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REUNION INDUSTRIES INC
Form 10-Q
May 15, 2001

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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 March 31, 2001

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 April 30, 2001, 15,235,624 shares of common stock, par value \$.01 per share, were outstanding.

=====

FORWARD-LOOKING STATEMENTS AND ASSOCIATED RISKS

This report contains certain forward-looking statements within the meaning of Section 27A of the Securities Act and Section 21E of the Exchange Act 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. Note that all forward-looking statements involve risks and uncertainties, including, without limitation, factors 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. 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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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

REUNION INDUSTRIES, INC.
CONDENSED CONSOLIDATED BALANCE SHEET
AT MARCH 31, 2001 AND DECEMBER 31, 2000
(in thousands)

| | At March 31, 2001 ----- (unaudited) | At December 31, 2000 ----- |
|--|--|----------------------------------|
| ASSETS: | | |
| Cash and cash equivalents | \$ 886 | \$ 1,826 |
| Receivables, net | 35,938 | 31,777 |
| Advances to employees | 233 | 233 |
| Inventories, net | 19,723 | 21,781 |
| Other current assets | 3,522 | 3,307 |
| Net assets of discontinued operations | - | 9 |
| | ----- | ----- |
| Total current assets | 60,302 | 58,933 |
| Property, plant and equipment, net | 31,034 | 31,166 |
| Due from related parties | 1,606 | 3,950 |
| Goodwill, net | 27,007 | 18,837 |
| Other assets, net | 16,832 | 17,069 |
| | ----- | ----- |
| Total assets | \$136,781 ===== | \$129,955 ===== |
| LIABILITIES AND STOCKHOLDERS' EQUITY: | | |
| Revolving credit facilities | \$ 24,763 | \$ 19,367 |
| Current maturities of debt | 6,441 | 4,061 |
| Trade payables | 17,043 | 21,662 |
| Due to related parties | 472 | 224 |
| Other current liabilities | 15,896 | 15,133 |
| Net liabilities of discontinued operations | 607 | - |
| | ----- | ----- |
| Total current liabilities | 65,222 | 60,447 |
| Long-term debt | 43,507 | 42,656 |
| Long-term debt - related party | 4,615 | 4,015 |
| Other liabilities | 1,117 | 1,278 |
| | ----- | ----- |
| Total liabilities | 114,461 | 108,396 |
| Commitments and contingent liabilities | - | - |

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| | | |
|--|-----------|-----------|
| Stockholders' equity | 22,320 | 21,559 |
| | ----- | ----- |
| Total liabilities and stockholders' equity | \$136,781 | \$129,955 |
| | ===== | ===== |

See accompanying notes to condensed consolidated financial statements.

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REUNION INDUSTRIES, INC.
CONDENSED CONSOLIDATED STATEMENT OF INCOME AND COMPREHENSIVE INCOME
FOR THE THREE MONTHS ENDED MARCH 31, 2001 AND 2000
(in thousands, except per share information) (unaudited)

| | Three Months Ended | |
|--|--------------------|-------------------|
| | March 31, 2001 | March 31, 2000 |
| | ----- | ----- |
| Operating revenue: | | |
| Metals Group | \$ 37,388 | \$ 34,448 |
| Plastics Group | 12,235 | 3,109 |
| | ----- | ----- |
| Total sales | 49,623 | 37,557 |
| | ----- | ----- |
| Cost of sales: | | |
| Metals Group | 28,931 | 28,184 |
| Plastics Group | 10,233 | 2,594 |
| | ----- | ----- |
| Total cost of sales | 39,164 | 30,778 |
| | ----- | ----- |
| Gross profit | 10,459 | 6,779 |
| Selling, general & administrative | 6,328 | 4,008 |
| Other expense, net | 569 | 294 |
| | ----- | ----- |
| Operating profit | 3,562 | 2,477 |
| Interest expense, net | 2,409 | 2,129 |
| Equity in loss of continuing operations of affiliate | - | 296 |
| | ----- | ----- |
| Income from continuing operations before income taxes | 1,153 | 52 |
| Provision for (benefit from) income taxes | 392 | (817) |
| | ----- | ----- |
| Income from continuing operations | 761 | 869 |
| Loss from discontinued operations, net of tax of \$-0- | - | 74 |
| | ----- | ----- |
| Income before extraordinary items | 761 | 795 |
| | ----- | ----- |
| Extraordinary items, net of tax of \$-0-: | | |
| Write-off of deferred financing costs | - | (1,501) |
| Equity in loss of extraordinary item of affiliate | - | (271) |
| | ----- | ----- |
| Loss from extraordinary items | - | (1,772) |
| | ----- | ----- |
| Net and comprehensive income (loss) | \$ 761 | \$ (977) |
| | ===== | ===== |

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REUNION INDUSTRIES, INC.
 CONDENSED CONSOLIDATED STATEMENT OF INCOME AND COMPREHENSIVE INCOME
 FOR THE THREE MONTHS ENDED MARCH 31, 2001 AND 2000 (continued)
 (in thousands, except per share information) (unaudited)

| | Three Months Ended | |
|---|--------------------|-------------------|
| | March 31, 2001 | March 31, 2000 |
| | ----- | ----- |
| Income (loss) applicable to common stockholders | \$ 761 | \$ (1,072) |
| | ===== | ===== |
| Earnings per common share - basic: | | |
| Continuing operations | \$ 0.05 | \$ 0.08 |
| Discontinued operations | - | (0.01) |
| Extraordinary items | - | (0.18) |
| | ----- | ----- |
| Income (loss) per common share - basic | \$ 0.05 | \$ (0.11) |
| | ===== | ===== |
| Weighted average shares outstanding - basic | 15,236 | 9,910 |
| | ===== | ===== |
| Earnings per common share - diluted: | | |
| Continuing operations | \$ 0.05 | \$ 0.08 |
| Discontinued operations | - | (0.01) |
| Extraordinary items | - | (0.18) |
| | ----- | ----- |
| Income (loss) per common share - diluted | \$ 0.05 | \$ (0.11) |
| | ===== | ===== |
| Weighted average shares outstanding - diluted | 15,340 | 9,910 |
| | ===== | ===== |

See accompanying notes to condensed consolidated financial statements.

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REUNION INDUSTRIES, INC.
 CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
 FOR THE THREE MONTHS ENDED MARCH 31, 2001 AND 2000
 (in thousands)
 (unaudited)

| | Three Months Ended | |
|---|--------------------|-------------------|
| | March 31, 2001 | March 31, 2000 |
| | ----- | ----- |
| Cash used in operating activities | \$ (4,507) | \$ (1,258) |
| | ----- | ----- |
| Cash flow from investing activities: | | |
| Capital expenditures | (799) | (572) |
| Acquisition of NPSAC common stock | (10) | - |
| Acquisition of Kingway common stock | - | (100) |
| Cash acquired in merger | - | 2,666 |
| | ----- | ----- |
| Cash provided by (used in) investing activities | (809) | 1,994 |

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| | | |
|---|---------|----------|
| Cash flow from financing activities: | | |
| Proceeds from issuance of debt | - | 30,800 |
| Net change in revolving credit facilities | 5,396 | 24,167 |
| Repayments of debt | (1,632) | (50,642) |
| Repayments of debt - related party | - | (1,076) |
| Payments of deferred financing costs and closing fees | - | (1,404) |
| | ----- | ----- |
| Cash provided by financing activities | 3,764 | 1,845 |
| | ----- | ----- |
| Net increase (decrease) in cash and cash equivalents | (1,552) | 2,581 |
| Less: Change in cash of discontinued operations | 612 | - |
| Cash and cash equivalents, beginning of year | 1,826 | 252 |
| | ----- | ----- |
| Cash and cash equivalents, end of period | \$ 886 | \$ 2,833 |
| | ===== | ===== |

See accompanying notes to condensed consolidated financial statements.

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REUNION INDUSTRIES, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2001

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 month period ended March 31, 2001 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, schedules and notes contained in Reunion's Annual Report on Form 10-K for the year ended December 31, 2000.

Recent Accounting Pronouncement

The Financial Accounting Standards Board issued Statement of Financial Accounting Standard No. 133 "Accounting for Derivative Instruments and Hedging Activities." This statement requires that derivative instruments such as options, forward contracts and swaps be recorded as assets and liabilities at fair value and provides guidance for recognition of changes in fair value depending on the reason for holding the derivative. Reunion Industries does not presently have transactions involving derivative instruments.

NOTE 2: RECENT DEVELOPMENTS AND OTHER MATTERS OF IMPORTANCE

Additional Shares of Reunion Common Stock

In the merger, Reunion issued 9,500,000 shares of common stock to holders of Chatwins Group's common stock. The merger agreement also provided that up to an additional 500,000 shares of Reunion common stock would be issued to

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former Chatwins Group common stockholders if the former Chatwins Group businesses and the acquired Kingway business achieve specified performance levels in 2000. A preliminary determination of the number of shares to be issued was made by the board of directors at its meeting held on May 15, 2001. Such additional shares total 349,000.

Acquisition of NPS Acquisition Corp.

On January 17, 2001, the Company acquired NPS Acquisition Corp. (f/k/a Naptech Pressure Systems) from Charles E. Bradley, Sr. (Mr. Bradley), the Company's chairman of the board and chief executive officer. NPSAC is based in Clearfield, Utah and manufactures seamless steel pressure vessels, an existing Metals Group product line.

The purchase price was \$10,000 plus the assumption of \$10.3 million of NPSAC's liabilities, including a 15% per annum \$6.9 million note payable to Shaw Industries, the former owner of Naptech Pressure Systems. Simultaneously with the acquisition, Reunion paid Shaw Industries \$2.0 million of the note payable in cash from funds available under its revolving credit facility with Bank of America (BOA). The remainder of the note payable of \$4.9 million was then restructured to include quarterly principal payments of \$0.6 million for eight quarters which began on February 28, 2001. Reunion made the first payment from funds available under its revolving credit facility. The note is unsecured and subordinate to the BOA term loan and revolving credit facilities and the 13% senior notes.

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The transaction was accounted for as a purchase under APB 16. The estimated fair value of assets acquired included approximately \$1.4 million of cash, receivables, inventories and other current assets and approximately \$0.3 million of fixed assets. The purchase price in excess of net assets acquired of \$8.6 million was recorded as goodwill and is being amortized over 15 years.

Repayment of \$120,000 of 13% Senior Notes

Chatwins Group was required to make sinking fund payments to redeem \$12.5 million principal amount of the senior notes on May 1 in each of 2000 through 2003 at face value plus accrued interest and to offer to purchase \$25 million of the senior notes on June 1, 2000 at face value plus accrued interest. In February 2000, Chatwins Group solicited the holders of the \$49,975,000 of 13% senior notes outstanding asking them to waive their right to participate in the June 1, 2000 \$25.0 million purchase offer, of which \$47,450,000 agreed to waive such right resulting in a maximum purchase offer obligation on June 1, 2000 of \$2,525,000.

As such, on June 1, 2000 Reunion made the required offer to purchase \$2,525,000 of senior notes, of which holders of only \$120,000 of senior notes tendered. However, the \$25.0 million of 13% senior notes repaid from the merger proceeds was and can be applied against Reunion's obligations for sinking fund payments and the purchase offer as follows (in thousands):

| | May 1, 2000 | June 1, 2000 | May 1, 2001 | Total |
|--|----------------|-----------------|----------------|-----------|
| | ----- | ----- | ----- | ----- |
| Sinking fund payment or purchase offer obligation | \$ 12,500 | \$ 120 | \$ 12,500 | \$ 25,120 |
| \$25.0 million applied to obligations | (12,500) | (120) | (12,380) | (25,000) |
| | ----- | ----- | ----- | ----- |
| Maximum required payment | \$ - | \$ - | \$ 120 | \$ 120 |
| | ===== | ===== | ===== | ===== |

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Therefore, \$120,000 principal amount of 13% senior notes was repaid by the Company on May 1, 2001 from funds available under its revolving credit facility. Of the remaining \$24.855 million of senior notes, \$12.5 million is scheduled to be repaid in May 2002 and \$12.355 million is scheduled to be repaid in May 2003.

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

| | At March 31, 2001 ----- (unaudited) | At December 31, 2000 ----- |
|---|--|----------------------------------|
| 13% senior notes due May 1, 2003 (net of unamortized discount of \$11 and \$14) | \$ 24,964 | \$ 24,961 |
| BOA term loan A due March 16, 2007 | 18,836 | 19,757 |
| BOA capital expenditure facility | 605 | 640 |
| Note payable due February 28, 2003 | 4,252 | - |
| Other | 1,291 | 1,359 |
| Other - related parties | 4,615 | 4,015 |
| | ----- | ----- |
| Total long-term debt | 54,563 | 50,732 |
| Current maturities | (6,441) | (4,061) |
| | ----- | ----- |
| Total long-term debt, less current maturities | \$ 48,122 ===== | \$ 46,671 ===== |

Payment of Semi-Annual Interest on 13% Senior Notes

On May 1, 2001 the Company made its \$1.623 million semi-annual interest payment on its 13% senior notes from funds available under its revolving credit facility.

Payment of \$680,000 Industrial Revenue Development Bonds

Upon the sale of its domestic grating operations in September 1999, the Company retained an obligation for a \$680,000 note payable due May 1, 2001 related to an industrial development revenue bond issue by Orem City, Utah. This note payable was repaid in May 2001 from funds available under the Company's revolving credit facility.

2001 Covenant Compliance

For quarters ended March 31, 2001 and for each fiscal quarter thereafter in 2001, the BOA financing and security agreement required the Company to maintain a minimum fixed charge coverage ratio of 1.25:1 and maximum funded debt to EBITDA ratios of 3.75:1, 3.50:1, 3.25:1 and 3.00:1.

Because the Company's 2001 business plan includes assumptions regarding results of operations and economic conditions, achievement of which is necessary for compliance with the financial covenants included in the BOA financing and security agreement in 2001, particularly the third and fourth quarters, in April 2001, the Company entered into a letter agreement with Bank of America whereby, as long as the Company maintains both a fixed charge coverage ratio of at least 1.00:1 and has a funded debt to EBITDA ratio of no more than 4.50:1 as of the September 30, 2001 and December 31, 2001 calculation dates, and as long as the Company is in compliance on all other

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covenants, the Bank of America will not accelerate any of its loans.

For the quarter ended March 31, 2001, the Company's fixed charge coverage ratio was 1.48:1 and the funded debt to EBITDA ratio was 2.94:1.

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NOTE 3: INVENTORIES

Inventories are comprised of the following (in thousands):

| | At March 31, 2001 ----- (unaudited) | At December 31, 2000 ----- |
|----------------------------|--|----------------------------------|
| Metals Group: | | |
| Raw material | \$ 4,502 | \$ 5,933 |
| Work-in-process | 5,380 | 4,295 |
| Finished goods | 5,092 | 7,214 |
| | ----- | ----- |
| Gross inventories | 14,974 | 17,442 |
| Less: LIFO reserves | 80 | 80 |
| | ----- | ----- |
| Metals Group inventories | 15,054 | 17,522 |
| | ----- | ----- |
| Plastics Group: | | |
| Raw material | 2,898 | 2,584 |
| Work-in-process | 310 | 323 |
| Finished goods | 1,461 | 1,352 |
| | ----- | ----- |
| Plastics Group inventories | 4,669 | 4,259 |
| | ----- | ----- |
| Inventories | \$ 19,723 ===== | \$ 21,781 ===== |

NOTE 4: STOCKHOLDERS' EQUITY AND EARNINGS PER SHARE

The following represents a reconciliation of the change in stockholders' equity for the three month period ended March 31, 2001 (in thousands):

| | Par Value of Common Stock | Capital in Excess of Par Value | Accum- ulated Deficit | Total |
|-----------------------|---------------------------------------|--|-----------------------------|--------------------|
| | ----- | ----- | ----- | ----- |
| At January 1, 2001 | \$152 | \$24,608 | \$ (3,201) | \$ 21,559 |
| Activity (unaudited): | | | | |
| Net income | - | - | 761 | 761 |
| | ----- | ----- | ----- | ----- |
| At March 31, 2001 | \$152 ===== | \$24,608 ===== | \$ (2,440) ===== | \$ 22,320 ===== |

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The computations of basic and diluted earnings per common share (EPS) for the three month periods ended March 31, 2001 and 2000 are as follows (in thousands, except per share amounts) (unaudited):

| | Income | Shares | EPS |
|---|------------|--------|-----------|
| | ----- | ----- | ----- |
| Three months ended March 31, 2001: | | | |
| Income applicable to common stockholders, weighted average shares outstanding and basic EPS | \$ 761 | 15,236 | \$ 0.05 |
| | | | ===== |
| Dilutive effect of stock options | | 104 | |
| | ----- | ----- | |
| Income applicable to common stockholders, shares outstanding and diluted EPS | \$ 761 | 15,340 | \$ 0.05 |
| | ===== | ===== | ===== |
| Three months ended March 31, 2000: | | | |
| Net loss | \$ (977) | | |
| Less: Preferred stock dividend accretions | (95) | | |
| | ----- | | |
| Loss applicable to common stockholders, weighted average shares outstanding and basic and diluted EPS | \$ (1,072) | 9,910 | \$ (0.11) |
| | ===== | ===== | ===== |

At March 31, 2001, the Company's stock options outstanding totaled 868,000, of which 331,000 were at exercise prices below the average market price of the underlying security during the first quarter 2001. Such options include a dilutive component of 103,805 shares. The assumed conversion of potentially dilutive instruments is inconsequential in the three month period ended March 31, 2000. Therefore, basic and dilutive EPS are equal.

NOTE 5: 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.

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

The Company has been named as a defendant in seven related lawsuits filed in December 2000 or early 2001 in the Superior Court for Los Angeles County, California. The plaintiffs in these suits except one are structured settlement payees to whom Stanwich Financial Services Corp. (SFSC) is indebted. The Company and SFSC are related parties.

In addition to the Company, there are numerous defendants in these suits, including SFSC, Mr. Bradley, 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. Although the claims made and the relief sought vary somewhat from suit to suit, in general (1) the suits allege breach of contract, breach of fiduciary duty, negligence, conversion, fraudulent conveyance, fraud and violations of certain statutes and (2) the relief sought includes compensatory and punitive damages, statutory penalties 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 structured settlement business. They also 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 in three of the suits claim class action status.

The plaintiffs' theory of liability against the Company in these suits is based on allegations that the Company is the alter ego of SFSC and Mr. Bradley, sole shareholder and director of SFSC, and that the Company participated in the actions and omissions alleged. The Company denies these allegations and intends to vigorously defend against these lawsuits.

The Company has been named in approximately 195 separate asbestos suits filed since January 1, 2001 by two 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 Steel Mill in Wayne County, Michigan and that those cranes contained asbestos to which plaintiffs were exposed over a 40 year span. As of the date of this report, 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. 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.

Reunion is involved in various litigation matters in the ordinary course of business. In the opinion of management, settlement of these and other contingent matters will not have any material effect on the Company's financial position, results of operations or liquidity.

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

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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

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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. The Company has expended \$262,000 and has accrued an additional \$133,000 based on current estimates of remediation costs.

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 Office of Conservation. 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 1998 the Company increased this accrual by a charge of \$1,200,000, based on revised estimates of the remaining remediation costs. 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. No decision has been rendered to date, but the Company does not believe that the cost of future remediation will exceed the amount accrued. No remediation was performed in 2000 pending the decision. However, the Company paid \$118,000 for its share of legal and consulting services in connection with the hearings. At March 31, 2001, the balance accrued for these remediation costs is approximately \$1,141,000. 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.

NOTE 6: OPERATING SEGMENT DISCLOSURES

The Company owns and operates a diverse group of industrial manufacturing operations that design and manufacture highly engineered, high-quality

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products for specific customer requirements, such as large-diameter seamless pressure vessels, hydraulic and pneumatic cylinders, precision plastic components, heavy-duty cranes and materials handling systems. The Company's customers include original equipment manufacturers and end-users in a variety of industries, such as transportation, power generation, chemicals, metals, home electronics, office equipment and consumer goods. The Company's business units are organized into two major operating groups:

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The Metals Group, through its five manufacturing divisions (representing the divisions of the former Chatwins Group plus the acquired Kingway and NPSAC business), designs, manufactures and markets a broad range of fabricated and machined industrial metal parts and products to original equipment manufacturers and end-users. The Metals Group serves over 5,000 customers.

The Plastics Group (which is comprised of the pre-merger plastics business units of Reunion) manufactures precision molded plastic parts and provides engineered plastics services to more than 500 original equipment manufacturers.

Reunion Industries considers these groups to be its reportable segments pursuant to the management approach.

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, 2001: | | | | |
| Metals Group | \$ 37,388 | \$ 5,600 | \$ 661 | \$ 67,955 |
| Plastics Group | 12,235 | 753 | 137 | 25,854 |
| Corporate and other | - | (966) | 1 | 42,972 |
| | ----- | ----- | ----- | ----- |
| Totals | \$ 49,623 | 5,387 | \$ 799 | \$136,781 |
| | ===== | ----- | ===== | ===== |
| Depreciation and amortization(3) | | (1,825) | | |
| Interest expense | | (2,409) | | |
| | | ----- | | |
| Income from continuing operations before income taxes | | \$ 1,153 | | |
| | | ===== | | |
| Three months ended March 31, 2000 and at December 31, 2000: | | | | |
| Metals Group | \$ 34,448 | \$ 3,953 | \$ 566 | \$ 69,838 |
| Plastics Group | 3,109 | 244 | - | 23,485 |
| Corporate and other | - | (709) | 6 | 36,623 |
| Discontinued operations | - | - | - | 9 |
| | ----- | ----- | ----- | ----- |
| Totals | \$ 37,557 | 3,488 | \$ 572 | \$129,955 |
| | ===== | ----- | ===== | ===== |
| Depreciation and amortization(3) | | (1,011) | | |
| Interest expense | | (2,129) | | |
| Equity in loss of continuing operations of affiliate | | (296) | | |
| | | ----- | | |
| Income from continuing operations before income taxes | | \$ 52 | | |
| | | ===== | | |

(1) EBITDA (earnings before interest, taxes, depreciation and amortization)

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is the primary measure used by management in assessing performance.

(2) Headquarters total assets at March 31, 2001 and December 31, 2000 are primarily comprised of goodwill of \$23.9 million and \$15.7 million, respectively, and deferred tax assets of \$12.9 million at each.

(3) Excludes amortization of debt issuance expenses of \$174,000 and \$252,000 for the three month periods ended March 31, 2001 and 2000, respectively, which is included in interest expense.

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NOTE 7: DISCONTINUED OPERATIONS

On October 27, 2000, the Company sold substantially all of its wine grape agricultural operations and real estate holdings in Napa County, California. The Company classified and began accounting for the agricultural operations as discontinued operations in accordance with Accounting Principles Board Opinion No. 30, "Reporting the Results of Operations - Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions" (APB 30), which requires discontinued operations to be reported separately from continuing operations.

During 1999, Chatwins Group's management adopted plans to exit the grating manufacturing business and oil and gas business through the disposition of all of its grating and oil and gas related assets. Upon adoption of the plans, Chatwins Group classified and began accounting for such businesses as discontinued operations in accordance with APB 30.

At March 31, 2001 and December 31, 2000, the assets and liabilities of discontinued operations are comprised primarily of the assets and liabilities of the discontinued wine grape agricultural business, the remaining reserve for expenses of the discontinued grating business and a \$680,000 note payable due May 1, 2001 related to an industrial development revenue bond issue by Orem City, Utah, retained by the Company upon the sale of its domestic grating operations. This note payable was repaid in May 2001. The assets and liabilities have been separately classified on the balance sheet as net assets of (liabilities) discontinued operations. A summary follows (in thousands):

| | At March 31, 2001 | At December 31, 2000 |
|--|----------------------|-------------------------|
| | ----- | ----- |
| ASSETS: | (unaudited) | |
| Cash and cash equivalents | \$ 99 | \$ 711 |
| Receivables, net | 40 | 690 |
| Property held for sale | 246 | 252 |
| | ----- | ----- |
| Total assets | 385 | 1,653 |
| | ----- | ----- |
| LIABILITIES AND EQUITY: | | |
| Current maturities of debt | 680 | 680 |
| Trade payables | - | 478 |
| Other current liabilities | 24 | 36 |
| Reserve for estimated expenses | 288 | 450 |
| | ----- | ----- |
| Total liabilities | 992 | 1,644 |
| | ----- | ----- |
| Net assets (liabilities) of discontinued operations | \$ (607) | \$ 9 |
| | ===== | ===== |

Pursuant to APB 30, the consolidated financial statements reflect the

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operating results of discontinued operations separately from continuing operations. For 2001, there are no results from discontinued operations. For 2000, results of discontinued operations relate to the Company's discontinued wine grape agricultural operations. Summarized results of discontinued operations for the three month period ended March 31, 2000 follow (in thousands):

| | | 2000 |
|-------------------|----|-------|
| | | ----- |
| Net sales | \$ | 53 |
| Loss before taxes | | (74) |

The above results of discontinued operations include actual and allocated interest expense totaling \$58,000.

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In the merger, Chatwins Group was considered the acquirer for purposes of applying purchase accounting. Because Chatwins Group used the equity method to account for its approximately 37% investment in Reunion prior to the merger, the agricultural operations were not reclassified to discontinued operations. Had the agricultural operations been reclassified from equity in loss of affiliate from continuing operations, the effect on Reunion's results from continuing operations as follows (in thousands, except for per share amounts) (unaudited):

| | | Three months ended March 31, 2000 |
|---|----|--------------------------------------|
| | | ----- |
| Income from continuing operations | \$ | 869 |
| Effect of reclassification | | 168 |
| | | ----- |
| Adjusted income from continuing operations | | 1,037 |
| Preferred stock dividend accretions | | (95) |
| | | ----- |
| Adjusted income applicable to common stockholders | \$ | 942 |
| | | ===== |
| Income from continuing operations per common share - basic and diluted | \$ | 0.10 |
| | | ===== |
| Weighted average number of common shares - basic and diluted | | 9,910 |
| | | ===== |

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PART I. FINANCIAL INFORMATION

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

GENERAL

The Company owns and operates a diverse group of industrial manufacturing operations that design and manufacture highly engineered, high-quality products for specific customer requirements, such as large-diameter seamless pressure vessels, hydraulic and pneumatic cylinders, precision plastic components, heavy-duty cranes, bridge structures and materials handling systems. The Company's customers include original equipment manufacturers and end-users in a variety of industries, such as transportation, power generation, chemicals, metals, home electronics, office equipment and consumer goods. The Company's business units are organized into two operating groups:

The Metals Group, through its five manufacturing divisions, designs,

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manufactures and markets a broad range of fabricated and machined industrial metal parts and products to original equipment manufacturers and end-users. The Metals Group serves over 5,000 customers.

The Plastics Group manufactures precision molded plastic parts and provides engineered plastics services to more than 500 original equipment manufacturers.

RECENT DEVELOPMENTS AND OTHER MATTERS OF IMPORTANCE

Additional Shares of Reunion Common Stock

In the merger, Reunion issued 9,500,000 shares of common stock to holders of Chatwins Group's common stock. The merger agreement also provided that up to an additional 500,000 shares of Reunion common stock would be issued to former Chatwins Group common stockholders if the former Chatwins Group businesses and the acquired Kingway business achieve specified performance levels in 2000. A preliminary determination of the number of shares to be issued was made by the board of directors at its meeting held on May 15, 2001. Such additional shares total 349,000.

Acquisition of NPS Acquisition Corp.

On January 17, 2001, the Company acquired NPS Acquisition Corp. (f/k/a Naptech Pressure Systems) from Charles E. Bradley, Sr. (Mr. Bradley), the Company's chairman of the board and chief executive officer. NPSAC is based in Clearfield, Utah and manufactures seamless steel pressure vessels, an existing Metals Group product line.

The purchase price was \$10,000 plus the assumption of \$10.3 million of NPSAC's liabilities, including a 15% per annum \$6.9 million note payable to Shaw Industries, the former owner of Naptech Pressure Systems. Simultaneously with the acquisition, Reunion paid Shaw Industries \$2.0 million of the note payable in cash from funds available under its revolving credit facility with Bank of America (BOA). The remainder of the note payable of \$4.9 million was then restructured to include quarterly principal payments of \$0.6 million for eight quarters which began on February 28, 2001. Reunion made the first payment from funds available under its revolving credit facility. The note is unsecured and subordinate to the BOA term loan and revolving credit facilities and the 13% senior notes. [Management believes that the Company will have adequate availability under its revolving credit facility to make the remaining quarterly payments in 2001 under this note payable.]

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The transaction was accounted for as a purchase under APB 16. The estimated fair value of assets acquired included approximately \$1.4 million of cash, receivables, inventories and other current assets and approximately \$0.3 million of fixed assets. The purchase price in excess of net assets acquired of \$8.6 million was recorded as goodwill and is being amortized over 15 years.

Repayment of \$120,000 of 13% Senior Notes

Chatwins Group was required to make sinking fund payments to redeem \$12.5 million principal amount of the senior notes on May 1 in each of 2000 through 2003 at face value plus accrued interest and to offer to purchase \$25 million of the senior notes on June 1, 2000 at face value plus accrued interest. In February 2000, Chatwins Group solicited the holders of the \$49,975,000 of 13% senior notes outstanding asking them to waive their right to participate in the June 1, 2000 \$25.0 million purchase offer, of which \$47,450,000 agreed to waive such right resulting in a maximum purchase offer obligation on June 1,

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2000 of \$2,525,000.

As such, on June 1, 2000 Reunion made the required offer to purchase \$2,525,000 of senior notes, of which holders of only \$120,000 of senior notes tendered. However, the \$25.0 million of 13% senior notes repaid from the merger proceeds was and can be applied against Reunion's obligations for sinking fund payments and the purchase offer as follows (in thousands):

| | May 1, 2000 | June 1, 2000 | May 1, 2001 | Total |
|---|----------------|-----------------|----------------|-----------|
| | ----- | ----- | ----- | ----- |
| Sinking fund payment or purchase offer obligation | \$ 12,500 | \$ 120 | \$ 12,500 | \$ 25,120 |
| \$25.0 million applied to obligations | (12,500) | (120) | (12,380) | (25,000) |
| | ----- | ----- | ----- | ----- |
| Maximum required payment | \$ - | \$ - | \$ 120 | \$ 120 |
| | ===== | ===== | ===== | ===== |

Therefore, \$120,000 principal amount of 13% senior notes was repaid by the Company on May 1, 2001 from funds available under its revolving credit facility. Of the remaining \$24.855 million of senior notes, \$12.5 million is scheduled to be repaid in May 2002 and \$12.355 million is scheduled to be repaid in May 2003. [Management does not expect to have the internally generated liquidity necessary to fund the May 1, 2002 sinking fund payment and is in the preliminary stages of investigating various refinancing scenarios. Management believes that the Company has the ability to secure the necessary refinancing and make the \$12.5 million sinking fund payment on May 1, 2002.]

Long-term debt consists of the following (000'S):

| | At March 31, 2001 | At December 31, 2000 |
|---|----------------------|-------------------------|
| | ----- | ----- |
| | (unaudited) | |
| 13% senior notes due May 1, 2003 (net of unamortized discount of \$11 and \$14) | \$ 24,964 | \$ 24,961 |
| BOA term loan A due March 16, 2007 | 18,836 | 19,757 |
| BOA capital expenditure facility | 605 | 640 |
| Note payable due February 28, 2003 | 4,252 | - |
| Other | 1,291 | 1,359 |
| Other - related parties | 4,615 | 4,015 |
| | ----- | ----- |
| Total long-term debt | 54,563 | 50,732 |
| Current maturities | (6,441) | (4,061) |
| | ----- | ----- |
| Total long-term debt, less current maturities | \$ 48,122 | \$ 46,671 |
| | ===== | ===== |

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Payment of Semi-Annual Interest on 13% Senior Notes

On May 1, 2001 the Company made its \$1.623 million semi-annual interest payment on its 13% senior notes from funds available under its revolving credit facility. [Management believes the Company will have adequate availability under its revolving credit facility to fund its November 1, 2001 semi-annual interest payment.]

Payment of \$680,000 Industrial Revenue Development Bonds

Upon the sale of its domestic grating operations in September 1999, the Company retained an obligation for a \$680,000 note payable due May 1, 2001

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related to an industrial development revenue bond issue by Orem City, Utah. This note payable was repaid in May 2001 from funds available under the Company's revolving credit facility.

[2001 Covenant Compliance

For quarters ended March 31, 2001 and for each fiscal quarter thereafter in 2001, the BOA financing and security agreement required the Company to maintain a minimum fixed charge coverage ratio of 1.25:1 and maximum funded debt to EBITDA ratios of 3.75:1, 3.50:1, 3.25:1 and 3.00:1.

Because the Company's 2001 business plan includes assumptions regarding results of operations and economic conditions, achievement of which is necessary for compliance with the financial covenants included in the BOA financing and security agreement in 2001, particularly the third and fourth quarters, in April 2001, the Company entered into a letter agreement with Bank of America whereby, as long as the Company maintains both a fixed charge coverage ratio of at least 1.00:1 and has a funded debt to EBITDA ratio of no more than 4.50:1 as of the September 30, 2001 and December 31, 2001 calculation dates, and as long as the Company is in compliance on all other covenants, the Bank of America will not accelerate any of its loans. Management believes, based on its most recent financial covenant ratio forecast, that the Company will be in compliance with the newly agreed to financial covenants and all other covenants for each quarter in 2001.]

For the quarter ended March 31, 2001, the Company's fixed charge coverage ratio was 1.48:1 and the funded debt to EBITDA ratio was 2.94:1.

RESULTS OF OPERATIONS

Three Months Ended March 31, 2001 Compared to
Three Months Ended March 31, 2000

Metals Group

Metals Group sales for the first quarter of 2001 totaled \$37.2 million, compared to \$34.4 million for the first quarter of 2000, an increase of \$2.8 million, or 11%. First quarter 2000 sales excludes the approximately two and one-half months of Kingway Material Handling Company's sales prior to the Company's acquisition of Kingway simultaneously with the merger on March 16, 2000 and the full first quarter 2000 sales of NPS Acquisition Corp. acquired by the Company in January 2001. Had both of these events occurred at the beginning of 2000, Metals Group sales for the first quarter of 2000 would have been \$38.6 million, indicating a pro forma decrease of \$1.4 million. A increase of \$5.3 million in the Company's pressure vessel product line was more than offset by decreases of \$3.4 million in materials handling and computer-assisted picking systems product line and \$2.4 million in cylinder sales. The increase in pressure vessel sales in the first quarter of 2001 compared to 2000 was due to a continuation of strong order levels in that product line and the recognition of \$2.8 million of revenues on a large NASA

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contract relating to pressure vessels produced in the fourth quarter of 2000 but not received by NASA until the first quarter of 2001. The decrease in materials handling sales is the result of customer requested delays in shipments. [Management believes materials handling sales will rebound and increase during the remainder of 2001 as these delayed deliveries ship and based on large contract orders received from or committed to by a large national retail chain during the second quarter of 2001.] Sales of cylinders continues to be affected by softness in this market, [a trend which may

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continue for the remainder of 2001.]

Metals Group gross profit for the first quarter of 2001 was \$8.5 million, or 22.7%, compared to \$6.3 million for the first quarter of 2000, or 18.2%, an increase of \$2.2 million. First quarter 2000 gross profit excludes the approximately two and one-half months of Kingway Material Handling Company's sales prior to the Company's acquisition of Kingway simultaneously with the merger on March 16, 2000 and the full first quarter 2000 gross profit of NPS Acquisition Corp. acquired by the Company in January 2001. Had both of these events occurred at the beginning of 2000, Metals Group gross profit for the first quarter of 2000 would have been \$7.7 million, or 20.0%, indicating a pro forma increase of \$0.8 million. Pro forma gross profit and gross profit margin increased during the 2001 first quarter compared to the 2000 first quarter primarily due to a change in product mix in the 2001 first quarter, which included a significant amount of seamless pressure vessel sales, gross margins on which exceed all other product lines.

Plastics Group

Plastics Group sales for the first quarter of 2001 totaled \$12.2 million, compared to \$3.1 million in the first quarter of 2000, an increase of \$9.1 million. First quarter 2000 sales excludes the approximately two and one-half months of Plastics Group's sales prior to the merger on March 16, 2000. Had the Company merged at the beginning of 2000, Plastics Group sales for the first quarter of 2000 would have been \$13.8 million, indicating a pro forma decrease of \$1.6 million. The decrease in revenues is the continuation into 2000 of a 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 Group facilities. [Management was investigating the feasibility of opening or acquiring a molding facility in Mexico or establishing a joint venture in Mexico with an existing plastics molding company in order to counter these trends. However, management's view of current business conditions in Mexico and the impact on the Company's liquidity caused by the need to fund increased working capital demands in the Company's seamless pressure vessel product line due to a substantial increase in order levels in the first quarter of 2001 has caused management to put this plan temporarily on hold. Accordingly, the trend in Plastics Group revenue could continue during the remainder of 2001. However, first quarter 2001 Plastics Group sales of \$12.2 million represents a \$2.1 million increase over the fourth quarter of 2000 sales of \$10.1 million, possibly indicating a reversal of this decreasing trend.]

Plastics Group gross profit for the first quarter of 2001 was \$2.0 million, or 16.4%, compared to \$0.5 million, or 16.6%, for the first quarter of 2000. First quarter 2000 gross profit excludes the approximately two and one-half months of Plastics Group's gross profit prior to the merger on March 16, 2000. Had the Company merged at the beginning of 2000, Plastics Group gross profit for the first quarter of 2000 would have been \$2.2 million, or 15.7%, indicating a pro forma decrease of \$0.2 million. The decrease in gross profit is directly related to the decreasing trend in sales. However, cost cutting measures taken during 2000 to counter the effect on gross margin and overall operating results of the Plastics Group have resulted in an increase in margin as a percentage of sales.

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Selling, General and Administrative

Selling, general and administrative (SGA) expenses for the first quarter of 2001 were \$6.3 million, compared to \$4.0 million for the first quarter of 2000, an increase of \$2.3 million. Had the merger and acquisitions of Kingway

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and NPSAC occurred at the beginning of 2000, first quarter 2000 SGA expenses would have been \$6.1 million, indicating a pro forma increase of \$0.2 million. This increase is primarily due to an increase in commissions expense in the seamless pressure vessel product line as the result of the increased volume. SGA expenses as a percentage of sales increased to 12.5% for the 2001 first quarter compared to 11.7% on a pro forma basis in the 2000 first quarter. SGA as a percentage of sales was higher in the 2001 first quarter compared to 2000 due to the overall decrease in volume coupled with the increased commissions discussed above.

Other Expense

Other expense for the first quarter of 2001 was \$0.6 million, compared to other expense of \$0.3 million for the first quarter of 2000, a net increase of \$0.3 million. The increase in other expense in the first quarter of 2001 compared to 2000 is the result of an increase in goodwill amortization. The first quarter of 2001 includes a full quarter of goodwill amortization related to the merger and Kingway acquisition compared to the approximate two week post-merger and Kingway acquisition period in the 2000 first quarter. Also, the first quarter of 2001 includes goodwill amortization related to the NPSAC acquisition compared to no such amortization in the 2000 first quarter. Except for goodwill amortization, there were no individually significant or offsetting items in either of the first quarters of 2001 or 2000.

Interest Expense

Interest expense, net, for the first quarter of 2001 was \$2.4 million, compared to \$2.1 million for the first quarter of 2000, an increase of \$0.3 million. The increase in interest expense reflects the higher level of debt of the post-merger company, which is included in the full first quarter of 2001 versus only the approximate two week post-merger period in the 2000 first quarter. [The Company anticipates that interest expense for 2001 will decrease compared to 2000 due to the lower debt level as the result of the \$29.5 million of cash proceeds generated through asset sales during the second half of 2000 and the decrease in prime lending rates during the first quarter of 2001 if not increased during the remainder of 2001.]

Equity Results

Equity in loss of continuing operations of affiliate in the first quarter of 2000 represents Chatwins Group's pre-merger share of Reunion's loss from continuing operations in that period.

Income Taxes

There was a tax provision from continuing operations of \$0.5 million for the first quarter of 2001 compared to a tax benefit of \$0.8 million for the first quarter of 2000. The tax provision in the 2001 first quarter is directly related to the level of pre-tax operating results and the tax benefit in the 2000 first quarter is the result of the fact that the valuation allowance against the deferred tax assets related to the Company's net operating loss carryforwards was reduced for the tax effects of the extraordinary items discussed below.

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Discontinued Operations

There was a loss from discontinued operations during the first quarter of 2000 of \$74,000 related to the discontinued wine grape agricultural operations.

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Extraordinary Items

The losses from extraordinary items in the first quarter of 2000 of \$1.8 million, net of \$-0- taxes, represents the pre-merger write-offs of deferred financing costs at both Chatwins Group and pre-merger Reunion.

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. Although the Company operates in relatively mature markets, [it intends to continue to invest in and grow its businesses through selected capital expenditures as cash generation permits.]

Recent Developments and Other Matters of Importance

Acquisition of NPS Acquisition Corp.

On January 17, 2001, the Company acquired NPS Acquisition Corp. (f/k/a Naptech Pressure Systems) from Charles E. Bradley, Sr. (Mr. Bradley), the Company's chairman of the board and chief executive officer. NPSAC is based in Clearfield, Utah and manufactures seamless steel pressure vessels, an existing Metals Group product line.

The purchase price was \$10,000 plus the assumption of \$10.3 million of NPSAC's liabilities, including a 15% per annum \$6.9 million note payable to Shaw Industries, the former owner of Naptech Pressure Systems. Simultaneously with the acquisition, Reunion paid Shaw Industries \$2.0 million of the note payable in cash from funds available under its revolving credit facility with Bank of America (BOA). The remainder of the note payable of \$4.9 million was then restructured to include quarterly principal payments of \$0.6 million for eight quarters which began on February 28, 2001. Reunion made the first payment from funds available under its revolving credit facility. The note is unsecured and subordinate to the BOA term loan and revolving credit facilities and the 13% senior notes. [Management believes that the Company will have adequate availability under its revolving credit facility to make the remaining quarterly payments in 2001 under this note payable.]

The transaction was accounted for as a purchase under APB 16. The estimated fair value of assets acquired included approximately \$1.4 million of cash, receivables, inventories and other current assets and approximately \$0.3 million of fixed assets. The purchase price in excess of net assets acquired of \$8.6 million was recorded as goodwill and is being amortized over 15 years.

Repayment of \$120,000 of 13% Senior Notes

Chatwins Group was required to make sinking fund payments to redeem \$12.5 million principal amount of the senior notes on May 1 in each of 2000 through 2003 at face value plus accrued interest and to offer to purchase \$25 million

of the senior notes on June 1, 2000 at face value plus accrued interest. In February 2000, Chatwins Group solicited the holders of the \$49,975,000 of 13%

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senior notes outstanding asking them to waive their right to participate in the June 1, 2000 \$25.0 million purchase offer, of which \$47,450,000 agreed to waive such right resulting in a maximum purchase offer obligation on June 1, 2000 of \$2,525,000.

As such, on June 1, 2000 Reunion made the required offer to purchase \$2,525,000 of senior notes, of which holders of only \$120,000 of senior notes tendered. However, the \$25.0 million of 13% senior notes repaid from the merger proceeds was and can be applied against Reunion's obligations for sinking fund payments and the purchase offer as follows (in thousands):

| | May 1, 2000 | June 1, 2000 | May 1, 2001 | Total |
|---|----------------|-----------------|----------------|-----------|
| | ----- | ----- | ----- | ----- |
| Sinking fund payment or purchase offer obligation | \$ 12,500 | \$ 120 | \$ 12,500 | \$ 25,120 |
| \$25.0 million applied to obligations | (12,500) | (120) | (12,380) | (25,000) |
| | ----- | ----- | ----- | ----- |
| Maximum required payment | \$ - | \$ - | \$ 120 | \$ 120 |
| | ===== | ===== | ===== | ===== |

Therefore, \$120,000 principal amount of 13% senior notes was repaid by the Company on May 1, 2001 from funds available under its revolving credit facility. Of the remaining \$24.855 million of senior notes, \$12.5 million is scheduled to be repaid in May 2002 and \$12.355 million is scheduled to be repaid in May 2003. [Management does not expect to have the internally generated liquidity necessary to fund the May 1, 2002 sinking fund payment and is in the preliminary stages of investigating various refinancing scenarios. Management believes that the Company has the ability to secure the necessary refinancing and make the \$12.5 million sinking fund payment on May 1, 2002.]

Payment of Semi-Annual Interest on 13% Senior Notes

On May 1, 2001 the Company made its \$1.623 million semi-annual interest payment on its 13% senior notes from funds available under its revolving credit facility. [Management believes the Company will have adequate availability under its revolving credit facility to fund its November 1, 2001 semi-annual interest payment.]

Payment of \$680,000 Industrial Revenue Development Bonds

Upon the sale of its domestic grating operations in September 1999, the Company retained an obligation for a \$680,000 note payable due May 1, 2001 related to an industrial development revenue bond issue by Orem City, Utah. This note payable was repaid in May 2001 from funds available under the Company's revolving credit facility.

[2001 Covenant Compliance

For quarters ended March 31, 2001 and for each fiscal quarter thereafter in 2001, the BOA financing and security agreement required the Company to maintain a minimum fixed charge coverage ratio of 1.25:1 and maximum funded debt to EBITDA ratios of 3.75:1, 3.50:1, 3.25:1 and 3.00:1.

Because the Company's 2001 business plan includes assumptions regarding results of operations and economic conditions, achievement of which is necessary for compliance with the financial covenants included in the BOA financing and security agreement in 2001, particularly the third and fourth quarters, in April 2001, the Company entered into a letter agreement with Bank of America whereby, as long as the Company maintains both a fixed charge

coverage ratio of at least 1.00:1 and has a funded debt to EBITDA ratio of no more than 4.50:1 as of the September 30, 2001 and December 31, 2001 calculation dates, and as long as the Company is in compliance on all other covenants, the Bank of America will not accelerate any of its loans. Management believes, based on its most recent financial covenant ratio forecast, that the Company will be in compliance with the newly agreed to financial covenants and all other covenants for each quarter in 2001.]

For the quarter ended March 31, 2001, the Company's fixed charge coverage ratio was 1.48:1 and the funded debt to EBITDA ratio was 2.94:1.

Summary of 2001 Activities

Cash and cash equivalents totaled \$1.0 million (including \$0.1 million classified within discontinued operations) at March 31, 2001. During the first quarter of 2001, cash and cash equivalents decreased \$1.5 million, with \$4.5 million used in operations, \$0.8 million used in investing activities and \$3.8 million provided by financing activities.

Operating Activities

Cash used of \$4.5 million for operating activities in the first quarter of 2001 was the result of an increase in net working capital, primarily an increase in receivables and a reduction in trade payables.

Investing Activities

Capital expenditures were \$0.8 million and \$10,000 was used to acquire the common stock of NPSAC.

Financing Activities

To fund the changes in working capital the Company made a net increase in borrowings under its revolving credit facility of \$5.4 million, partially offset by payments of debt totaling \$1.6 million including of \$0.9 million of term loan A, \$0.6 million of the Shaw Industries note payable and \$0.1 million of other debt, primarily \$35,000 of capital expenditure facility repayments and a \$48,000 final payment on a note payable related to the Metals Group.

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.

PART II. OTHER INFORMATION

Item 6. Exhibits and Reports on Form 8-K

(b) Reports on Form 8-K

First Quarter 2001:

On February 7, 2001, the Company filed a Current Report on Form 8-K dated October 27, 2000 to report under Items 2 and 7 that the Company had completed the sale of its discontinued wine grape agricultural business and to file

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the required pro forma financial information and exhibits.

On February 23, 2001, the Company filed a Current Report on Form 8-K dated February 23, 2001 to announce under Item 5 the date, time and place of the annual meeting of shareholders of the Company.

Second Quarter 2001:

On May 8, 2001, the Company filed a Current Report on Form 8-K dated May 1, 2001 to report under Item 4 that PricewaterhouseCoopers LLP resigned as independent accountants of the Company effective after the completion of the review of the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2001.

On May 14, 2001, the Company filed a Current Report on Form 8-K/A dated May 1, 2001 to file under Item 7, Exhibit 16, letter from independent accountants pursuant to Item 304(a)(3) of Regulation S-K.

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SIGNATURES

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

Date: May 15, 2001

REUNION INDUSTRIES, INC.
(Registrant)

By: /s/ Kimball J. Bradley

Kimball J. Bradley
President and Chief
Operating 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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