REUNION INDUSTRIES INC
Form 10-Q
May 16, 2005

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 March 31, 2005

OR

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

For the transition period from ________ to ________

Commission File Number 01-15739

REUNION INDUSTRIES, INC.
(Exact name of Registrant as specified in its charter)

DELAWARE	06-1439715
(State of Incorporation)	(I.R.S. Employer Identification No.)

11 STANWIX STREET, SUITE 1400
PITTSBURGH, PENNSYLVANIA 15222
(Address of principal executive offices, including zip code)

(412) 281-2111
(Registrant's telephone number, including area code)

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

At May 1, 2005, 16,278,579 shares of common stock, par value $.01 per share, were outstanding.

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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 that are intended to be covered by the safe harbors created thereby. The forward-looking statements contained in this report are enclosed in brackets [ ] for ease of identification. Note that all forward-looking statements involve risks and uncertainties. Factors which could cause the future results and shareholder values to differ materially from those expressed in the forward-looking statements include, but are not limited to, the strengths of the markets which the Company serves, the Company's ability to generate liquidity and the Company's ability to service its debts and meet financial covenants. Although the Company believes that the assumptions underlying the forward-looking statements contained in this report are reasonable, any of the assumptions could be inaccurate and, therefore, there can be no assurances that the forward-looking statements included or incorporated by reference in this report will prove to be accurate. In light of the significant uncertainties inherent in the forward-looking statements included or incorporated by reference herein, the inclusion of such information should not be regarded as a representation by the Company or any other person that the Company's objectives and plans will be achieved. In addition, the Company does not intend to, and is not obligated to, update these forward-looking statements after filing and distribution of this report, even if new information, future events or other circumstances have made them incorrect or misleading as of any future date.

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REUNION INDUSTRIES, INC.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

REUNION INDUSTRIES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
AT MARCH 31, 2005 AND DECEMBER 31, 2004
(in thousands)

	At March 31, 2005 (unaudited)	At December 31, 2004
ASSETS:		
Cash and cash equivalents	$ 1,030	$ 1,146
Receivables (net of allowance of $212 and $202, respectively)	13,135	12,768
Advances to employees	18	26
Inventories, net	9,751	9,300
Other current assets	1,154	1,832
Current assets of discontinued operations	395	3,216
Total current assets	25,483	28,288
Property, plant and equipment, net	9,126	9,374
Property, plant and equipment, held for sale	2,309	2,911
Due from related parties	889	919
Goodwill, net	10,994	10,994
Other assets, net	3,910	4,110
Total assets	$ 52,711	$ 56,596
LIABILITIES AND STOCKHOLDERS' DEFICIT:		
Current maturities of debt	$ 643	$ 645
Revolving credit facilities	12,437	14,485
Trade payables	8,961	9,300
Accrued interest	6,746	5,663
Due to related parties	341	285
Other current liabilities	5,628	5,680
Notes payable	4,161	4,161
Notes payable - related parties	500	500
Current liabilities of discontinued operations	1,121	827
Total current liabilities	40,538	41,546

Long-term debt	34,501	35,628
Other liabilities	3,546	3,759
Non-current liabilities of discontinued Operations	916	916
Total liabilities	79,501	81,849
Minority interests	167	330
Commitments and contingent liabilities	-	-
Stockholders' deficit	(26,957)	(25,583)
Total liabilities and stockholders' deficit	$ 52,711	$ 56,596

See accompanying notes to condensed consolidated financial statements.

REUNION INDUSTRIES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
AND COMPREHENSIVE INCOME (LOSS)
FOR THE THREE MONTHS ENDED MARCH 31, 2005 AND 2004
(in thousands, except per share information)(unaudited)

	Three Months Ended March 31, 2005	2004
Sales	$ 17,296	$ 15,820
Cost of sales	14,522	12,592
Gross profit	2,774	3,228
Selling, general & administrative	2,258	2,319
Gain on debt extinguishments	-	(3,070)
Other income, net	(9)	(94)
Operating profit	525	4,073
Interest expense, net	2,119	1,779
Income (loss) from continuing operations before income taxes and minority interests	(1,594)	2,294
Provision for income taxes	-	-
Income (loss) from continuing operations before minority interests	(1,594)	2,294
Minority interests	73	98
Income (loss) from continuing operations	(1,667)	2,196
Gain on disposal of discontinued operations, net of tax of $-0-	370	-
Income (loss) from discontinued operations,		

Net of tax of $-0-	(77)	153
Net and comprehensive income (loss)	$ (1,374)	$ 2,349
Earnings (loss) applicable to common stockholders	$ (1,374)	$ 2,349
Basic earnings (loss) per share:		
Continuing operations	$ (0.10)	$ 0.13
Discontinued operations	0.02	0.01
Income (loss) per share - basic	$ (0.08)	$ 0.14
Weighted average shares outstanding - basic	16,279	16,279
Diluted income (loss) per share:		
Continuing operations	$ (0.10)	$ 0.11
Discontinued operations	0.02 -	0.01
Income (loss) per share - diluted	$ (0.08)	$ 0.12
Weighted average shares outstanding - diluted	16,279	18,826

See accompanying notes to condensed consolidated financial statements.

REUNION INDUSTRIES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE THREE MONTHS ENDED MARCH 31, 2005 AND 2004
(in thousands)
(unaudited)

	Three Months Ended March 31, 2005	2004
Cash used in operating activities	$ (457)	$ (72)
Cash flow from investing activities:		
Capital expenditures	(137)	(122)
Proceeds from asset sales	3,680	-
Cash (used in) provided by investing activities	3,543	(122)
Cash flow from financing activities:		
Net change in revolving credit facility	(2,069)	1,203
Repayments of debt	(1,164)	(175)
Payments of deferred financing costs	-	(271)
Cash provided by financing activities	(3,233)	757
Net increase in cash and cash equivalents	(147)	563
Less: Change in cash of discontinued operations	31	(41)
Cash and cash equivalents, beginning of period	1,146	656
Cash and cash equivalents, end of period	$ 1,030	$ 1,178

Interest paid	$ 699	$ 580
	========	========
Non-cash financing activity:		
Debt extinguishments	$ -	3,070
	========	========

See accompanying notes to condensed consolidated financial statements.

REUNION INDUSTRIES, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2005

NOTE 1: CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements. In the opinion of management, all normal recurring adjustments considered necessary for a fair statement of the results of operations have been included. The results of operations for the three months ended March 31, 2005 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, 2004.

Going Concern

These condensed consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. At March 31, 2005, the Company had a deficiency in working capital of $15.1 million, a loss from continuing operations for the three months then ended of $1.7 million and a deficiency in assets of $27.0 million. These conditions raise substantial doubt about the Company?s ability to continue as a going concern. These condensed consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Over the past several years, the Company has taken steps to improve its liquidity and defer the principal maturities of a significant portion of its debt. The Company is investigating other recapitalization scenarios in an effort to provide additional liquidity and extinguishments or deferrals of debt obligations. Although the Company believes that it can accomplish these plans, no assurances exist that it will. Failure to accomplish these plans could have an adverse impact on the Company's liquidity, financial position and future operations. (See Note 2: RECENT DEVELOPMENTS - Sale of Assets.)

Recent Accounting Pronouncements

In December 2004, the FASB issued SFAS 123R, "Share Based Payment." SFAS 123R is a revision to SFAS 123 and supersedes APB 25, "Accounting for Stock Issued to Employees," and amends SFAS 95, "Statement of Cash Flows." This statement requires a public entity to expense the cost of employee services received in exchange for an award of equity instruments. This statement also provides guidance on valuing and expensing these awards, as well as disclosure requirements of these equity arrangements. This statement is effective for the first interim reporting period that begins after January 1, 2006.

SFAS 123R permits public companies to choose between the following two adoption methods:

1. A "modified prospective" method in which compensation cost is recognized beginning with the effective date (a) based on the requirements of SFAS 123R for all share-based payments granted after the effective date and (b) based on the requirements of Statement 123 for all awards granted to employees prior to the effective date of SFAS 123R that remain unvested on the effective date, or

2. A "modified retrospective" method which includes the requirements of the modified prospective method described above, but also permits entities to restate based on the amounts previously recognized under SFAS 123 for purposes of pro forma disclosures either (a) all prior periods presented or (b) prior interim periods of the year of adoption

Reunion currently accounts for share-based payments to employees using APB 25's intrinsic value method and, as such, recognizes no compensation expense for employee stock options. The impact of the adoption of SFAS 123R on Reunion cannot be predicted at this time because it will depend on levels of share-based payments granted in the future. There would have been no material impact on reported results of operations and earnings per share had the Company applied the fair value provisions of SFAS 123 to share-based payments.

The adoption of SFAS 123R's fair value method may have an impact, possibly material, on Reunion's future results of operations but no material impact on overall financial position. SFAS 123R also requires the benefits of tax deductions in excess of recognized compensation expense, if any, to be reported as a financing cash flow, rather than as an operating cash flow as required under current literature. This requirement may reduce net operating cash flows and increase net financing cash flows in the consolidated statement of cash flows of periods after adoption. Due to timing of the release of SFAS 123R and the choice between the two adoption methods, the Company is still analyzing the ultimate impact that this new pronouncement may have on its results of operations.

On March 29, 2005, the Staff of the Securities and Exchange Commission (SEC or the Staff) issued Staff Accounting Bulletin No. 107, "Share-Based Payment" (SAB 107). Although not altering any conclusions reached in SFAS 123R, SAB 107 provides the views of the Staff regarding the interaction between SFAS 123R and certain SEC rules and regulations and, among other things, provide the Staff's views regarding the valuation of share-based payment arrangements for public companies. Reunion intends to follow the interpretative guidance on share-based payment set forth in SAB 107 during the Company's adoption of SFAS 123R.

NOTE 2: RECENT DEVELOPMENTS

Default and Waiver Under Revolving and Term Loan Credit Facility

On December 3, 2003, the Company entered into a revolving and term loan credit facility with Congress Financial Corporation (Congress). The Congress facility requires Reunion to comply with financial covenants and other covenants, including a minimum amount of earnings before interest, taxes, depreciation and amortization (EBITDA) and a minimum fixed charge coverage ratio. In November 2004, Congress and the Company entered into an amendment of the revolving and term loan credit facility wherein Congress eliminated the fixed charge coverage ratio and reduced the monthly minimum EBITDA covenant going forward. Under the November 2004 amendment, the Company was required to maintain new minimum monthly amounts of EBITDA of $280,000 in November 2004, $290,000 in December 2004, $350,000 in January 2005, $280,000 in February 2005 and $300,000 per month thereafter. In January 2005, the Company failed to meet the minimum monthly amount, when it had an EBITDA loss for the month of $39,000. Congress has waived this EBITDA shortfall, and the Company is currently not in default under the Congress Loan Agreement

13% Senior Notes

On February 3, 2005, the Company announced that it was unable to make a $2,928,000 interest payment by February 2, 2005 to the holders of the 13% Senior Notes. Holders of more than 80% of the principal amount of such Senior Notes agreed to enter into a Standstill Agreement with the Company, pursuant to which such holders agreed that they would not exercise and will cause the Trustee not to exercise any remedies provided for in the Indenture under which the Senior Notes were issued, or any other agreements related to such notes,

with respect to this payment default or with respect to a potential event of default if the Company fails to make the next scheduled interest payment due April 1, 2005. In the Standstill Agreement, such holders agreed to defer the $2,928,000 of interest not paid, plus any interest that is not paid on the next regularly scheduled due date of April 1, 2005, to December 2006. On April 1, 2005 the Company was unable to make this scheduled interest payment.

Sale of Assets

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

During the first quarter of 2005, the Company did sell all of the assets and liabilities of its leaf spring manufacturing segment, located in Miami, OK, to an unrelated entity for $792,000. Of this amount, $250,000 was used to pay down the private capital fund note payable secured by the real property, $41,000 was used to pay down the Congress term loan secured by the machinery and equipment and the remaining amount was used to reduce the borrowings under the revolving credit facility. The Company recorded a loss of $318,000 on such sale which was provided for in the Company's 2004 year.

Additionally, during the first quarter of 2005, the Company sold certain of the receivables, inventory and intangibles of its thermoset plastics operation (?Rostone?) located in Lafayette, IN, along with certain of its machinery and equipment. The sale of such assets was accomplished in two separate transactions, with the sale of certain of the Company's compounding operation assets being sold to one unrelated entity and the sale of certain of the Company's molding operation assets being made to a different unrelated entity. At the time of such sale, the Company entered into tolling or manufacturing agreements with such buyers under which the Company agreed to operate the compounding and molding operations at its Lafayette, IN facility for a limited time until the buyers could move such operations to different geographical locations. The buyers agreed to reimburse the Company for all expenses in connection with these activities. The sale of the selected assets noted above was for approximately $2.9 million. Of this amount, $712,000 was used to pay down the Congress term loan secured by the machinery and equipment and the remaining amount was used to reduce the borrowings under the revolving credit facility. The Company recorded a gain of approximately $370,000 on such sales. The Company plans to sell the remaining assets of the Rostone business during 2005.

NOTE 3: LONG-TERM DEBT

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

	At March 31, 2005	December 31, 2004
	(unaudited)	
Congress revolving credit facility	$ 9,581	$ 11,650
Junior participation to revolving credit Facility (net of warrant value of $144 and $165, respectively)	2,856	2,835
Congress term loan	1,627	2,539
Note payable due December 1, 2006	3,950	4,200
Note payable due December 5, 2006 (net of warrant value of $63 and $71, respectively)	3,437	3,429
13% senior notes (net of warrant value of $180 and $207, respectively)	21,833	21,806
Notes payable	8,451	8,451
Notes payable - related parties	500	500
Capital leases and other	7	9
Total long-term debt	52,242	55,419
Classified as current	(17,741)	(19,791)
Long-term debt	$ 34,501	$ 35,628

Pursuant to EITF 95-22, "Balance Sheet Classification of Borrowings Outstanding under Revolving Credit Agreements that Include both a Subjective Acceleration Clause and a Lock-Box Arrangement are Deemed to be Current", the Company has classified its Congress revolving credit obligations, including the junior participation, within current liabilities as the Congress agreement contains language that implies that Congress has a subjective acceleration clause that it could invoke at any time to accelerate the debt and includes a required lock-box arrangement.

NOTE 4: INVENTORIES

Inventories are comprised of the following (in thousands):

	At March 31, 2005	At December 31, 2004
	(unaudited)	
Raw material	$ 3,460	$ 3,760
Work-in-process	3,036	2,775
Finished goods	3,255	2,765
Inventories	$ 9,751	$ 9,300

Inventories are valued at the lower of cost or market, cost being determined on the first-in, first-out method. The above amounts are net of inventory reserves of $771 and $682 at March 31, 2005 and December 31, 2004, respectively.

NOTE 5: STOCKHOLDERS' DEFICIT AND EARNINGS PER SHARE

The following represents a reconciliation of the change in stockholders' deficit for the three month period ended March 31, 2005 (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, 2005	$163	$27,866	$(51,710)	$ (1,902)	$(25,583)
Activity (unaudited):					
Net loss	-	-	(1,374)	-	(1,374)
At March 31, 2005	$163	$27,866	$(53,084)	$ (1,902)	$(26,957)

The computations of basic and diluted earnings (loss) per common share EPS (LPS) for the three month periods ended March 31, 2005 and 2004 are as follows (in thousands, except per share amounts)(unaudited):

	Net Income (Loss)	Shares	EPS (LPS)
Three months ended March 31, 2005:			
Loss applicable to common stockholders, weighted average shares outstanding and basic LPS	$ (1,374)	16,279	$ (0.08)
Dilutive effect of stock options and warrants		-	
.Loss applicable to common stockholders, shares outstanding and diluted LPS	$ (1,374)	16,279	$ (0.08)
Three months ended March 31, 2004:			
Income applicable to common stockholders, Weighted average shares outstanding and basic EPS	$ 2,349	16,279	$ 0.14
Dilutive effect of stock options and warrants		2,547	(0.02)
Income applicable to common stockholders, shares outstanding and diluted LPS	$ 2,349	18,826	$ 0.12

At March 31, 2005 and 2004, the Company's stock options outstanding totaled 614,000. Such options included a dilutive component of 198,400 shares for the three month period ended March 31, 2004. At March 31, 2005 and 2004, outstanding warrants to purchase the Company's common totaled 3,929,286 and 2,896,238, respectively. Such warrants included a dilutive component of 2,348,313 shares for the three month period ended March 31, 2004. Because the Company had a loss from operations for the three month period ended March 31, 2005, inclusion of options and warrants has an anti-dilutive effect on LPS.

NOTE 6: COMMITMENTS AND CONTINGENT LIABILITIES

The Company is and has been involved in a number of lawsuits and administrative proceedings, which have arisen in the ordinary course of business of the Company and its subsidiaries. There has been no major changes in such lawsuits since the Company's Annual Report filing on Form 10-K.

Product Warranties

The Company provides for warranty claims at its cylinders segment. Amounts accrued are estimates of future claims based on historical claims experience or a management estimate related to a specifically identified issue. The Company reevaluates its product warranty reserve quarterly and adjusts it based on changes in historical experience and identification of new or resolution of prior specifically identified issues. A tabular reconciliation of the product warranty reserve for the three-month periods ended March 31, 2005 and 2004 follows (in 000's):

Description	March 31, 2005	March 31, 2004
Beginning balance	$ 100	$ 211
Add: Provision for estimated future claims	39	36
Deduct: Cost of claims	(34)	(30)
Ending balance	$ 105	$ 217

NOTE 7: OPERATING SEGMENT DISCLOSURES

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

	Net Sales	EBITDA(1)	Capital Spending	Total Assets(2)
Three months ended and at March 31, 2005:				At 03/31
Metals:				
Pressure vessels	$ 5,252	$ 389	$ 105	$ 14,271
Cylinders	5,262	414	11	9,043
Grating	1,851	212	-	3,761
Subtotal Metals	12,365	1,015	117	27,075

Plastics	4,931	532	20	8,963
Corporate and other	-	(639)	-	13,969
Discontinued operations	-	-	-	2,704
Totals	$ 17,296	908	$ 137	$ 52,711
Depreciation		(383)		
Interest expense, net		(2,119)		
Loss from continuing operations before income taxes and minority interests		$ (1,594)		

	Net Sales	EBITDA(1)	Capital Spending	Total Assets(2)
Three months ended March 31, 2004 and at December 31, 2004:				At 12/31
Metals:				
Pressure vessels	$ 4,500	$ 869	$ 8	$ 15,403
Cylinders	4,875	299	50	8,452
Grating	2,061	283	-	4,013
Subtotal Metals	11,436	1,451	58	27,868
Plastics	4,384	494	37	8,000
Corporate and other	-	(518)	-	14,601
Discontinued operations	-	-	27	6,127
Totals	$ 15,820	1,427	$ 122	$ 56,596
Gain on extinguishment of debt		3,070		
Depreciation		(439)		
Interest expense, net		(1,779)		
Loss from continuing operations before income taxes		$ 2,294		

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

(2) Corporate and other assets at March 31, 2005 and at December 31, 2004 includes $8.0 million of goodwill that relates to the Company's pressure vessels segment. For evaluation purposes under SFAS No. 142, this goodwill is included in the carrying value of the pressure vessels segment. At March 31, 2005 and December 31, 2004, goodwill of $1.5 million is recorded at each of pressure vessels and cylinders.

NOTE 8: DISCONTINUED OPERATIONS

At March 31, 2005, the assets and liabilities of discontinued operations are comprised of the remaining assets and liabilities of the Rostone business. Such assets and liabilities are as follows (in thousands):

CURRENT ASSETS:	
Cash and cash equivalents	$ 40
Receivables, net	(16)
Inventories, net	300
Other current assets	71
Total current assets	$ 395
CURRENT LIABILITIES:	
Trade payables	$ 760
Other current liabilities	361
Total current liabilities	$ 1,121
OTHER ASSETS:	
Property, plant and equipment, held for sale	$ 2,309
Total other assets	$ 2,911
OTHER LIABILITIES:	
Other liabilities	$ 916

Results of discontinued operations for the first quarter of 2005 relate solely to Rostone while the results of discontinued operations for the first quarter of 2004 include both Rostone and the Company's springs segment. A summarization of such results is as follows (in thousands):

3-months ended March 31, 2005		3-months ended March 31, 2004	
Net sales	$ 1,838	Net sales	$ 3,027
Loss before taxes	(77)	Income before taxes	153

NOTE 9: COMPONENTS OF BENEFIT COSTS

The following tables present the components of net periodic benefit costs for Metals pension and Metals and Corporate Executive Payroll other postretirement plans for the three month periods ended March 31, 2005 and 2004 (000's)(unaudited):

	Pension		Postretirement	
	3-months ended		3-months ended	
	March 31,		March 31,	
	2005	2004	2005	2004
Benefits earned during year	$ 53	$ 35	$ 27	$ 23
Interest cost	57	52	28	29
Amortization of:				
Prior service cost	4	5	-	-
Unrecognized net loss (gain)	16	11	18	18
Unrecognized net obligation	-	-	12	12
Expected return on plan assets	(55)	(45)	-	-
Defined benefit pension and total other postretirement benefits costs	$ 75	$ 58	$ 85	$ 82

The Company expects to contribute $383,602 to the Metals pension plan in May 2005.

The following tables present the components of net periodic benefit costs for Plastics pension and other postretirement plans for the three month periods ended March 31, 2005 and 2004 (000's)(unaudited):

	Pension		Postretirement	
	3-months ended		3-months ended	
	March 31,		March 31,	
	2005	2004	2005	2004
Benefits earned during year	$ -	$ -	$ -	$ 14
Interest cost	56	55	12	35
Amortization of:				
Unrecognized net loss (gain)	15	15	-	13
Expected return on plan assets	(71)	(58)	-	-
Defined benefit pension and				

total other postretirement benefits costs	$ -	$ 12	$ 12	$ 62

The Company expects to contribute $363,000 to the Plastics pension plan in September 2005.

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, 2004.

GENERAL

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

RESULTS OF OPERATIONS

Three Months Ended March 31, 2005 Compared to Three Months Ended March 31, 2004

Net sales, gross margins and EBITDA percentages for the three months ended 2005 and 2004 are as follows. The percentages of EBITDA to net sales excludes corporate and other EBITDA. Including corporate and other EBITDA, the percentages of consolidated EBITDA to net sales for the three month periods ended March 31, 2005 and 2004 are 5.2% and 9.1%, respectively ($'s in 000's):

	Net Sales		Gross Margin		EBITDA	
	2005	2004	2005	2004	2005	2004
Pressure vessels	$ 5,252	$ 4,500	12.9%	24.0%	7.4%	19.3%
Cylinders	5,262	4,875	15.8%	18.4%	7.9%	6.1%
Grating	1,851	2,061	25.3%	25.3%	11.5%	13.7%
Plastics	4,931	4,384	16.2%	16.7%	10.8%	11.3%
Totals	$ 17,296	$ 15,820	16.0%	20.4%	8.9%	12.3%

Net sales for the first quarter of 2005 were up 9.3% from the first quarter of 2004. Such increase reflects sales increases at all of the domestic operations which offset reduced sales of grating at our Chinese joint venture. The increased domestic sales primarily is the result of the 54% increase in the domestic backlog going into the 2005 year over the backlog that existed going into the 2004 year. Pressure vessels sales would have been even higher in the first quarter except for a plant accident in January 2005 that crippled that plant's heat treating operation. Such accident involved property damage which prevented that division from completing and shipping product for a period in excess of five weeks

Gross margin as a percentage of sales in the first quarter of 2005 compared to the first quarter of 2004 was down to 16.0% from 20.4%. This reduction primarily reflects gross margin decreases in the pressure vessel and cylinders segments. Pressure vessel gross margin as a percentage of sales decreased from 24.0% in 2004 to 12.9% in 2005 due primarily to the effect of the plant accident noted above. Cylinder gross margin decreased as a percentage of sales from 18.4% in 2004 to 15.8% in 2005 due primarily to a more favorable product mix in 2004 and plant inefficiencies in 2005 combined with higher material costs that have yet to be passed on to customers. The

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plastics reduction in gross margin in 2005 from 2004 reflects start-up issues related to new molds and higher material costs that have yet to be passed on to customers.

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 was lower in the first quarter of 2005 compared to 2004 primarily due to the same factors affecting gross profit margin discussed above. A reconciliation of EBITDA to operating income for the three months ended March 31, 2005 and 2004 by segment and corporate and other is as follows (000's)(unaudited):

	Operating Profit	Depreciation	EBITDA
2005:			
Pressure vessels	$ 254	$ 135	$ 389
Cylinders	380	34	414
Grating	209	3	212
Plastics	332	200	532
Corporate and other	(650)	11	(639)
Totals	$ 525	$ 383	$ 908
2004:			
Pressure vessels	$ 722	$ 147	$ 869
Cylinders	250	49	299
Grating	283	-	283
Plastics	262	232	494
Corporate and other	(514)	11	(503)
Totals	1,003	$ 439	$ 1,442
Gain on debt extinguishment	3,070		
Operating profit	$ 4,073		

Selling, General and Administrative

Selling, general and administrative (SGA) expenses for the first quarter of 2005 were $2.3 million, down $61,000 from the expenses for the first quarter of 2004. This decrease in expense is partially related to reductions in staff and partially related to other expense reductions. As a percentage of sales, SGA expenses decreased to 13.0% for the first quarter of 2005 compared to 14.7% for the first quarter of 2004 as, even with higher sales, the majority of the Company's domestic divisions recorded lower expenses in 2005 than in 2004. [The Company continues to look for ways to cut costs in all areas.]

Other Income

Other income for the first quarter of 2005 was $9,000, compared to other income of $94,000 for the first quarter of 2004. There were no significant offsetting items of other income and expense in either period.

Minority Interests

Minority interests for the first quarter in 2005 and 2004 was $73,000 and $98,000, respectively. These amounts represent the income during the quarter allocated to the minority ownerships of the Company's consolidated foreign grating joint venture. Minority interests are calculated based on the percentage of minority ownership. From a balance sheet perspective, minority interest was reduced by the minority ownership of the 2005 declared dividend.

Interest Expense

Interest expense for the first quarter of 2005 was $2.1 million compared to $1.8 million for the first quarter of 2004. Of this increase, approximately 40% is due to the higher level of amortization of deferred financing costs and estimated warrant value, approximately 33% is due to the interest accrued on the Senior Note interest that the Company was not able to make in January of 2005, as discussed earlier under Note 2 to the financial statements "RECENT DEVELOPMENTS", and the remaining increase is due to an increase in interest rates in the 2005 period over the 2004 period.

Income Taxes

There was no tax provision from continuing operations in the first quarter of 2005 or 2004. The Company has net operating loss carryforwards for Federal tax return reporting purposes totaling $64.1 million at December 31, 2004. The years in which such net operating losses expire are as follows (000's):

Year ending December 31:	
2007	$ 6,067
2008	609
2009	3,235
2010	2,520
After 2010	51,666

[The Company may be able to utilize its loss carryforwards against possible increased future profitability.] However, management has determined to fully reserve for the total amount of net deferred tax assets as of March 31, 2005 [and to continue to do so during 2005 until management can conclude that it is more likely than not that some or all of our loss carryforwards can be utilized.]

LIQUIDITY AND CAPITAL RESOURCES

General

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

Recent Events

Default and Waiver Under Revolving and Term Loan Credit Facility

On December 3, 2003, the Company entered into a revolving and term loan credit facility with Congress Financial Corporation (Congress). The Congress facility requires Reunion to comply with financial covenants and other covenants, including a minimum amount of earnings before interest, taxes,

depreciation and amortization (EBITDA) and a minimum fixed charge coverage ratio. In November 2004, Congress and the Company entered into an amendment of the revolving and term loan credit facility wherein Congress eliminated the fixed charge coverage ratio and reduced the monthly minimum EBITDA covenant going forward. Under the November 2004 amendment, the Company was required to maintain new minimum monthly amounts of EBITDA of $280,000 in November 2004, $290,000 in December 2004, $350,000 in January 2005, $280,000 in February 2005 and $300,000 per month thereafter. In January 2005, the Company failed to meet the minimum monthly amount, when it had an EBITDA loss for the month of $39,000. Congress has waived this EBITDA shortfall, and the Company is currently not in default under the Congress Loan Agreement

13% Senior Notes

On February 3, 2005, the Company announced that it was unable to make a $2,928,000 interest payment by February 2, 2005 to the holders of the 13% Senior Notes. Holders of more than 80% of the principal amount of such Senior Notes agreed to enter into a Standstill Agreement with the Company, pursuant to which such holders agreed that they would not exercise and will cause the Trustee not to exercise any remedies provided for in the Indenture under which the Senior Notes were issued, or any other agreements related to such notes, with respect to this payment default or with respect to a potential event of default if the Company fails to make the next scheduled interest payment due April 1, 2005. In the Standstill Agreement, such holders agreed to defer the $2,928,000 of interest not paid, plus any interest that is not paid on the next regularly scheduled due date of April 1, 2005, to December 2006. On April 1, 2005 the Company was unable to make this scheduled interest payment.

Sale of Assets

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

During the first quarter of 2005, the Company did sell all of the assets and liabilities of its leaf spring manufacturing segment, located in Miami, OK, to an unrelated entity for $792,000. Of this amount, $250,000 was used to pay down the private capital fund note payable secured by the real property, $41,000 was used to pay down the Congress term loan secured by the machinery and equipment and the remaining amount was used to reduce the borrowings under the revolving credit facility. The Company recorded a loss of $318,000 on such sale which was provided for in the Company's 2004 year.

Additionally, during the first quarter of 2005, the Company sold certain of the receivables, inventory and intangibles of its thermoset plastics operation located in Lafayette, IN, along with certain of its machinery and equipment. The sale of such assets was accomplished in two separate transactions, with the sale of certain of the Company's compounding operation assets being sold to one unrelated entity and the sale of certain of the Company's molding operation assets being made to a different unrelated entity. At the time of such sale, the Company entered into tolling or manufacturing agreements with such buyers under which the Company agreed to operate the compounding and molding operations at its Lafayette, IN facility for a limited time until the buyers could move such operations to different geographical locations. The buyers agreed to reimburse the Company for all expenses in connection with these activities. [It is expected that at least some operation will continue at the Lafayette plant until late in the second quarter of 2005.] The sale of the selected assets noted above was for

approximately $2.9 million. Of this amount, $712,000 was used to pay down the Congress term loan secured by the machinery and equipment and the remaining amount was used to reduce the borrowings under the revolving credit facility. The Company recorded a gain of approximately $370,000 on such sales. [The Company plans to sell the remaining assets of this thermoset business during the 2005 year.]

SUMMARY OF 2005 ACTIVITIES

Cash and cash equivalents totaled $1.0 million at March 31, 2005, compared to $1.1 million at December 31, 2004, a decrease of $0.1 million. This resulted from approximately $0.4 million of cash being used in operating activities and $3.2 million of cash being used in financing activities to pay down debt being almost offset by $3.5 million of net cash provided by investing activities as the result of sales of assets. Cash and cash equivalents at the end of a period generally represents lockbox receipts from customers to be applied to our Congress revolving credit facility in the following one to two business days.

Operating Activities

Operating activities used $0.4 million in cash in the first three months of 2005 as increases of $0.8 million in receivables and inventories were only partially funded by an increase in trade payables and other liabilities.

Investing Activities

Investing activities generated $3.5 million as the sales of the springs segment and Rostone, as described above, were offset by capital expenditures of $0.1 million.

Financing Activities

The Company made scheduled repayments of the Congress term loan totaling $159,000. Additionally, in connection with the sale of the springs segment and the Rostone business, as described above, the Company paid an additional $1.0 million on its existing non-revolving credit debt. Revolving credit facility borrowings decreased $2.1 million during the first quarter of 2005, primarily the result of the asset sales described above.

FACTORS THAT COULD AFFECT FUTURE RESULTS

Reunion's vendors may restrict credit terms

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

Reunion's bank financing is subject to financial covenants

We are currently not in default on our bank financing and senior notes. However, our bank financing is subject to monthly financial and other covenants, and we have failed to meet such covenants on several occasions, for which we were able to obtain default waivers. If our operations do not improve during 2005, we may fail to meet one or more financial or other covenants. If this would happen, we would be in default on our bank obligations and, subject to the terms of the loan and security agreement, all of our bank loans would be due and payable. Although it may be possible to negotiate additional waivers of defaults, no assurances can be given that we would be able to do so.

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Reunion operates in highly competitive mature, niche markets

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

Reunion's past performance could impact future prospects

Because of losses suffered by the Company over the past several years, potential or current customers may decide not to do business with us. If this were to happen, our sales may not increase or may decline. If sales do not increase, or we experience a decline in sales, our ability to cover costs would be further reduced, which could negatively impact our financial position and results of operations.

Reunion is a going concern

The financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. At March 31, 2005, the Company has a deficiency in working capital of $15.1 million, a loss from continuing operations for the three months then ended of $1.7 million and a deficiency in assets of $27.0 million. These conditions raise substantial doubt about the

Company's ability to continue as a going concern. The financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts and classifications of liabilities that may result from the outcome of this uncertainty.

We successfully refinanced our bank debt in December 2003 and have extinguished a significant portion of our obligations under various debt instruments over the past year. These steps have improved liquidity and deferred the principal maturities on a significant portion of our debt. However, on February 3, 2005, we announced that we were unable to make a $2,928,000 interest payment by February 2, 2005 to the holders of the Senior Notes. Holders of more than 80% of the principal amount of the Senior Notes agreed to enter into a Standstill Agreement with the Company. Pursuant to such Standstill Agreement, holders agreed that they would not exercise and will cause the Trustee not to exercise any remedies provided for in the Indenture under which the Senior Notes were issued, or any other agreements related to the Senior Notes, with respect to this payment default or with respect to a potential Event of Default if the Company fails to make the next scheduled interest payment due April 1, 2005. In the Standstill Agreement, such holders agreed to defer payment of the interest not paid by February 2, 2005, and any interest that is due April 1, 2005 and not paid, to December 2006. Although it may be possible to negotiate additional waivers of defaults, no assurances can be given that we would be able to do so.

The Company is investigating other recapitalization scenarios in an effort to provide additional liquidity and extinguishments or deferrals of debt obligations. Although we believe we can accomplish these plans, no assurances exist that we will. Failure to accomplish these plans could have an adverse impact on the Company's liquidity, financial position and future operations.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

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

Item 4. Controls and Procedures

As required by Rule 13a-15(b) of the Securities Exchange Act of 1934, as amended, Reunion?s management, including its Chief Executive Officer and Chief Financial Officer, conducted an evaluation as of the end of the period covered by this report, of the effectiveness of Reunion?s disclosure controls and procedures as defined in Rule 13a-15(e). Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that Reunion?s disclosure controls and procedures were effective as of the end of the period covered by this report. As required by Rule 13a-15(d), Reunion?s management, including its Chief Executive Officer and Chief Financial Officer, also conducted an evaluation of Reunion?s internal control over financial reporting to determine whether any changes occurred during the quarter that have materially affected, or are reasonably likely to materially affect, Reunion?s internal control over financial reporting. Based on that evaluation, corrective action has been initiated in the Plastics operations to address the deterioration of controls noted in the Company's latest annual report filing on Form 10-K. No other deterioration or changes were noted.

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

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

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

Item 6. Exhibits and Reports on Form 8-K

(b) Reports on Form 8-K

Company filed a Current Report on Form 8-K dated and filed on February 3, 2005 to announce that, following the failure of the Company by February 2, 2005 to make a $2,928,000 interest payment to the holders of its 13% Senior Notes, holders of more than 80% of the principal of such notes had entered into a Standstill Agreement with the Company. Pursuant to such Standstill Agreement, holders agreed that they would not exercise and will cause the Trustee not to exercise any remedies provided for in the Indenture under which the Senior Notes were issued, or any other agreements related to the Senior Notes, with respect to this payment default or with respect to a potential Event of Default if the Company fails to make the next scheduled interest payment due April 1, 2005. In the Standstill Agreement, such holders agreed to defer payment of the interest not paid by February 2, 2005, and any interest that is due April 1, 2005 and not paid, to December 2006.

(c) Exhibits

Exhibit No.	Exhibit Description
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

SIGNATURES

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

Date: May 16, 2005

REUNION INDUSTRIES, INC.
(Registrant)

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

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

By: /s/ John M. Froehlich

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

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EXHIBIT 31.1

CERTIFICATION

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

1. I have reviewed this quarterly report on Form 10-Q of Reunion Industries, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   (b) Evaluated the effectiveness of the registrant's disclosure controls and

procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
(c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

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

Date: May 16, 2005

/s/ Charles E. Bradley, Sr.

Chief Executive Officer

EXHIBIT 31.2

CERTIFICATION

I, John M. Froehlich, certify that:
1. I have reviewed this quarterly report on Form 10-Q of Reunion Industries, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
(a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
(b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end

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

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

Date: May 16, 2005

/s/ John M. Froehlich

Chief Financial Officer

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EXHIBIT 32.1

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

In connection with this quarterly report on Form 10-Q of Reunion Industries, Inc. for the quarter ended March 31, 2005, I, Charles E. Bradley, Sr., Chief Executive Officer of Reunion Industries, Inc., hereby certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 Of the Sarbanes-Oxley Act of 2002, that:

1. this Form 10-Q for the quarter ended March 31, 2005 fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. the information contained in this Form 10-Q for the quarter ended March 31, 2005 fairly presents, in all material respects, the financial condition and results of operations of Reunion Industries, Inc. for the periods presented therein.

Date: May 16, 2005

/s/ Charles E. Bradley, Sr.

Chief Executive Officer

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EXHIBIT 32.2

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

In connection with this quarterly report on Form 10-Q of Reunion Industries, Inc. for the quarter ended March 31, 2005, I, John M. Froehlich, Chief Financial Officer of Reunion Industries, Inc., hereby certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 Of the Sarbanes-Oxley Act of 2002, that:

1. this Form 10-Q for the quarter ended March 31, 2005 fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. the information contained in this Form 10-Q for the quarter ended March 31, 2005 fairly presents, in all material respects, the financial condition and results of operations of Reunion Industries, Inc. for the periods presented therein.

Date: May 16, 2005

/s/ John M. Froehlich

Chief Financial Officer