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REUNION INDUSTRIES INC
Form 10-Q
August 19, 2002

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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, 2002

OR

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

For the transition period from _____ to _____

Commission File Number 33-64325

REUNION INDUSTRIES, INC.

(Exact name of Registrant as specified in its charter)

DELAWARE

06-1439715

(State of Incorporation)

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

11 STANWIX STREET, SUITE 1400
PITTSBURGH, PENNSYLVANIA 15222

(Address of principal executive offices, including zip code)

(412) 281-2111

(Registrant's telephone number, including area code)

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

At July 31, 2002, 15,590,619 shares of common stock, par value \$.01 per
share, were outstanding.

Page 1 of 39 pages.

Exhibit index is on page 37.

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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 complete the sale of certain assets on acceptable terms, the Company's ability to realize the benefits of its restructuring plan, 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 JUNE 30, 2002 AND DECEMBER 31, 2001
 (in thousands)

	At June 30, 2002 ----- (unaudited)	At December 31, 2001 -----
ASSETS:		
Cash and cash equivalents	\$ 385	\$ 686
Receivables, net	12,963	12,347
Advances to employees	213	213
Inventories, net	7,906	10,814
Other current assets	1,212	1,219
Net assets of discontinued operations, current	6,522	5,162
	-----	-----
Total current assets	29,201	30,441
Property, plant and equipment, net	17,819	19,134
Due from related parties	1,511	1,488
Goodwill, net	11,443	11,443
Assets of discontinued operations, non-current	15,380	18,641
Other assets, net	3,003	3,269
	-----	-----
Total assets	\$ 78,357	\$ 84,416
	=====	=====
LIABILITIES AND STOCKHOLDERS' DEFICIT:		
Debt in default	\$ 59,640	\$ 64,389
Current maturities of debt	87	87
Trade payables	13,707	11,212
Due to related parties	1,839	1,107
Other current liabilities	17,438	13,825
	-----	-----
Total current liabilities	92,711	90,620
Long-term debt	4,770	4,810
Long-term debt - related party	4,615	4,615
Other liabilities	1,889	1,616
	-----	-----
Total liabilities	103,985	101,661
Commitments and contingent liabilities	-	-
Stockholders' deficit	(25,628)	(17,245)
	-----	-----
Total liabilities and stockholders' deficit	\$ 78,357	\$ 84,416
	=====	=====

See accompanying notes to condensed consolidated financial statements.

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REUNION INDUSTRIES, INC.
 CONDENSED CONSOLIDATED STATEMENT OF INCOME (LOSS)
 AND COMPREHENSIVE INCOME (LOSS)
 FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2002 AND 2001
 (in thousands, except per share information) (unaudited)

	Three Months Ended		Six Months Ended	
	June 30, 2002	June 30, 2001	June 30, 2002	June 30, 2001
	-----	-----	-----	-----
Sales	\$ 21,457	\$ 26,318	\$ 36,301	\$ 58,790
Cost of sales	18,107	21,542	32,249	46,614
	-----	-----	-----	-----
Gross profit	3,350	4,776	4,052	12,176
Selling, general & administrative	3,373	3,972	7,042	8,399
Other expense (income), net	(20)	516	(781)	985
	-----	-----	-----	-----
Operating profit (loss)	(3)	288	(2,209)	2,792
Interest expense, net	1,824	1,545	3,902	3,146
	-----	-----	-----	-----
Loss from continuing operations before income taxes	(1,827)	(1,257)	(6,111)	(354)
Provision for (benefit from) income taxes	-	(220)	-	172
	-----	-----	-----	-----
Loss from continuing operations	(1,827)	(1,037)	(6,111)	(526)
Income (loss) from discontinued operations, net of tax of \$-0-	(2,272)	537	(2,272)	787
	-----	-----	-----	-----
Net income (loss) and comprehensive income (loss)	\$ (4,099)	\$ (500)	\$ (8,383)	\$ 261
	=====	=====	=====	=====
Basic and diluted earnings (loss) per common share:				
Continuing operations	\$ (0.12)	\$ (0.07)	\$ (0.39)	\$ (0.03)
Discontinued operations	(0.14)	0.04	(0.14)	0.05
	-----	-----	-----	-----
Loss per common share - basic and diluted	\$ (0.26)	\$ (0.03)	\$ (0.53)	\$ 0.02
	=====	=====	=====	=====
Weighted average shares outstanding - basic	15,691	15,585	15,691	15,585
	=====	=====	=====	=====
Weighted average shares outstanding - diluted	15,691	15,646	15,691	15,661
	=====	=====	=====	=====

See accompanying notes to condensed consolidated financial statements.

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REUNION INDUSTRIES, INC.
 CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
 FOR THE SIX MONTHS ENDED JUNE 30, 2002 AND 2001
 (in thousands)
 (unaudited)

	Six Months Ended	
	June 30, 2002	June 30, 2001
Cash provided by (used in) operating activities	\$ 995	\$ (4,806)
Cash flow from investing activities:		
Proceeds from sale of assets of discontinued bridges and cranes operations	3,058	-
Proceeds from sale of property	375	-
Capital expenditures	(286)	(1,861)
Acquisition of NPSAC common stock	-	(10)
Cash provided by (used in) investing activities	3,147	(1,871)
Cash flow from financing activities:		
Net change in revolving credit facility	(48)	8,499
Repayments of debt	(4,743)	(3,311)
Cash provided by (used in) financing activities	(4,791)	5,188
Net decrease in cash and cash equivalents	(649)	(1,489)
Net change in cash of discontinued operations	348	613
Cash and cash equivalents, beginning of year	686	1,826
Cash and cash equivalents, end of period	\$ 385	\$ 950

See accompanying notes to condensed consolidated financial statements.

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REUNION INDUSTRIES, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2002

NOTE 1: CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles 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 generally accepted accounting principles 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 six month periods ended June 30, 2002 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, 2001.

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. The negative working capital position of \$63.5 million at June 30, 2002, the defaults of the Bank of America (BOA) Financing and Security Agreement and the 13% senior notes, and the lack of borrowing capacity under its revolving credit facility indicate that the Company may not be able to continue as a going concern for a reasonable period of time. These condensed consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Recent Accounting Pronouncements

The Financial Accounting Standards Board issued Statement of Financial Accounting Standards (SFAS) No. 141, "Business Combinations." This statement eliminates the pooling-of-interest method for business combinations and changes the criteria for recognizing intangible assets apart from goodwill. This statement is effective for purchases completed after June 30, 2001. The Company has not engaged in any acquisitions since June 30, 2001. Acquisitions

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prior to June 30, 2001 were recorded as purchases in accordance with Accounting Principles Board Opinion No. 16.

The Financial Accounting Standards Board issued SFAS No. 142, "Goodwill and Other Intangible Assets." This statement eliminates the amortization of goodwill and indefinite lived intangible assets and requires such assets be reviewed for impairment at least annually. This statement is effective for goodwill and intangible assets acquired prior to July 1, 2001 upon adoption, which is required for fiscal years beginning after December 15, 2001.

The Company has recorded goodwill totaling \$11.4 million at both June 30, 2002 and December 31, 2001, of which \$9.5 million relates to our pressure vessel and springs segment and \$1.5 million relates to our cylinders segment. Effective January 1, 2002, we ceased amortizing goodwill. We completed internal impairment tests of goodwill as of January 1, 2002 and intend to engage an external valuation specialist to confirm our conclusions during the third quarter of 2002. From the results of our internal tests, we concluded, based primarily on the historically positive operating results and cash generation of these reporting units, together with our forecast of future reporting unit operating results, that our goodwill is not impaired. Had we stopped amortizing goodwill at the beginning of 2001, the effect on net income (loss) and diluted earnings (loss) per share for the three and six month

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periods ended June 30, 2001 and the year ended December 31, 2001 are as follows (in thousands, except per share information):

	6 Months Ended June 30, 2001		3 Months Ended June 30, 2001		Year Ended December 31, 2001	
	Net Inc.	EPS	Net Loss	LPS	Net Loss	LPS
As reported	\$ 261	\$ 0.02	\$ (500)	\$ (0.03)	\$(38,128)	\$ (2.45)
Add back goodwill amortization	936	0.06	468	0.03	1,903	0.13
As adjusted	\$ 1,197	\$ 0.08	\$ (32)	\$ -	\$(36,225)	\$ (2.32)

In June 2001, the Financial Accounting Standards Board issued SFAS No. 143, "Accounting for Asset Retirement Obligations." This statement requires recognition of a liability for any legal obligations associated with the retirement of a tangible long-lived asset. Any such liability will be recorded at fair value when incurred and generally results in an increase to the carrying amount of the related long-lived asset. This statement will be effective for us for the year ending December 31, 2003. The adoption of this statement will not have a material effect on our results of operations or financial position.

In August 2001, the Financial Accounting Standards Board issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." This statement supersedes SFAS 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of" but retains many of its fundamental provisions. SFAS 144 also supersedes certain provisions of Accounting Principles Board Opinion No. 30, "Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions" but retains its provision to separately report discontinued operations and extends that reporting to a component of an entity, as defined therein, that either has been disposed of or is classified as held for sale, thus broadening the presentation of discontinued operations

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to include more disposal transactions. Effective January 1, 2002, the Company adopted this statement with no effect on financial position or results of operations.

In April 2002, the Financial Accounting Standards Board issued SFAS No. 145, "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections." This statement eliminates the automatic classification of gain or loss on extinguishment of debt as an extraordinary item of income and requires that such gain or loss be evaluated for extraordinary classification under the criteria of Accounting Principles Board No. 30 "Reporting Results of Operations." This statement also requires sales-leaseback accounting for certain lease modifications that have economic effects that are similar to sales-leaseback transactions, and makes various other technical corrections to existing pronouncements. This statement will be effective for us for the year ending December 31, 2003. The adoption of this statement will not have a material effect on our results of operations or financial position.

In June 2002, the Financial Accounting Standards Board issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." This statement addresses accounting for and reporting of costs associated with exit or disposal activities and nullifies EITF Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)." This statement requires that a liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred. Whereas, EITF

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94-3 requires an estimated liability to be recognized for exit or disposal activities at the date an entity commits to an exit plan. This statement will be effective for exit or disposal activities that are initiated after December 31, 2002, with earlier application encouraged. We adopted a restructuring plan in the fourth quarter of 2001 pursuant to the guidance of EITF 94-3. Should we engage in any future exit, disposal or restructuring activities, the guidance set forth in SFAS 146 will be followed.

NOTE 2: RECENT DEVELOPMENTS

Restructuring and Other Actions

In the fourth quarter of 2001, we developed and adopted a plan to restructure our continuing operations. The restructuring charge we recorded in the fourth quarter of 2001 included estimated cash and non-cash components. The cash components were comprised of reserves for lease termination costs and employee separations. The employee separation costs recorded in the restructuring related to the 7 employees of NPSAC, the Company's former pressure vessel operations in Clearfield, Utah. We did not accrue for any additional employee separations related to the restructuring, although such separations totaled approximately 200 employees as of June 30, 2002. The termination costs were recorded upon notification to the employees, which occurred in the same period as the terminations. The following represents a summary of first half 2002 cash activity for the estimated cash components of our fourth quarter 2001 restructuring charge (in thousands).

Description	At 12/31/01	2002 Activity	At 06/30/02
-----	-----	-----	-----
Lease termination costs	\$ 1,172	\$ (166)	\$ 1,006
Employee separations	20	(20)	-
	-----	-----	-----

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Reserve for restructuring	\$ 1,192	\$ (186)	\$ 1,006
	=====	=====	=====

During 2002, the Company has made significant progress towards implementation of this plan.

On June 30, 2002, we sold the inventory and substantially all of the property, plant and equipment of Alliance, our discontinued bridges and cranes operations, for net cash proceeds of \$3.058 million and the assumption by the buyer of certain liabilities. We retained all receivables, trade payables and certain other liabilities of this discontinued operation. The net cash proceeds of \$3.058 million were used to reduce borrowings under our BOA revolving credit facility (\$322,000), term loan A facility (\$1.87 million) and capital expenditure facility (\$866,000).

On April 30, 2002, we entered into a non-binding letter of intent (LOI) for the sale of substantially all of the assets and business of Kingway, our discontinued materials handling systems operations, for a total of \$34.0 million in a combination of cash and subordinated notes. Since then we have had further negotiations with the buyer and have agreed to a purchase price of \$32.0 million, comprised of \$27.5 million in cash and a \$4.5 million subordinated contingent note, the terms of which are being negotiated. The due diligence process by the buyer is substantially complete. We are currently negotiating a definitive asset purchase agreement. The closing of this transaction is subject to certain conditions, including the execution of a definitive asset purchase agreement. There are no assurances that this transaction will close on the terms set forth in the draft asset purchase agreement or at all.

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During the first quarter of 2002, NPSAC, the Company's former pressure vessel operations in Clearfield, Utah, was relocated to and combined with the pressure vessel operations in McKeesport, PA. The cylinder operations in Milwaukee, WI have been relocated to our leased facility in Libertyville, IL. The land and building in Milwaukee, WI is being prepared for sale. We are preparing to move the cylinder operations in Chicago, IL to the Libertyville facility during the third quarter of 2002. We closed the Plastics' corporate headquarters in Charlotte, NC and all administrative and managerial positions were eliminated. Plastics' corporate responsibilities have been returned to our manufacturing and administrative operations in Oneida, NY.

We reevaluated the shut-down of our Plastics operation in Siler City, NC and have determined to maintain our presence in the southern U.S. and service the customers of the Siler City, NC location. This reevaluation does not change our intent to dispose of the land, building and a large portion of the existing machinery and equipment or the fourth quarter restructuring charge related thereto as the leased and owned machinery and equipment related to the charge remains out of service.

13% Senior Notes and Semi-Annual Interest Payments

We have a total of \$24.855 million of 13% senior notes outstanding, of which a sinking fund payment of \$12.5 million was due on May 1, 2002 and the remainder is due on May 1, 2003. The senior notes require semi-annual interest payments every November 1st and May 1st. We were unable to make the semi-annual interest payments of \$1.616 million on each of November 1, 2001 and May 1, 2002. We were also unable to make the \$12.5 million sinking fund payment due May 1, 2002. This inability to fund our obligations under the 13% senior notes is due to a lack of liquidity and availability under our

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revolving credit facility with BOA.

An event of default as defined in the indenture governing the senior notes has existed since December 1, 2001 as we were not able to make the November 1, 2001 semi-annual interest payment within the 30-day cure period provided for in the indenture. Although they have not moved to do so while we execute our plan to restructure and generate liquidity through asset sales, the senior note holders have the right to accelerate all amounts outstanding, including accrued and unpaid interest of \$4.25 million, totaling \$29.1 million at July 31, 2002. Interest continues to accrue at approximately \$0.3 million per month, including compounded interest at 13% per annum on the unpaid semi-annual interest payments.

Bank of America Revolving and Term Loan Credit Facilities

We have a total of \$34.8 million of senior secured revolving and term loan credit facilities outstanding at June 30, 2002 with BOA. We have been in default under these facilities since September 30, 2001 due to our inability to achieve our financial ratio covenants contained in the financing and security agreement with BOA. During the third quarter of 2001 we were also unable to maintain the \$1.5 million minimum availability under the revolving credit facility as required by a December 2000 amendment.

In November 2001, BOA informed us that a borrowing base deficiency existed. Since that time, the Company and BOA have entered into six side letter agreements wherein BOA and the other lenders that participated in the BOA refinancing of the Company in March 2000 agreed to provide monthly advances in excess of our calculated borrowing base for working capital needs while we execute our plan to restructure and generate liquidity by selling assets. The sixth side letter agreement, dated April 1, 2002, provides overadvance approval on a day-to-day basis whereby the overadvance may not exceed \$3.5 million. As of August 19, 2002, we have not exceeded the \$3.5 million overadvance availability. However, nothing in these six side letter agreements waives or otherwise alters BOA's already existing remedies under

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the BOA financing and security agreement including acceleration of all amounts outstanding under the BOA financing and security agreement.

In consideration of providing its approval of overadvance availability, we had been paying to BOA through direct charges to our revolving credit facility a weekly fee of \$25,000 or \$50,000, depending on the amount of the overadvance. Since entering into the side letter agreements beginning in November 2001, the Company has paid BOA a total of \$800,000 in such fees. In the last week of April 2002, BOA agreed to not directly charge our revolving credit facility for these overadvance fees but, instead, permit us to accrue such fees to be paid upon the sale of our discontinued materials handling systems operations. As of June 30, 2002, we had accrued \$500,000 of such fees, which continue to accrue at either \$25,000 or \$50,000 per week, depending on the amount of the overadvance.

NOTE 3: DEBT IN DEFAULT AND LONG-TERM DEBT

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

	At June 30, 2002	At December 31, 2001
	-----	-----
	(unaudited)	
13% senior notes (net of unamortized		

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discount of \$0 and \$2)	\$ 24,855	\$ 24,853
BOA revolving credit facility	22,427	22,475
BOA term loan A due March 16, 2007	12,358	16,071
BOA capital expenditure facility	-	990
	-----	-----
Total debt in default	\$ 59,640	\$ 64,389
	=====	=====

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

	At June 30, 2002	At December 31, 2001
	-----	-----
	(unaudited)	
Note payable due February 28, 2003	\$ 3,644	\$ 3,644
Other	1,213	1,253
Other - related parties	4,615	4,615
	-----	-----
Total long-term debt	9,472	9,512
Current maturities	(87)	(87)
	-----	-----
Total long-term debt, less current maturities	\$ 9,385	\$ 9,425
	=====	=====

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NOTE 4: INVENTORIES

Inventories are comprised of the following (in thousands):

	At June 30, 2002	At December 31, 2001
	-----	-----
	(unaudited)	
Raw material	\$ 3,001	\$ 5,012
Work-in-process	2,198	2,329
Finished goods	2,576	3,342
	-----	-----
Gross inventories	7,775	10,683
Plus: LIFO adjustment	131	131
	-----	-----
Inventories	\$ 7,906	\$ 10,814
	=====	=====

NOTE 5: STOCKHOLDERS' DEFICIT AND EARNINGS PER SHARE

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The following represents a reconciliation of the change in stockholders' deficit for the six month period ended June 30, 2002 (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, 2002	\$156	\$25,064	\$(41,329)	\$ (1,136)	\$(17,245)
Activity (unaudited):					
Net loss	-	-	(8,383)	-	(8,383)
	----	-----	-----	-----	-----
At June 30, 2002	\$156	\$25,064	\$(49,712)	\$ (1,136)	\$(25,628)
	=====	=====	=====	=====	=====

The computations of basic and diluted earnings (loss) per common share [E(L)PS] for the three and six month periods ended June 30, 2002 and 2001 are as follows (in thousands, except per share amounts) (unaudited):

	Net Income (Loss)	Shares	E (L) PS
	-----	-----	-----
Three months ended June 30, 2002:			
Loss applicable to common stockholders, weighted average shares outstanding and basic and diluted LPS	\$ (4,099)	15,691	(0.26)
	=====	=====	=====
Three months ended June 30, 2001:			
Loss applicable to common stockholders, weighted average shares outstanding and basic LPS	\$ (500)	15,585	\$ (0.03)
			=====
Dilutive effect of stock options		61	
	-----	-----	
Loss applicable to common stockholders, shares outstanding and diluted LPS	\$ (500)	15,646	\$ (0.03)
	=====	=====	=====

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Six months ended June 30, 2002:			
Loss applicable to common stockholders, weighted average shares outstanding and basic and diluted LPS	\$ (8,383)	15,691	(0.53)
	=====	=====	=====
Six months ended June 30, 2001:			
Income applicable to common stockholders, weighted average shares outstanding and basic EPS	\$ 261	15,585	\$ 0.02
			=====
Dilutive effect of stock options		76	
	-----	-----	
Income applicable to common stockholders, shares outstanding and diluted EPS	\$ 261	15,661	\$ 0.02
	=====	=====	=====

At June 30, 2002, the Company's stock options outstanding totaled

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1,089,000, none of which were at exercise prices below the average market price of the underlying security during the first half 2002. Therefore, basic and diluted LPS are equal.

NOTE 6: COMMITMENTS AND CONTINGENT LIABILITIES

Legal Proceedings

The Company and its subsidiaries are defendants in a number of lawsuits and administrative proceedings, which have arisen in the ordinary course of business of the Company and its subsidiaries. The Company believes that any material liability which can result from any of such lawsuits or proceedings has been properly reserved for in the Company's consolidated financial statements or is covered by indemnification in favor of the Company or its subsidiaries, and therefore the outcome of these lawsuits or proceedings will not have a material adverse effect on the Company's consolidated financial position, results of operations or cash flows.

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

In December 1999, a stockholder of Reunion filed a purported class-action lawsuit in Delaware Chancery Court alleging, among other things, that Reunion's public stockholders would be unfairly diluted in the merger with Chatwins Group. The lawsuit sought to prevent completion of the merger and, the merger having been completed, seeks rescission of the merger or awarding of damages. In August 2002, the plaintiff stockholders filed a first request for the production of documents in Delaware Chancery Court. Reunion is in the initial stages of reviewing the document production request and intends to vigorously contest the suit.

The Company has been named as a defendant in fifteen consolidated lawsuits filed in December 2000 or early 2001 in the Superior Court for Los Angeles County, California, three of which are purported class actions

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asserted on behalf of approximately 200 payees. The plaintiffs in these suits, except one, are structured settlement payees to whom Stanwich Financial Services Corp. (SFSC) is indebted. The Company and SFSC are related parties.

In addition to the Company, there are numerous defendants in these suits, including SFSC, Mr. Charles E. Bradley, Sr., Chairman of the Board, Chief Executive Officer and a director of the Company (Mr. Bradley), the sole shareholder of SFSC's parent, several major financial institutions and certain others. All of these suits arise out of the inability of SFSC to make structured settlement payments when due. Pursuant to the court's order, plaintiffs in the purported class actions and plaintiffs in the individual cases filed a model complaint. Except for the class allegations, the two model complaints are identical. The plaintiffs seek compensatory and

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punitive damages, restoration of certain alleged trust assets, restitution and attorneys' fees and costs.

The plaintiffs in one of the suits are former owners of a predecessor of SFSC and current operators of a competing structured settlement business. These plaintiffs claim that their business and reputations have been damaged by SFSC's structured settlement defaults, seek damages for unfair competition and purport to sue on behalf of the payees.

The plaintiffs allege that the Company borrowed funds from SFSC and has not repaid these loans. The plaintiffs' theories of liability against the Company are that it is the alter ego of SFSC and Mr. Bradley and that the Company received fraudulent transfers of SFSC's assets. The plaintiffs also assert direct claims against the Company for inducing breach of contract and aiding and abetting an alleged breach of fiduciary duty by SFSC.

On June 25, 2001, SFSC filed a Chapter 11 Bankruptcy Petition in the U.S. Bankruptcy Court for the District of Connecticut. SFSC filed an adversary proceeding in the bankruptcy case against the plaintiffs seeking a declaration that the structured settlement trust assets are the property of the bankruptcy estate. On July 16, 2001, the bankruptcy court granted a temporary restraining order enjoining the plaintiffs from prosecuting their claims against the Company, SFSC, Mr. Bradley and others. As a result of this restraining order of the bankruptcy court, the Company entered a standstill agreement with the plaintiffs on August 22, 2001. Pursuant to the standstill agreement, and the stipulation of the parties to the SFSC bankruptcy case, the plaintiffs agreed to take no further action to prosecute any claim in the litigation against the Company, Mr. Bradley and others to recover any structured settlement trust assets or any derivative claims or claims based on allegations of alter ego, fraudulent transfer or conversion. The plaintiffs did not agree to waive or release their direct personal claims against the Company for damages, but the plaintiffs agreed to cease and desist the prosecution of those claims until no earlier than sixty days following service of written notice to the Company stating that they have elected to unilaterally terminate the standstill.

Plaintiffs filed second amended model complaints in the class actions and individual cases on August 24, 2001. Both model complaints allege causes of action against the Company for interference with contract and aiding and abetting breach of fiduciary duty. However, pursuant to the standstill agreement, the plaintiffs are taking no action to prosecute these claims against the Company at this time.

Certain of the financial institution defendants have asserted cross-complaints against the Company for implied and express indemnity and contribution and negligence. The Company denies the allegations of the plaintiffs and the cross-complainant financial institutions and intends to vigorously defend against these actions and cross-actions.

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The Company has been named in approximately 350 separate asbestos suits filed since January 1, 2001 by three plaintiffs' law firms in Wayne County, Michigan. The claims allege that cranes from the Company's crane manufacturing location in Alliance, OH were present in various parts of McLouth and Great Lakes Steel Mills in Wayne County, Michigan and that those cranes contained asbestos to which plaintiffs were exposed over a 40 year span. Counsel for the Company has filed an answer to each complaint denying liability by the Company and asserting all alternative defenses permitted under the Court's Case Management Order. Counsel for the Company has

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negotiated dismissal of 95 cases without any cost to the Company. The Company denies that it manufactured any products containing asbestos or otherwise knew or should have known that any component part manufacturers provided products containing asbestos. The Company intends to vigorously defend against these lawsuits.

Since July 10, 2001, various lawsuits, some involving multiple plaintiffs, alleging personal injury/wrongful death from asbestos exposure have been filed in multiple states, including California, Oregon and Mississippi, against a large number of defendants, including Oneida Rostone Corporation (ORC), pre-merger Reunion's Plastics subsidiary and the Company's Plastics segment. In October 2001, Allen-Bradley Company, a former owner of the Rostone business of ORC, accepted Reunion Industries' tender of its defense and indemnification in the first such lawsuit filed pursuant to a contractual obligation to do so. Subsequent to the acceptance of the tender of defense and indemnification in the first lawsuit, Allen-Bradley Company has accepted the Company's tender of defense and indemnification in a total of 73 separate actions, all of which are being defended by Allen-Bradley Company.

Environmental Compliance

Various U.S. federal, state and local laws and regulations including, without limitation, laws and regulations concerning the containment and disposal of hazardous waste, oil field waste and other waste materials, the use of storage tanks, the use of insecticides and fungicides and the use of underground injection wells directly or indirectly affect the Company's operations. In addition, environmental laws and regulations typically impose "strict liability" upon the Company for certain environmental damages. Accordingly, in some situations, the Company could be liable for clean up costs even if the situation resulted from previous conduct of the Company that was lawful at the time or from improper conduct of, or conditions caused by, previous property owners, lessees or other persons not associated with the Company or events outside the control of the Company. Such clean up costs or costs associated with changes in environmental laws and regulations could be substantial and could have a materially adverse effect on the Company's consolidated financial position, results of operations or cash flows.

Except as described in the following paragraphs, the Company believes it is currently in material compliance with existing environmental protection laws and regulations and is not involved in any significant remediation activities or administrative or judicial proceedings arising under federal, state or local environmental protection laws and regulations. In addition to management personnel who are responsible for monitoring environmental compliance and arranging for remedial actions that may be required, the Company has also employed outside consultants from time to time to advise and assist the Company's environmental compliance efforts. Except as described in the following paragraphs, the Company has not recorded any accruals for environmental costs.

In February 1996, Reunion was informed by a contracted environmental services consulting firm that soil and ground water contamination exists at its Lafayette, Indiana site. Since then, the Company has expended \$376,000 of remediation costs and accrued an additional \$20,000.

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In connection with the sale of its former oil and gas operations, pre-merger Reunion retained certain oil and gas properties in Louisiana because of litigation concerning environmental matters. The Company is in the process of environmental remediation under a plan approved by the Louisiana Department of Natural Resources Office of Conservation (LDNROC). The Company has recorded

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an accrual for its proportionate share of the remaining estimated costs to remediate the site based on plans and estimates developed by the environmental consultants hired by the Company. During 1999, the Company conducted remediation work on the property. The Company paid \$172,000 of the total cost of \$300,000. Regulatory hearings were held in January 2000 and 2001 to consider the adequacy of the remediation conducted to date. In August 2001, LDNROC issued its order for the Company to complete the soil remediation under the plan approved in 1999 and to perform additional testing to determine to what extent groundwater contamination might exist. The Company's environmental consultant is in the process of updating the estimate of the costs to comply with this order, but the Company does not believe that the cost of future remediation will exceed the amount accrued. No remediation was performed in 2000 or 2001 pending the decision. However, the Company has paid \$247,000 for its share of consulting services in connection with the hearings. At June 30, 2002, the balance accrued for these remediation costs is approximately \$1,061,000. Owners of a portion of the property have objected to the Company's cleanup methodology and have filed suit to require additional procedures. The Company is contesting this litigation, and believes its proposed methodology is well within accepted industry practice for remediation efforts of a similar nature. No accrual has been made for costs of any alternative cleanup methodology which might be imposed as a result of the litigation.

On March 15, 2002, the Company received a Request for Information from the United States Environmental Protection Agency (USEPA) regarding the Gambonini Mine Site outside Petaluma, Marin County, California. The Company gathered and forwarded to the USEPA the information it requested. On May 16, 2002, the Company, as the successor to Buttes Gas & Oil Company (BGO), received from the USEPA a notice of potential liability and demand for payment of \$3,909,614.37 for reimbursement of costs related to its removal and disposal efforts initiated in 1998 pursuant to the Comprehensive Environmental Response, Compensation and Liability Act (CERCLA).

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

In 1985, BGO, headquartered in Houston, Texas, filed Chapter 11 proceedings in bankruptcy court in the Southern District of Texas in Houston. In December 1988, BGO confirmed its plan of reorganization which provided for, among other things, a discharge of all claims that arose prior to the date of confirmation of the plan. The reorganization plan became effective in February 1989.

In response to the USEPA's demand, the Company has filed an adversary proceeding in bankruptcy court in the Southern District of Texas in Houston seeking an order to enjoin the efforts of the USEPA to pursue collection of any claims related to the site. The USEPA has responded by filing a motion to dismiss based on several jurisdictional and substantive grounds. The matter

is set for a status conference on August 27, 2002, at which time the Company's

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counsel anticipates the court will set a hearing date on the USEPA's motion to dismiss.

The Company intends to prosecute the pending litigation vigorously. The Company has made no accrual of any amount related to this matter as, at this time, the probability of an adverse outcome to the Company is reasonably possible, but not probable.

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 June 30, 2002:				

Metals:				
Pressure vessels and springs	\$ 8,119	\$ 1,230	\$ 5	\$ 14,458
Cylinders	4,677	(84)	-	9,720
	-----	-----	-----	-----
Subtotal Metals	12,796	1,146	5	24,178
Plastics	8,661	540	-	17,843
Corporate and other	-	(927)	-	14,434
Discontinued operations	-	-	21	21,902
	-----	-----	-----	-----
Totals	\$ 21,457	759	\$ 26	\$ 78,357
	=====		=====	=====
Depreciation and amortization(3)		(762)		
Interest expense		(1,824)		

Loss from continuing operations before income taxes		\$ (1,827)		
		=====		
Three months ended June 30, 2001 and at December 31, 2001:				

Metals:				
Pressure vessels and springs	\$ 10,191	\$ 2,108	\$ 73	\$ 17,936
Cylinders	5,377	(13)	17	9,662
	-----	-----	-----	-----
Subtotal Metals	15,568	2,095	90	27,598
Plastics	10,750	534	541	18,443
Corporate and other	-	(1,001)	6	14,572
Discontinued operations	-	-	425	23,803
	-----	-----	-----	-----
Totals	\$ 26,318	1,628	\$ 1,062	\$ 84,416
	=====		=====	=====
Depreciation and amortization(3)		(1,340)		
Interest expense		(1,545)		

Loss from continuing operations before income taxes		\$ (1,257)		
		=====		

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	Net Sales	EBITDA(1)	Capital Spending
	-----	-----	-----
Six months ended June 30, 2002:			

Metals:			
Pressure vessels and springs	\$ 10,600	\$ 359	\$ 46
Cylinders	9,118	(171)	25
	-----	-----	-----
Subtotal Metals	19,718	188	71
Plastics	16,583	712	113
Corporate and other	-	(1,637)	-
Discontinued operations	-	-	102
	-----	-----	-----
Totals	\$ 36,301	(737)	\$ 286
	=====	=====	=====
Depreciation and amortization(3)		(1,472)	
Interest expense		(3,902)	

Loss from continuing operations before income taxes		\$ (6,111)	
		=====	
Six months ended June 30, 2001:			

Metals:			
Pressure vessels and springs	\$ 24,275	\$ 5,707	\$ 133
Cylinders	11,530	489	37
	-----	-----	-----
Subtotal Metals	35,805	6,196	170
Plastics	22,985	1,320	678
Corporate and other	-	(1,967)	7
Discontinued operations	-	-	1,006
	-----	-----	-----
Totals	\$ 58,790	5,549	\$ 1,861
	=====	=====	=====
Depreciation and amortization(3)		(2,757)	
Interest expense		(3,146)	

Loss from continuing operations before income taxes		\$ (354)	
		=====	

- (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) Headquarters total assets at June 30, 2002 and December 31, 2001 includes goodwill related to its pressure vessel and springs segment totaling \$9.5 million).
- (3) Excludes amortization of debt issuance expenses and fees of \$192,000 and \$174,000 for the three month periods ended June 30, 2002 and 2001, respectively, and \$324,000 and \$348,000 for the six month period ended June 30, 2002 and 2001, respectively, which are included in interest

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expense.

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NOTE 8: DISCONTINUED OPERATIONS

At June 30, 2002 and December 31, 2001, the assets and liabilities of discontinued operations are comprised of the assets and liabilities of the discontinued bridges and cranes and material handling systems businesses and the remaining reserve for expenses of the discontinued grating business. The assets and liabilities of discontinued operations have been separately classified on the balance sheet as follows (in thousands):

	At June 30, 2002	At December 31, 2001
	----- (unaudited)	-----
ASSETS:		
Cash and cash equivalents	\$ 158	\$ 506
Receivables, net	12,510	14,463
Inventories, net	2,002	2,093
Other current assets	260	249
	-----	-----
Total current assets	14,930	17,311
	-----	-----
LIABILITIES AND EQUITY:		
Trade payables	6,012	7,182
Other current liabilities	1,213	2,014
Reserve for operating loss during phase-out	1,068	2,628
Reserve for estimated expenses	115	325
	-----	-----
Total liabilities	8,408	12,149
	-----	-----
Net assets of discontinued operations, current	\$ 6,522	\$ 5,162
	=====	=====
ASSETS, NON-CURRENT:		
Property, plant and equipment, net	\$ 3,584	\$ 6,985
Goodwill, net	11,628	11,628
Other assets, net	168	28
	-----	-----
Assets of discontinued operations, non-current	\$ 15,380	\$ 18,641
	=====	=====

Summarized results of discontinued operations for the three and six month periods ended June 30, 2002 and 2001 follow (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2002	2001	2002	2001
	-----	-----	-----	-----
Net sales	\$ 12,934	\$ 17,399	\$ 26,182	\$ 34,550
Income (loss) before taxes	(2,272)	537	(2,272)	787

The above results of discontinued operations include actual and allocated interest expense for the three month periods ended June 30, 2002 and 2001 totaling \$1,193,000 and \$798,000, respectively, and for the six month periods ended June 30, 2002 and 2001 totaling \$1,820,000 and \$1,606,000, respectively.

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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, 2001.

We adopted a plan to restructure continuing operations and dispose of or shut-down other businesses. Such businesses are being reported as discontinued operations. Prior year information has been restated for comparative purposes and the following discussion of results of operations is separated into continuing and discontinued operations.

GENERAL

The Company owns and operates a diverse group of 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, leaf springs and precision plastic components. Until December 2001, the Company's products also included heavy-duty cranes, bridge structures and materials handling systems. The Company classified its heavy-duty cranes, bridge structures and materials handling systems businesses as discontinued operations.

RECENT DEVELOPMENTS

Restructuring and Other Actions

In the fourth quarter of 2001, we developed and adopted a plan to restructure our continuing operations. During 2002, the Company has made significant progress towards implementation of this plan.

On June 30, 2002, we sold the inventory and substantially all of the property, plant and equipment of Alliance, our discontinued bridges and cranes operations, for net cash proceeds of \$3.058 million and the assumption by the buyer of certain liabilities. We retained all receivables, trade payables and certain other liabilities of this discontinued operation. The net cash proceeds of \$3.058 million were used to reduce borrowings under our BOA revolving credit facility (\$322,000), term loan A facility (\$1.87 million) and capital expenditure facility (\$866,000).

On April 30, 2002, we entered into a non-binding letter of intent (LOI) for the sale of substantially all of the assets and business of Kingway, our discontinued materials handling systems operations, for a total of \$34.0

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million in a combination of cash and subordinated notes. Since then we have had further negotiations with the buyer and have agreed to a purchase price of \$32.0 million, comprised of \$27.5 million in cash and a \$4.5 million subordinated contingent note, the terms of which are being negotiated. The due diligence process by the buyer is substantially complete. We are currently negotiating a definitive asset purchase agreement. The closing of this transaction is subject to certain conditions, including the execution of a definitive asset purchase agreement. There are no assurances that this transaction will close on the terms set forth in the draft asset purchase agreement or at all.

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During the first quarter of 2002, NPSAC, the Company's former pressure vessel operations in Clearfield, Utah, was relocated to and combined with the pressure vessel operations in McKeesport, PA. The cylinder operations in Milwaukee, WI have been relocated to our leased facility in Libertyville, IL. The land and building in Milwaukee, WI is being prepared for sale. We are preparing to move the cylinder operations in Chicago, IL to the Libertyville facility during the third quarter of 2002. We closed the Plastics' corporate headquarters in Charlotte, NC and all administrative and managerial positions were eliminated. Plastics' corporate responsibilities have been returned to our manufacturing and administrative operations in Oneida, NY.

We reevaluated the shut-down of our Plastics operation in Siler City, NC and have determined to maintain our presence in the southern U.S. and service the customers of the Siler City, NC location. This reevaluation does not change our intent to dispose of the land, building and a large portion of the existing machinery and equipment or the fourth quarter restructuring charge related thereto as the leased and owned machinery and equipment related to the charge remains out of service.

13% Senior Notes and Semi-Annual Interest Payments

We have a total of \$24.855 million of 13% senior notes outstanding, of which a sinking fund payment of \$12.5 million was due on May 1, 2002 and the remainder is due on May 1, 2003. The senior notes require semi-annual interest payments every November 1st and May 1st. We were unable to make the semi-annual interest payments of \$1.616 million on each of November 1, 2001 and May 1, 2002. We were also unable to make the \$12.5 million sinking fund payment due May 1, 2002. This inability to fund our obligations under the 13% senior notes is due to a lack of liquidity and availability under our revolving credit facility with Bank of America (BOA).

RESULTS OF OPERATIONS

Three Months Ended June 30, 2002 Compared to
Three Months Ended June 30, 2001

Continuing Operations

Sales, gross margins and EBITDA percentages for the three months ended June 30, 2002 and 2001 are as follows:

Net Sales		Gross Margin		EBITDA	
2002	2001	2002	2001	2002	2001

Pressure vessels

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and springs	\$ 8,119	\$ 10,191	21.3%	26.9%	15.1%	20.1%
Cylinders	4,677	5,377	10.0%	11.4%	0.2%	-
Plastics	8,661	10,750	13.3%	13.3%	6.2%	5.0%
	-----	-----	-----	-----	-----	-----
Totals	\$ 21,457	\$ 26,318	15.6%	18.1%	7.9%	10.0%
	=====	=====	=====	=====	=====	=====

Pressure vessels and springs sales rebounded to nearly normal levels in the second quarter of 2002, although still lower when compared to the same period in 2001. This decrease compared to the second quarter of 2001 is due primarily to a continuation into the second quarter of 2002 from the 2002 first quarter of a scaled-back production schedule to reduce spending due to our liquidity problems and to lessen the strain on this segment's raw material vendors. [We anticipate correcting vendor-related issues in the near-term with cash proceeds from asset sales].

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Sales of cylinders continues to be affected by a softness in this market, [a trend which the Company believes will bottom-out but possibly not reverse during 2002.]

The decrease in Plastics revenues is the continuation of a downward trend which began in 1999 and resulted from several factors, including certain customers relocating manufacturing operations to Mexico and Asia, reduced customer orders for continuing programs, end of product cycles and delays in new program starts, which affected all Plastics facilities. Plastics also lost a top ten customer in the second half of 2001 to competitive bidding on the internet. [Management is seeking to expand Plastics' product offerings in the business machines, consumer products and medical products industries to mitigate this trend. However, if not successful, this trend in Plastics revenue could continue during the remainder of 2002.]

The decreases in gross margins across all segments is related to volume declines resulting in a decrease in production activity and our ability to absorb costs. We are responding to these conditions by making progress on our plan to restructure, including combining certain operations and eliminating various administrative and management positions. [However, the benefits of these actions may not materialize immediately.]

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. EBITDA and EBITDA as a percentage of sales decreased during the 2002 second quarter compared to the same period in 2001 primarily due to the same factors affecting gross profit margin discussed above. Total EBITDA as a percentage of sales in the second quarters of 2002 and 2001 exclude corporate and other EBITDA in each period.

Selling, General and Administrative

Selling, general and administrative (SGA) expenses for the second quarter of 2002 were \$3.4 million, compared to \$4.0 million for the second quarter of 2001. This decrease in SGA is directly related to the decreasing trend in sales, resulting in lower commissions expense, cost cutting measures taken during June 2001 and progress made on the restructuring, both of which included personnel reductions in sales and administration. [Management estimates the savings from these reductions to be approximately \$1.8 million

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annually.] However, the benefits of these cost cutting measures are being offset by the continuation of the negative trend in sales and the resulting effect on the Company's ability to absorb costs. SGA expenses as a percentage of sales increased to 15.7% for the 2002 second quarter compared to 15.1% in the 2001 second quarter. SGA as a percentage of sales was higher in the 2002 second quarter compared to the second quarter of 2001 due to the faster rate at which volume has decreased compared to decreases in relatively fixed administrative costs.

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Other (Income) Expense

Other income for the second quarter of 2002 was \$20,000, compared to other expense of \$0.5 million for the second quarter of 2001. The components are as follows:

	2002	2001	Change
	-----	-----	-----
Amortization of goodwill and other intangibles	\$ 3	\$ 515	\$ (512)
Other (income) expense, net	(23)	1	(24)
	-----	-----	-----
Total other (income) expense, net	\$ (20)	\$ 516	\$ (536)
	=====	=====	=====

We stopped amortizing goodwill effective January 1, 2002. There were no significant offsetting items netted into other (income) expense, net, in either period.

Interest Expense

Interest expense, net, for the second quarter of 2002 was \$1.8 million compared to \$1.5 million for the second quarter of 2001. For the second quarters of 2002 and 2001, a total of \$1.2 million and \$0.8 million, respectively, of interest expense has been allocated to or actually incurred in discontinued operations. On a combined basis interest expense was \$3.0 million in the second quarter of 2002 compared to \$2.3 million in the second quarter of 2001. Although debt and prime lending rates have decreased from end of second quarter 2001 levels to end of second quarter 2002 levels, the resulting decrease was more than offset by the increased default rate being paid on the BOA revolving credit and term loan facilities and \$500,000 in overadvance fees accrued in the second quarter of 2002. [Interest expense for 2002 may decrease compared to 2001 depending on the amount of proceeds and timing of asset dispositions in 2002 as part of the restructuring plan.]

Income Taxes

There was no tax provision from continuing operations in the second quarter of 2002 compared to a benefit of \$0.2 million for the second quarter of 2001. The Company has net operating loss carryforwards for Federal tax return reporting purposes totaling \$124.1 million at December 31, 2001, \$79.2

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million of which expire by 2004. [The Company may be able to utilize its loss carryforwards against possible increased profitability as the result of the Company's corporate-wide restructuring plan. However, until the amount of proceeds from and timing of asset dispositions as part of such plan are known], management has determined to fully reserve for the total amount of net deferred tax assets as of December 31, 2001 [and to continue to do so during 2002 until assets are disposed]. The tax benefit from continuing operations and resulting effective rate of 17.5% in the second quarter of 2001 was based on the loss from continuing operations before tax adjusted for permanent differences.

Discontinued Operations

There was a loss from discontinued operations for the second quarter of 2002 of \$2.3 million compared to income from discontinued operations of \$0.5 million in the second quarter of 2001. The loss from discontinued operations of \$2.3 million in the second quarter of 2002 relates to adjustments of the carrying values to net realizable value, primarily machinery and equipment and receivables, of assets retained from the sale of the discontinued bridges and cranes operations. For the second quarters of 2002 and 2001, discontinued operations includes a total of \$1.2 million and \$0.8 million, respectively, of interest expense.

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Six Months Ended June 30, 2002 Compared to
Six Months Ended June 30, 2001

Continuing Operations

Sales, gross margins and EBITDA percentages for the six months ended June 30, 2002 and 2001 are as follows:

	Net Sales		Gross Margin		EBITDA	
	2002	2001	2002	2001	2002	2001
Pressure vessels and springs	\$ 10,600	\$ 24,275	12.5%	28.7%	3.4%	23.5%
Cylinders	9,118	11,530	9.1%	15.4%	(1.9%)	4.2%
Plastics	16,583	22,985	11.5%	14.9%	4.3%	5.7%
Totals	\$ 36,301	\$ 58,790	11.2%	20.7%	2.5%	12.8%
	=====	=====	=====	=====	=====	=====

Pressure vessels and springs sales, although rebounding to nearly normal levels in the second quarter of 2002, are down significantly in the first half of 2002 compared to the same period in 2001. This decrease is due primarily to management's decision to shut-down our pressure vessels facility during the first quarter of 2002. We made this decision to reduce spending due to our liquidity problems and to lessen the strain on this segment's raw material vendors. The decrease was also caused by the fact that the first quarter of 2001 included the recognition of \$2.8 million of revenues on a large NASA contract manufactured in 2000 but shipped in the first quarter of 2001. [We anticipate correcting vendor-related issues in the near-term with cash proceeds from asset sales].

Sales of cylinders in the first half of 2002 was affected by the temporary disruption caused by the relocation of our former Milwaukee, WI cylinder operations to Libertyville, IL and continues to be affected by a

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softness in this market, [a trend which the Company believes will bottom-out but possibly not reverse during 2002.]

The decrease in Plastics revenues is the continuation of a downward trend which began in 1999 and resulted from several factors, including certain customers relocating manufacturing operations to Mexico and Asia, reduced customer orders for continuing programs, end of product cycles and delays in new program starts, which affected all Plastics facilities. Plastics also lost a top ten customer in the second half of 2001 to competitive bidding on the internet. [Management is seeking to expand Plastics' product offerings in the business machines, consumer products and medical products industries to mitigate this trend. However, if not successful, this trend in Plastics revenue could continue during the remainder of 2002.]

The decreases in gross margins across all segments is related to volume declines resulting in a decrease in production activity and our ability to absorb costs. We are responding to these conditions by making progress on our plan to restructure, including combining certain operations and eliminating various administrative and management positions. [However, the benefits of these actions may not materialize immediately.]

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. EBITDA and EBITDA as a percentage of sales

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decreased during the 2002 first half compared to the same period in 2001 primarily due to the same factors affecting gross profit margin discussed above. Total EBITDA as a percentage of sales in the first halves of 2002 and 2001 exclude corporate and other EBITDA in each period.

Selling, General and Administrative

Selling, general and administrative (SGA) expenses for the first half of 2002 were \$7.0 million, compared to \$8.4 million for the first half of 2001. This decrease in SGA is directly related to the decreasing trend in sales, resulting in lower commissions expense, cost cutting measures taken during June 2001 and progress made on the restructuring, both of which included personnel reductions in sales and administration. [Management estimates the savings from these reductions to be approximately \$1.8 million annually.] However, the benefits of these cost cutting measures are being offset by the continuation of the negative trend in sales and the resulting effect on the Company's ability to absorb costs. SGA expenses as a percentage of sales increased to 19.4% for the 2002 first half compared to 14.3% in the 2001 first half. SGA as a percentage of sales was higher in the 2002 first half compared to the first half of 2001 due to the faster rate at which volume has decreased compared to decreases in relatively fixed administrative costs.

Other (Income) Expense

Other income for the first half of 2002 was \$0.8 million, compared to other expense of \$1.0 million for the first half of 2001. The components are as follows:

	2002	2001	Change
	-----	-----	-----
Amortization of goodwill and other intangibles \$	6	\$ 1,007	\$ (1,001)
Gain on sale of equipment with zero book value	(375)	-	(375)

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Other (income) expense, net	(412)	(22)	(390)
	-----	-----	-----
Total other (income) expense, net	\$ (781)	\$ 985	\$ (1,766)
	=====	=====	=====

We stopped amortizing goodwill effective January 1, 2002. In January 2002, we sold equipment that had no book value. The increase in the remaining other income is primarily due to higher levels of sales of scrap and miscellaneous parts due to cleaning out idled facilities. There were no significant offsetting items netted into other (income) expense, net, in either period.

Interest Expense

Interest expense, net, for the first half of 2002 was \$3.9 million compared to almost \$3.2 million for the first half of 2001. For the first halves of 2002 and 2001, a total of \$1.8 million and \$1.6 million, respectively, of interest expense has been allocated to or actually incurred in discontinued operations. On a combined basis interest expense was \$5.7 million in the first half of 2002 compared to \$4.8 million in the first half of 2001. Although debt and prime lending rates have decreased from end of second quarter 2001 levels to end of second quarter 2002 levels, the effect on interest expense resulting from these decreases was almost fully offset by the increased default rate being paid on the BOA revolving credit and term loan facilities and \$1.125 million in combined paid and accrued overadvance fees in the first half of 2002. [Interest expense for 2002 may decrease compared to 2001 depending on the amount of proceeds and timing of asset dispositions in 2002 as part of the restructuring plan.]

Income Taxes

There was no tax provision from continuing operations in the first half

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of 2002 compared to a tax provisions of \$0.2 million for the first half of 2001. The Company has net operating loss carryforwards for Federal tax return reporting purposes totaling \$124.1 million at December 31, 2001, \$79.2 million of which expire by 2004. [The Company may be able to utilize its loss carryforwards against possible increased profitability as the result of the Company's corporate-wide restructuring plan. However, until the amount of proceeds from and timing of asset dispositions as part of such plan are known], management has determined to fully reserve for the total amount of net deferred tax assets as of December 31, 2001 [and to continue to do so during 2002 until assets are disposed]. The tax provision from continuing operations in the first half of 2001 was based on the loss from continuing operations before tax adjusted for permanent differences.

Discontinued Operations

There was a loss from discontinued operations for the first half of 2002 of \$2.3 million compared to income from discontinued operations of \$0.8 million in the first half of 2001. The loss from discontinued operations of \$2.3 million in the first half of 2002 relates to adjustments of the carrying values to net realizable value, primarily machinery and equipment and receivables, of assets retained from the sale of the discontinued bridges and cranes operations. For the first halves of 2002 and 2001, discontinued operations includes a total of \$1.9 million and \$1.6 million, respectively, of interest expense.

LIQUIDITY AND CAPITAL RESOURCES

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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.

Restructuring and Other Actions

In the fourth quarter of 2001, we developed and adopted a plan to restructure our continuing operations. During 2002, the Company has made significant progress towards implementation of this plan.

On June 30, 2002, we sold the inventory and substantially all of the property, plant and equipment of Alliance, our discontinued bridges and cranes operations, for net cash proceeds of \$3.058 million and the assumption by the buyer of certain liabilities. We retained all receivables, trade payables and certain other liabilities of this discontinued operation. The net cash proceeds of \$3.058 million were used to reduce borrowings under our BOA revolving credit facility (\$322,000), term loan A facility (\$1.87 million) and capital expenditure facility (\$866,000).

On April 30, 2002, we entered into a non-binding letter of intent (LOI) for the sale of substantially all of the assets and business of Kingway, our discontinued materials handling systems operations, for a total of \$34.0 million in a combination of cash and subordinated notes. Since then we have had further negotiations with the buyer and have agreed to a purchase price of \$32.0 million, comprised of \$27.5 million in cash and a \$4.5 million subordinated contingent note, the terms of which are being negotiated. The due diligence process by the buyer is substantially complete. We are

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currently negotiating a definitive asset purchase agreement. The closing of this transaction is subject to certain conditions, including the execution of a definitive asset purchase agreement. There are no assurances that this transaction will close on the terms set forth in the draft asset purchase agreement or at all.

[We anticipate using the cash proceeds from this asset sale to pay accrued interest on our senior notes, reduce debt, pay our overextended vendors and for other corporate purposes. Debt reductions will include a combination of BOA revolving credit and term loan facilities and 13% senior notes. Cash proceeds to be applied to reducing debt is dependent on a number of factors including, but not limited to, finalization of the net cash to be received in the sale and limitations imposed by BOA, if any.]

The closing of this transaction is subject to certain conditions, including the execution of a definitive asset purchase agreement. There are no assurances that this transaction will close on the terms set forth in the draft asset purchase agreement or at all.

During the first quarter of 2002, NPSAC, the Company's former pressure vessel operations in Clearfield, Utah, was relocated to and combined with the pressure vessel operations in McKeesport, PA. The cylinder operations in Milwaukee, WI have been relocated to our leased facility in Libertyville, IL.

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The land and building in Milwaukee, WI is being prepared for sale. We are preparing to move the cylinder operations in Chicago, IL to the Libertyville facility during the third quarter of 2002. We closed the Plastics' corporate headquarters in Charlotte, NC and all administrative and managerial positions were eliminated. Plastics' corporate responsibilities have been returned to our manufacturing and administrative operations in Oneida, NY.

The restructuring charge we recorded in the fourth quarter of 2001 included estimated cash and non-cash components. The cash components were comprised of reserves for lease termination costs and employee separations. The employee separation costs recorded in the restructuring related to the 7 employees of NPSAC, the Company's former pressure vessel operations in Clearfield, Utah. We did not accrue for any additional employee separations related to the restructuring, although such separations totaled approximately 200 employees as of June 30, 2002. The termination costs were recorded upon notification to the employees, which occurred in the same period as the terminations. The following represents a summary of first half 2002 cash activity for the estimated cash components of our fourth quarter 2001 restructuring charge (in thousands).

Description	At 12/31/01	2002 Activity	At 06/30/02
-----	-----	-----	-----
Lease termination costs	\$ 1,172	\$ (166)	\$ 1,006
Employee separations	20	(20)	-
	-----	-----	-----
Reserve for restructuring	\$ 1,192	\$ (186)	\$ 1,006
	=====	=====	=====

We reevaluated the shut-down of our Plastics operation in Siler City, NC and have determined to maintain our presence in the southern U.S. and service the customers of the Siler City, NC location. This reevaluation does not change our intent to dispose of the land, building and a large portion of the existing machinery and equipment or the fourth quarter restructuring charge related thereto as the leased and owned machinery and equipment related to the charge remains out of service.

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13% Senior Notes and Semi-Annual Interest Payments

We have a total of \$24.855 million of 13% senior notes outstanding, of which a sinking fund payment of \$12.5 million was due on May 1, 2002 and the remainder is due on May 1, 2003. The senior notes require semi-annual interest payments every November 1st and May 1st. We were unable to make the semi-annual interest payments of \$1.616 million on each of November 1, 2001 and May 1, 2002. We were also unable to make the \$12.5 million sinking fund payment due May 1, 2002. This inability to fund our obligations under the 13% senior notes is due to a lack of liquidity and availability under our revolving credit facility with BOA.

An event of default as defined in the indenture governing the senior notes has existed since December 1, 2001 as we were not able to make the November 1, 2001 semi-annual interest payment within the 30-day cure period provided for in the indenture. Although they have not moved to do so while we execute our plan to restructure and generate liquidity through asset sales, the senior notes holders have the right to accelerate all amounts outstanding, including accrued and unpaid interest of \$4.25 million, totaling \$29.1 million

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at July 31, 2002. Interest accrues at approximately \$0.3 million per month, including compounded interest at 13% per annum on the unpaid semi-annual interest payments.

Bank of America Revolving and Term Loan Credit Facilities

We have a total of \$34.8 million of senior secured revolving and term loan credit facilities outstanding at June 30, 2002 with BOA. We have been in default under these facilities since September 30, 2001 due to our inability to achieve our financial ratio covenants contained in the financing and security agreement with BOA. During the third quarter of 2001 we were also unable to maintain the \$1.5 million minimum availability under the revolving credit facility as required by a December 2000 amendment.

In November 2001, BOA informed us that a borrowing base deficiency existed. Since that time, the Company and BOA have entered into six side letter agreements wherein BOA and the other lenders that participated in the BOA refinancing of the Company in March 2000 agreed to provide monthly advances in excess of our calculated borrowing base for working capital needs while we execute our plan to restructure and generate liquidity by selling assets. The sixth side letter agreement, dated April 1, 2002, provides overadvance approval on a day-to-day basis whereby the overadvance may not exceed \$3.5 million. As of August 19, 2002, we have not exceeded the \$3.5 million overadvance availability. However, nothing in these six side letter agreements waives or otherwise alters BOA's already existing remedies under the BOA financing and security agreement including acceleration of all amounts outstanding under the BOA financing and security agreement.

In consideration of providing its approval of overadvance availability, we had been paying to BOA through direct charges to our revolving credit facility a weekly fee of \$25,000 or \$50,000, depending on the amount of the overadvance. Since entering into the side letter agreements beginning in November 2001, the Company has paid BOA a total of \$800,000 in such fees. In the last week of April 2002, BOA agreed to not directly charge our revolving credit facility for these overadvance fees but, instead, permit us to accrue such fees to be paid upon the sale of our discontinued materials handling systems operations. As of June 30, 2002, we had accrued \$500,000 of such fees, which continue to accrue at either \$25,000 or \$50,000 per week, depending on the amount of the overadvance.

[Since we could not repay our senior noteholders or bank lenders if either or both of them exercised their existing rights to accelerate what we owe them, they could pursue all remedies available to creditors in the normal course of business, including filing of involuntary bankruptcy petitions.]

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SUMMARY OF 2002 ACTIVITIES

Cash and cash equivalents totaled \$0.6 million (including \$0.2 million classified within discontinued operations) at June 30, 2002, compared to \$1.2 million (including \$0.5 million classified within discontinued operations) at December 31, 2001, a decrease of \$0.6 million. This decrease resulted from \$1.0 million of cash provided by operations and \$3.2 million of cash provided by investing activities being more than offset by \$4.8 million used in financing activities. Cash and cash equivalents at the end of a period generally represents lockbox receipts from customers to be applied to our BOA revolving credit facility the following business day.

Operating Activities

Cash provided by operating activities of \$1.0 million in the first half

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of 2002 was the result of continued losses being more than offset by a decrease in net working capital as lower volume levels led to a reduction in receivables and as tighter liquidity resulted in the missed May 1, 2002 interest payment and a slowdown in payments to vendors which increased trade payables.

Investing Activities

The Company disposed of the inventory and substantially all of the property, plant and equipment of the discontinued bridges and cranes operations for \$3.058 million of net cash proceeds on June 30, 2002. Also, in January 2002, machinery and equipment with no book value was sold, generating \$0.4 million in cash proceeds. Capital expenditures have been substantially scaled-back and were less than \$0.3 million.

Financing Activities

The Company made scheduled repayments of debt totaling \$2.0 million, which included almost \$1.9 million on its term loan A and \$0.1 million on its capital expenditures facility. Revolving credit facility borrowings decreased \$48,000 during the first half of 2002. These reductions were funded primarily with working capital. Other debt repayments totaling \$41,000 represent payments on capital lease obligations and other debt. Also, the net cash proceeds of \$3.058 million from the disposal of the inventory and substantially all of the property, plant and equipment of the discontinued bridges and cranes operations were used to reduce borrowings under our BOA revolving credit facility (\$322,000), term loan A facility (\$1.87 million) and capital expenditure facility (\$866,000).

FACTORS AFFECTING CURRENT AND FUTURE LIQUIDITY

During the third and fourth quarters of 2001, downturns in several of the markets we serve adversely affected our ability to absorb costs and we experienced an increase in ineligible receivables and inventory. This increase in ineligibles resulted in a decrease in borrowing availability under the revolving credit facility. These events have and continue to adversely affect our ability to meet obligations. We have extended our vendors and failed to make the November 1, 2001 and May 1, 2002 \$1.616 million semi-annual interest payments and the May 1, 2002 \$12.5 million sinking fund payment on our 13% senior notes.

During 2002, we have made significant progress towards implementation of our restructuring plan, including the sale of certain assets of the discontinued bridges and cranes operations for \$3.058 million in net cash proceeds and entering into an LOI for the sale of our discontinued materials handling systems operations. [We believe we will generate adequate proceeds from asset sales to alleviate the current and future strain on liquidity and

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meet past due, immediate and near-term obligations. However, no assurances can be given that our pursuits will be successful.]

If we are not able to complete sales of assets on acceptable terms or if other anticipated benefits of our plan to restructuring do not materialize, [we may not be able to continue as a going concern].

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.

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PART II. OTHER INFORMATION

Item 1. Legal Proceedings

Legal Proceedings

The Company and its subsidiaries are defendants in a number of lawsuits and administrative proceedings, which have arisen in the ordinary course of business of the Company and its subsidiaries. The Company believes that any material liability which can result from any of such lawsuits or proceedings has been properly reserved for in the Company's consolidated financial statements or is covered by indemnification in favor of the Company or its subsidiaries, and therefore the outcome of these lawsuits or proceedings will not have a material adverse effect on the Company's consolidated financial position, results of operations or cash flows.

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

In December 1999, a stockholder of Reunion filed a purported class-action lawsuit in Delaware Chancery Court alleging, among other things, that Reunion's public stockholders would be unfairly diluted in the merger with Chatwins Group. The lawsuit sought to prevent completion of the merger and, the merger having been completed, seeks rescission of the merger or awarding of damages. In August 2002, the plaintiff stockholder filed a first request for the production of documents in Delaware Chancery Court. Reunion is in the initial stages of reviewing the document production request and intends to vigorously contest the suit.

The Company has been named as a defendant in fifteen consolidated lawsuits filed in December 2000 or early 2001 in the Superior Court for Los Angeles County, California, three of which are purported class actions asserted on behalf of approximately 200 payees. The plaintiffs in these suits, except one, are structured settlement payees to whom Stanwich Financial Services Corp. (SFSC) is indebted. The Company and SFSC are related parties.

In addition to the Company, there are numerous defendants in these suits, including SFSC, Mr. Bradley, the sole shareholder of SFSC's parent, several major financial institutions and certain others. All of these suits arise out

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of the inability of SFSC to make structured settlement payments when due. Pursuant to the court's order, plaintiffs in the purported class actions and plaintiffs in the individual cases actions filed a model complaint. Except for the class allegations, the two model complaints are identical. The plaintiffs seek compensatory and punitive damages, restoration of certain alleged trust assets, restitution and attorneys' fees and costs.

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The plaintiffs in one of the suits are former owners of a predecessor of SFSC and current operators of a competing structured settlement business. These plaintiffs claim that their business and reputations have been damaged by SFSC's structured settlement defaults, seek damages for unfair competition and purport to sue on behalf of the payees.

The plaintiffs allege that the Company borrowed funds from SFSC and has not repaid these loans. The plaintiffs' theories of liability against the Company are that it is the alter ego of SFSC and Mr. Bradley and that the Company received fraudulent transfers of SFSC's assets. The plaintiffs also assert direct claims against the Company for inducing breach of contract and aiding and abetting an alleged breach of fiduciary duty by SFSC.

On June 25, 2001, SFSC filed a Chapter 11 Bankruptcy Petition in the U.S. Bankruptcy Court for the District of Connecticut. SFSC filed an adversary proceeding in the bankruptcy case against the plaintiffs seeking a declaration that the structured settlement trust assets are the property of the bankruptcy estate. On July 16, 2001, the bankruptcy court granted a temporary restraining order enjoining the plaintiffs from prosecuting their claims against the Company, SFSC, Mr. Bradley and others. As a result of this restraining order of the bankruptcy court, the Company entered a standstill agreement with the plaintiffs on August 22, 2001. Pursuant to the standstill agreement, and the stipulation of the parties to the SFSC bankruptcy case, the plaintiffs agreed to take no further action to prosecute any claim in the litigation against the Company, Mr. Bradley and others to recover any structured settlement trust assets or any derivative claims or claims based on allegations of alter ego, fraudulent transfer or conversion. The plaintiffs did not agree to waive or release their direct personal claims against the Company for damages, but the plaintiffs agreed to cease and desist the prosecution of those claims until no earlier than sixty days following service of written notice to the Company stating that they have elected to unilaterally terminate the standstill.

Plaintiffs filed second amended model complaints in the class actions and individual cases on August 24, 2001. Both model complaints allege causes of action against the Company for interference with contract and aiding and abetting breach of fiduciary duty. However, pursuant to the standstill agreement, the plaintiffs are taking no action to prosecute these claims against the Company at this time.

Certain of the financial institution defendants have asserted cross-complaints against the Company for implied and express indemnity and contribution and negligence. The Company denies the allegations of the plaintiffs and the cross-complainant financial institutions and intends to vigorously defend against these actions and cross-actions.

The Company has been named in approximately 350 separate asbestos suits filed since January 1, 2001 by three plaintiffs' law firms in Wayne County, Michigan. The claims allege that cranes from the Company's crane manufacturing location in Alliance, OH were present in various parts of McLouth and Great Lakes Steel Mills in Wayne County, Michigan and that those cranes contained asbestos to which plaintiffs were exposed over a 40 year span. Counsel for the Company has filed an answer to each complaint denying liability by the Company and asserting all alternative defenses permitted under the Court's Case Management Order. Counsel for the Company has negotiated dismissal of 95 cases without any cost to the Company. The Company

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denies that it manufactured any products containing asbestos or otherwise knew or should have known that any component part manufacturers provided products containing asbestos. The Company intends to vigorously defend against these

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lawsuits.

Since July 10, 2001, various lawsuits, some involving multiple plaintiffs, alleging personal injury/wrongful death from asbestos exposure have been filed in multiple states, including California, Oregon and Mississippi, against a large number of defendants, including Oneida Rostone Corporation (ORC), pre-merger Reunion's Plastics subsidiary and the Company's Plastics segment. In October 2001, Allen-Bradley Company, a former owner of the Rostone business of ORC, accepted Reunion Industries' tender of its defense and indemnification in the first such lawsuit filed pursuant to a contractual obligation to do so. Subsequent to the acceptance of the tender of defense and indemnification in the first lawsuit, Allen-Bradley Company has accepted the Company's tender of defense and indemnification in a total of 73 separate actions, all of which are being defended by Allen-Bradley Company.

Environmental Compliance

Various U.S. federal, state and local laws and regulations including, without limitation, laws and regulations concerning the containment and disposal of hazardous waste, oil field waste and other waste materials, the use of storage tanks, the use of insecticides and fungicides and the use of underground injection wells directly or indirectly affect the Company's operations. In addition, environmental laws and regulations typically impose "strict liability" upon the Company for certain environmental damages. Accordingly, in some situations, the Company could be liable for clean up costs even if the situation resulted from previous conduct of the Company that was lawful at the time or from improper conduct of, or conditions caused by, previous property owners, lessees or other persons not associated with the Company or events outside the control of the Company. Such clean up costs or costs associated with changes in environmental laws and regulations could be substantial and could have a materially adverse effect on the Company's consolidated financial position, results of operations or cash flows.

Except as described in the following paragraphs, the Company believes it is currently in material compliance with existing environmental protection laws and regulations and is not involved in any significant remediation activities or administrative or judicial proceedings arising under federal, state or local environmental protection laws and regulations. In addition to management personnel who are responsible for monitoring environmental compliance and arranging for remedial actions that may be required, the Company has also employed outside consultants from time to time to advise and assist the Company's environmental compliance efforts. Except as described in the following paragraphs, the Company has not recorded any accruals for environmental costs.

In February 1996, Reunion was informed by a contracted environmental services consulting firm that soil and ground water contamination exists at its Lafayette, Indiana site. Since then, the Company has expended \$376,000 of remediation costs and accrued an additional \$20,000.

In connection with the sale of its former oil and gas operations, pre-merger Reunion retained certain oil and gas properties in Louisiana because of litigation concerning environmental matters. The Company is in the process of environmental remediation under a plan approved by the Louisiana Department of Natural Resources Office of Conservation (LDNROC). The Company has recorded an accrual for its proportionate share of the remaining estimated costs to remediate the site based on plans and estimates developed by the environmental consultants hired by the Company. During 1999, the Company conducted remediation work on the property. The Company paid \$172,000 of the total cost of \$300,000. Regulatory hearings were held in January 2000 and 2001 to

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consider the adequacy of the remediation conducted to date. In August 2001, LDNROC issued its order for the Company to complete the soil remediation under the plan approved in 1999 and to perform additional testing to determine to what extent groundwater contamination might exist. The Company's environmental consultant is in the process of updating the estimate of the costs to comply with this order, but the Company does not believe that the cost of future remediation will exceed the amount accrued. No remediation was performed in 2000 or 2001 pending the decision. However, the Company has paid \$247,000 for its share of consulting services in connection with the hearings. At June 30, 2002, the balance accrued for these remediation costs is approximately \$1,061,000. Owners of a portion of the property have objected to the Company's cleanup methodology and have filed suit to require additional procedures. The Company is contesting this litigation, and believes its proposed methodology is well within accepted industry practice for remediation efforts of a similar nature. No accrual has been made for costs of any alternative cleanup methodology which might be imposed as a result of the litigation.

On March 15, 2002, the Company received a Request for Information from the United States Environmental Protection Agency (USEPA) regarding the Gambonini Mine Site outside Petaluma, Marin County, California. The Company gathered and forwarded to the USEPA the information it requested. On May 16, 2002, the Company, as the successor to Buttes Gas & Oil Company (BGO), received from the USEPA a notice of potential liability and demand for payment of \$3,909,614.37 for reimbursement of costs related to its removal and disposal efforts initiated in 1998 pursuant to the Comprehensive Environmental Response, Compensation and Liability Act (CERCLA).

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

In 1985, BGO, headquartered in Houston, Texas, filed Chapter 11 proceedings in bankruptcy court in the Southern District of Texas in Houston. In December 1988, BGO confirmed its plan of reorganization which provided for, among other things, a discharge of all claims that arose prior to the date of confirmation of the plan. The reorganization plan became effective in February 1989.

In response to the USEPA's demand, the Company has filed an adversary proceeding in bankruptcy court in the Southern District of Texas in Houston seeking an order to enjoin the efforts of the USEPA to pursue collection of any claims related to the site. The USEPA has responded by filing a motion to dismiss based on several jurisdictional and substantive grounds. The matter is set for a status conference on August 27, 2002, at which time the Company's counsel anticipates the court will set a hearing date on the USEPA's motion to dismiss.

The Company intends to prosecute the pending litigation vigorously. The Company has made no accrual of any amount related to this matter as, at this time, the probability of an adverse outcome to the Company is reasonably possible, but not probable.

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Item 3. Defaults Upon Senior Securities

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

	At June 30, 2002 ----- (unaudited)	At December 31, 2001 -----
13% senior notes (net of unamortized discount of \$-0- and \$2)	\$ 24,855	\$ 24,853
BOA revolving credit facility	22,427	22,475
BOA term loan A due March 16, 2007	12,358	16,071
BOA capital expenditure facility	-	990
	-----	-----
Total debt in default	\$ 59,640 =====	\$ 64,389 =====

13% Senior Notes and Semi-Annual Interest Payments

We have a total of \$24.855 million of 13% senior notes outstanding, of which a sinking fund payment of \$12.5 million was due on May 1, 2002 and the remainder is due on May 1, 2003. The senior notes require semi-annual interest payments every November 1st and May 1st. We were unable to make the semi-annual interest payments of \$1.616 million on each of November 1, 2001 and May 1, 2002. We were also unable to make the \$12.5 million sinking fund payment due May 1, 2002.

An event of default as defined in the indenture governing the senior notes has existed since December 1, 2001 as we were not able to make the November 1, 2001 semi-annual interest payment within the 30-day cure period provided for in the indenture. As such, the senior notes holders have the right to accelerate all amounts outstanding, including accrued and unpaid interest of \$4.25 million, totaling \$29.1 million at July 31, 2002. Interest accrues at approximately \$0.3 million per month, including compounded interest at 13% per annum on the unpaid semi-annual interest payments.

Bank of America Revolving and Term Loan Credit Facilities

We have a total of \$34.8 million of senior secured revolving and term loan credit facilities outstanding at June 30, 2002 with BOA. We have been in default under these facilities since September 30, 2001 due to our inability to achieve our financial ratio covenants contained in the financing and security agreement with BOA. During the third quarter of 2001 we were also unable to maintain the \$1.5 million minimum availability under the revolving credit facility as required by a December 2000 amendment.

In November 2001, BOA informed us that a borrowing base deficiency existed. Since that time, the Company and BOA have entered into six side letter agreements wherein BOA and the other lenders that participated in the BOA refinancing of the Company in March 2000 agreed to provide monthly advances in excess of our calculated borrowing base for working capital needs while we execute our plan to restructure and generate liquidity by selling assets. The sixth side letter agreement, dated April 1, 2002, provides overadvance approval on a day-to-day basis whereby the overadvance may not exceed \$3.5 million. As of August 19, 2002, we have not exceeded the \$3.5 million overadvance availability and, with certain previously ineligible progress billings becoming eligible due to the completion of contracts at our

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discontinued materials handling systems operations, have reduced our overadvance as of August 19, 2002 to \$0.0 million. However, nothing in these six side letter agreements waives or otherwise alters BOA's already existing remedies under the BOA financing and security agreement including acceleration of all amounts outstanding under the BOA financing and security agreement.

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Item 4. Submission of Matters to a Vote of Security Holders

At the Company's annual meeting of Reunion Industries stockholders held on June 12, 2002 for the record date of April 15, 2002, stockholders holding a majority of the shares of common stock of Reunion Industries voted to approve the proposals included in Reunion Industries' proxy statement as follows:

Proposal 1: Election of Directors	For	Withhold
	-----	-----
Thomas N. Amonett	8,692,948	253,337
Charles E. Bradley, Sr.	8,688,912	257,373
Kimball J. Bradley	8,689,387	256,898
Thomas L. Cassidy	8,692,633	253,652
W. R. Clerihue	8,692,618	253,667
Joseph C. Lawyer	8,689,597	256,688
Franklin Myers	8,692,963	253,322
John G. Poole	8,693,203	253,082

Proposal 2: To consider and act upon such other business as may properly come before the meeting

For	Against	Abstained	Broker Non-Votes
-----	-----	-----	-----
8,603,990	196,099	146,196	-

Item 6. Exhibits and Reports on Form 8-K

(c) Exhibits

The following exhibits are filed herewith in accordance with Item 601 of Regulation S-K:

Exhibit No.	Exhibit Description
-----	-----
99.1	Certification Pursuant to Section 906 of The Sarbanes-Oxley Act of 2002 - Charles E. Bradley, Sr., Chief Executive Officer
99.2	Certification Pursuant to Section 906 of The Sarbanes-Oxley Act of 2002 - John M. Froehlich, Chief Financial Officer

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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: August 19, 2002

REUNION INDUSTRIES, INC.
(Registrant)

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

Charles E. Bradley, Sr.
Chief Executive Officer

By: /s/ John M. Froehlich

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

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EXHIBIT INDEX

Exhibit No. -----	Exhibit Description -----	Page No. -----
99.1	Certification Pursuant to Section 906 of The Sarbanes-Oxley Act of 2002 - Charles E. Bradley, Sr., Chief Executive Officer	38
99.2	Certification Pursuant to Section 906 of The Sarbanes-Oxley Act of 2002 - John M. Froehlich, Chief Financial Officer	39

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Exhibit 99.1

Certification Pursuant to
Section 906 of The Sarbanes-Oxley Act of 2002

In connection with the Quarterly Report on Form 10-Q of Reunion Industries, Inc. (the "Company") for the quarter ended June 30, 2002, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Charles E. Bradley, Sr., Chief Executive Officer of the Company, certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge:

1. The Report 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 the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

This certification accompanies this Report pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not, except as required by said Act, be deemed filed by the Company for purposes of the Securities Exchange Act of 1934, as amended.

/s/ Charles E. Bradley, Sr.

Charles E. Bradley, Sr.
Chief Executive Officer

August 19, 2002

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Exhibit 99.2

Certification Pursuant to
Section 906 of The Sarbanes-Oxley Act of 2002

In connection with the Quarterly Report on Form 10-Q of Reunion Industries, Inc. (the "Company") for the quarter ended June 30, 2002, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, John M. Froehlich, Chief Financial Officer of the Company, certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge:

1. The Report 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 the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

This certification accompanies this Report pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not, except as required by said Act, be deemed filed by the Company for purposes of the Securities Exchange Act of 1934, as amended.

/s/ John M. Froehlich

John M. Froehlich
Chief Financial Officer

August 19, 2002

