,399	4,304	13.9%	17.7%
Grating	2,587	2,148	25.8%	27.7%
Totals	\$ 6,986	\$ 6,452	18.3%	19.7%

Net sales for the second quarter of 2007 were up 8.3% from the same quarter of 2006, reflecting a slight increase in cylinder sales and a 20% increase in grating sales. The slight increase in cylinder sales reflects primarily period to period increases and decreases to existing customers due to a variety of reasons with no discernible trend. The increase in grating sales continues to reflect the improving business environment in China.

Gross margin as a percentage of sales decreased by 1.4 percentage points in the second quarter of 2007 compared to the second quarter of 2006 as a result of a lower margin percentages in both the cylinder and grating segments. This decrease in cylinder margin reflects a combination of factors. One factor relates to the mix of products sold with more sales of lower standard margin product in the second quarter of 2007 compared to the comparable period in 2006. Another factor relates to the manufacturing inefficiencies resulting from this mix of orders in conjunction with the relatively low volume of business for the size of the plant. The decline in gross margin percentage in the grating segment results primarily from price pressures in the China marketplace, a trend that is expected to continue during the current year.

- 18 -

### Selling, General and Administrative

Selling, general and administrative (SGA) expenses for the second quarter of 2007 were \$1.2 million, down \$102,000 from the expenses for the second quarter of 2006. This decrease in expense reflects a decrease in SGA expenses in the cylinder segment and at corporate offset somewhat by an increase in marketing expense in the grating business in connection with the increase in

## Edgar Filing: REUNION INDUSTRIES INC - Form 10-Q

sales in that segment. The reductions in SGA expense in the cylinder business and at corporate are partially related to reductions in staff and partially related to other expense reductions. As a percentage of sales, SGA expenses decreased to 17.7% for the second quarter of 2007 from 20.1% for the second quarter of 2006. [The Company continues to look for ways to cut costs in all areas.]

### Gain on Debt Extinguishments

There was a \$4.0 million gain on debt extinguishment in the second quarter of 2006 related to the final settlement of the SFSC \$4.290 million judgment and all accrued interest. There was no such gain in the comparable period in 2007.

### Other Income

Other income for the second quarter of 2007 was \$4,000, compared to other income of \$2,000 for the second quarter of 2006. There were no significant offsetting items of other income and expense in either period.

### Minority Interests

Minority interests for the second quarter in 2007 and 2006 were \$128,000 and \$133,000, respectively. These amounts represent the income during the quarter 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.

### Interest Expense

Interest expense for the second quarter of 2007 was \$1.9 million compared to \$2.0 million for the second quarter of 2006. This decrease reflects reductions of \$406,000 primarily resulting from decrease in amortization of deferred financing expenses originally recorded in connection with the Wachovia loan agreement whose initial term expired in December 2006 and a reduction in interest expense resulting from the payments and settlements of debt in the first half of 2006 as a result of the liquidity provided by the sale of Oneida offset somewhat by increases of \$351,000 primarily resulting from an increase in interest expense related to the Senior Notes resulting from the accrual of interest on missed interest payments and higher interest expense due to a higher revolver balance in 2007 and increased financing fees.

### Income Taxes

The tax provision in 2007 and 2006 relates solely to the Company's China joint venture. The Company has net operating loss carryforwards for federal tax return reporting purposes totaling \$61.5 million at December 31, 2006, of which \$737,000 will expire by the end of 2007. Management has concluded that it is more likely than not that the Company's loss carryforwards will expire unutilized and has determined to fully reserve for the total amount of net deferred tax assets.

## Edgar Filing: REUNION INDUSTRIES INC - Form 10-Q

Net sales, gross margins and EBITDA percentages for the six months ended 2007 and 2006 are as follows (\$ in thousands):

	Net Sales		Gross Margin	
	2007	2006	2007	2006
Cylinders	8,304	8,979	14.3%	17.9%
Grating	4,293	3,343	27.1%	28.7%
 Totals	 \$ 12,597	 \$ 12,322	 18.7%	 20.8%

Net sales were up \$275,000 in the first half of 2007 compared to the same period in 2006 although cylinder sales were down \$675,000, approximately 7.5%, while grating sales were up \$950,000, approximately 28%. The decrease in cylinder sales reflects the comparative decline that occurred in the first quarter of 2007 resulting from both a general weakness in the hydraulic and double welded cylinder product lines as well as the financial weakness of several customers that caused a hold to be put on shipments to them. Second quarter sales in 2007 were slightly better than comparable cylinder sales in 2006. The increase in grating sales reflects an improving business environment in China somewhat reflecting the Chinese government's five year planning cycle that began last year.

Gross margin as a percentage of sales decreased by 2.1 percentage points in the first half of 2007 compared to the comparable period of 2006 primarily reflecting a lower margin percentage in the cylinders segment. This margin decline primarily reflects margin declines in both the first and second quarter of 2007 compared to 2006. The decline in the first quarter was primarily attributable to manufacturing inefficiencies resulting from the large decrease in volume in the first quarter of 2007 compared to the first quarter of 2006 while product mix negatively impacted margins in the 2007 second quarter compared to the comparable period in 2006. The slight decrease in gross margin percentage in grating sales reflects the effects of price pressures in the China marketplace.

### Selling, General and Administrative

Selling, general and administrative (SGA) expenses for the first half of 2007 were \$2.5 million, down \$208,000 from the expenses for the first half of 2006. This decrease in expense reflects a decrease in SGA expenses in the cylinder segment and at corporate offset somewhat by an increase in marketing expense in the grating business in connection with the increase in sales in that segment. The reductions in SGA expense in the cylinder business and at corporate are partially related to reductions in staff and partially related to other expense reductions. As a percentage of sales, SGA expenses decreased to 19.5% for the first half of 2007 from 21.7% for the first half of 2006. [The Company continues to look for ways to cut costs in all areas.]

### Gain on Debt Extinguishments

There were \$4.9 million of gains on debt extinguishment during the first half of 2006. Of this amount, \$4.0 million related to the settlement of the SFSC debt and \$0.9 million related to the settlement of a \$1.017 million note payable. There were no such settlements in the first six months of 2007.

## Edgar Filing: REUNION INDUSTRIES INC - Form 10-Q

### Other Income

Other income for the first half of 2007 was \$3,000, compared to other expense of \$3,000 for the first half of 2006. There were no significant offsetting items of other income and expense in either period.

### Minority Interests

Minority interests for the first half of 2007 and 2006 were \$212,000 and \$192,000, respectively. These amounts represent the income during the period 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. From a balance sheet perspective, minority interest was reduced by the minority ownership's share of the 2007 dividend that was declared in the first quarter of the year.

### Interest Expense

Interest expense for the first half of 2007 was \$3.7 million compared to \$4.2 million for the first half of 2006. This decrease reflects reductions of \$935,000 primarily resulting from decrease in amortization of deferred financing expenses originally recorded in connection with the Wachovia loan agreement whose initial term expired in December 2006 and a reduction in interest expense resulting from the payments and settlements of debt in the first half of 2006 as a result of the liquidity provided by the sale of Oneida offset somewhat by increases of \$492,000 primarily resulting from an increase in interest expense related to the Senior Notes resulting from the accrual of interest on missed interest payments and higher interest expense due to a higher revolver balance in 2007 and increased financing fees.

### Income Taxes

The tax provision in 2007 and 2006 relates solely to the Company's China joint venture. The Company has net operating loss carryforwards for federal tax return reporting purposes totaling \$61.5 million at December 31, 2006, of which \$737,000 will expire by the end of 2007. Management has concluded that it is more likely than not that the Company's loss carryforwards will expire unutilized and has determined to fully reserve for the total amount of net deferred tax assets.

## 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

#### 13% Senior Notes

The Company's tender offer for its Senior Notes was not accepted by a holder of approximately 72% of the outstanding Senior Notes. As a result, the

## Edgar Filing: REUNION INDUSTRIES INC - Form 10-Q

tender offer was terminated and withdrawn on January 10, 2007. The 13% restructured Senior Notes and accumulated interest, which totaled \$30.8 million at December 31, 2006, became due and payable on January 3, 2007. The Company did not make such payment and thus continued to be in default under

- 21 -

the Indenture under which the Senior Notes were issued. However, under an Intercreditor and Subordination Agreement entered into in December 2003 among Wachovia, the holders of the Senior Notes and certain other lenders, the Senior Note holders cannot commence any action to enforce their liens on any collateral for a 180 day period beginning after the date of receipt by Wachovia, the senior secured lender, of a written notice from the Senior Note holders informing Wachovia of its demand for payment. On February 2, 2007, Wachovia received written notice of such demand for payment. The standstill period thus expired as of August 2, 2007. As of June 30, 2007, the total amount due and payable on the 13% Senior Notes, including accumulated interest, was \$35.0 million.

### Wachovia Loan Agreement

On January 22, 2007, the Company and Wachovia entered into a letter agreement to extend the term of the existing Loan Agreement and all other associated financing agreements from January 22, 2007 until April 23, 2007. On April 23, 2007, the Company and Wachovia entered into a letter agreement to extend the term of the existing Loan Agreement and all other associated financing agreements from April 23, 2007 until June 15, 2007. Since June 15, 2007, various letter agreements extended the Loan Agreement and all associated financing agreements to June 29, 2007, and then to July 30, 2007, and then to August 10, 2007 and the current extension runs to August 20, 2007. Based on discussions with Wachovia, it is the Company's belief that an additional extension will be granted through August 31, 2007.

### Sale of Business

In late January 2007, management decided that it would actively market its pressure vessel business in order to provide liquidity to pay off all, or the majority, of its debt either through a recapitalization of the Company or the sale of this pressure vessel business. From January 2007 through June 2007 the Company solicited bids for this business from more than 20 potential buyers. On August 16, 2007, after failing to arrive at mutually acceptable terms for the sale of this pressure vessel business to a foreign company, the Company entered into a Letter of Intent ("LOI") for the sale of substantially all of the assets and liabilities of this business to a private equity group located in the United States at a price slightly higher than the prior offer from the foreign company. The LOI contemplates that the potential buyer will make a good faith deposit of \$3 million into escrow by August 21, 2007 and that the parties will enter into a definitive asset purchase agreement by August 29, 2007. If the parties do not enter into an agreement by that date, the escrow deposit will be returned to the potential buyer. If the parties do enter into such agreement and the potential buyer fails to close "without cause" (as specified in the LOI), the escrow deposit would be paid over to the Company.

The sale of the pressure vessel business on the terms set forth in the LOI would provide sufficient liquidity to pay off all of the Company's secured debt and accrued interest, which was approximately \$56 million at August 1, 2007. Such a scenario, although producing a virtually debt free entity, would leave the Company with much fewer assets and far less EBITDA in its continuing cylinder and grating businesses.

## Edgar Filing: REUNION INDUSTRIES INC - Form 10-Q

The Company hopes that it will be able to complete this sale of its pressure vessel business before October 15, 2007. If a definitive asset purchase agreement is not entered into and/or the sale is not completed, the Company is aware of several interested other buyers for its pressure vessel business. The Company would attempt promptly to enter into another agreement with one of these potential buyers. Absent that scenario, the Company has no other current plans to meet its debt obligations and failure to accomplish these plans could have an adverse impact on the Company's liquidity, financial position and future operations.

- 22 -

### SUMMARY OF 2006 ACTIVITIES

Cash and cash equivalents from continuing operations totaled \$1.6 million at June 30, 2007, approximately even with the comparable amount at December 31, 2006. This resulted from the \$1.5 million of net cash provided by financing activities being offset by \$1.0 million of net cash used in operating activities, \$0.2 million of cash used in investing activities and a \$0.3 million change in cash from discontinued operations. Cash and cash equivalents at the end of a period represent U.S. lockbox receipts from customers to be applied to our Wachovia revolving credit facility in the following one to two business days as well as foreign cash resident in our Chinese joint venture.

#### Operating Activities

Operating activities used a net \$1.0 million in cash in the first half of 2007 resulting from a growth of \$5.7 million in receivables, inventories and other current assets being offset primarily by an increase in accrued interest and customer deposits.

#### Investing Activities

Investing activities used \$0.2 million in cash in the first half of 2007 as a result of capital expenditures.

#### Financing Activities

Financing activities provided a net \$1.5 million in cash in the first half of 2007 resulting from a net increase of \$1.8 million in borrowings under the Wachovia revolving credit facility offset by a \$0.3 million use of cash in the payment of the Chinese joint venture dividend that went to the minority partner.

### FACTORS THAT COULD AFFECT FUTURE RESULTS

The Majority of Reunion's debt for borrowed money is in default

Since 2001, the Company has not been able to make any of the scheduled interest payments on the Senior Notes and has not been able to make any payments of principal on such currently matured Senior Notes. Additionally, the principal amount of the restructured Senior Notes matured on January 3, 2007 and was not paid. As a result, events of default have occurred under the Indenture ("Indenture Default") under which the Senior Notes were issued. With an Indenture Default, holders of more than 25% of the principal amount of the Senior Notes may, by written notice to the Company and to the Trustee, declare the principal of and accrued but unpaid interest on all the Senior Notes to be

## Edgar Filing: REUNION INDUSTRIES INC - Form 10-Q

immediately due and payable (the "acceleration"). However, under an Intercreditor and Subordination Agreement entered into in December 2003 among Wachovia, the holders of the Senior Notes and certain other lenders, the Senior Note holders can not commence any action to enforce their liens on any collateral for a 180 day period beginning after the date of receipt by Wachovia, the senior secured lender, of a written notice from the Senior Note holders informing Wachovia of such Indenture Default and demanding acceleration or immediate payment. On February 2, 2007, Wachovia received written notice of such demand for payment. The standstill period thus expired as of August 2, 2007. As of June 30, 2007, the total amount due and payable on the 13% Senior Notes, including accumulated interest, was \$35.0 million.

Additionally, a \$3.5 million subordinated promissory note payable to a private capital fund matured on December 5, 2006 and is in default and a secured promissory note payable, in the current amount of \$0.9 million, to

- 23 -

another private capital fund, whose maturity was extended to June 2007, is now currently due and in default. The defaults under the Senior Notes and the notes to the two private capital funds have triggered cross default provisions in the Wachovia Bank loan agreement and therefore the Company's bank debt is also in default.

Although the Company is attempting to sell its pressure vessel business in an effort to pay off its debt obligations and provide liquidity (See above: Recent Developments - Sale of Business), no assurances exist that the Company will be successful in its efforts and failure to accomplish the sale could have an adverse impact on the Company's liquidity, financial position and future operations.

Reunion's vendors may restrict credit terms

We have corrected many vendor-related problems with liquidity generated from the refinancing of debt and from asset sales. However, with all of the Company's debt now in default, key vendors may begin further 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's past performance could impact future prospects

Because of losses suffered by the Company over the past several years, 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 decline in sales, our ability to cover costs would be further reduced, which could negatively impact our financial position and results of operations.

Reunion as 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 June 30, 2007, the Company has a deficiency in working capital of \$39.8 million, a loss from continuing operations for the first six months of 2007 of \$4.1 million and a deficiency in assets of \$23.1 million. Additionally, at June 30, 2007, the Company was in default on substantially all of its debt. These conditions raise substantial doubt about the Company's ability to continue as a going concern. These

## Edgar Filing: REUNION INDUSTRIES INC - Form 10-Q

condensed consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Over the past several years, the Company has taken steps to improve its liquidity and defer the principal maturities of a significant portion of its debt. Although the Company is attempting to sell its pressure vessel business in an effort to pay off its debt obligations and provide liquidity (See above: Recent Developments - Sale of Business), no assurances exist that the Company will be successful in its efforts and failure to accomplish the sale 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.

- 24 -

### Item 4T. Controls and Procedures

Management is responsible for establishing and maintaining adequate internal controls over financial reporting. 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 as defined in Rule 13a-15(f) 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. Management has concluded that no material decline in internal controls has occurred.

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.

This management evaluation report does not include an attestation report of the Company's registered public accounting firm regarding internal control over financial reporting as this report is not subject to attestation by the Company's registered public accounting firm pursuant to temporary rules of the Securities and Exchange Commission.

## PART II. OTHER INFORMATION

### Item 1. Legal Proceedings

The Company is involved in various legal proceedings and environmental matters. There have been no significant changes in such proceedings or

## Edgar Filing: REUNION INDUSTRIES INC - Form 10-Q

matters since the end of the preceding fiscal year.

### Item 1A. Risk Factors

There have been no material changes from the risk factors previously referred to in Item 1A to Part I of the Company's Annual Report on Form 10-K for the year ended December 31, 2006.

### Item 3. Defaults Upon Senior Securities

The information contained in Notes 2 and 4 of Notes to Condensed Consolidated Financial Statements in Item 1 of Part I of this Report concerning defaults under the Company's debt for borrowed money is incorporated by reference into this Item.

- 25 -

### Item 6. Exhibits

#### (c) Exhibits

Exhibit No.	Exhibit Description
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

- 26 -

#### 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.

Edgar Filing: REUNION INDUSTRIES INC - Form 10-Q

Date: August 20, 2007  
-----

REUNION INDUSTRIES, INC.  
(Registrant)

By: /s/ Kimball J. Bradley  
-----

Kimball J. Bradley  
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)

- 27 -

EXHIBIT 31.1

CERTIFICATION

I, Kimball J. Bradley, 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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) 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) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial accounting principles;
  - (c) 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

## Edgar Filing: REUNION INDUSTRIES INC - Form 10-Q

of the period covered by this report based on such evaluation; and  
(d) 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: August 20, 2007

/s/ Kimball J. Bradley

-----  
Chief Executive Officer

- 28 -

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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) 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) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our

Edgar Filing: REUNION INDUSTRIES INC - Form 10-Q

supervision, to provide reasonable assurance regarding the reliability of financial accounting principles:

(c) 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

(d) 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: August 20, 2007

/s/ John M. Froehlich

-----  
Chief Financial Officer

- 29 -

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 June 30, 2007, I, Kimball J. Bradley, 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 June 30, 2007 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 June 30, 2007 fairly presents, in all material respects, the financial condition and results of operations of Reunion Industries, Inc. for the periods presented therein.

Date: August 20, 2007

/s/ Kimball J. Bradley

-----  
Chief Executive Officer

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 June 30, 2007, 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 June 30, 2007 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 June 30, 2007 fairly presents, in all material respects, the financial condition and results of operations of Reunion Industries, Inc. for the periods presented therein.

Date: August 20, 2007

/s/ John M. Froehlich

-----

Chief Financial Officer