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REUNION INDUSTRIES INC

Form 10-K

April 02, 2007

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549-1004
FORM 10-K

(Mark One)

X ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
----- EXCHANGE ACT OF 1934 (NO FEE REQUIRED)
For the fiscal year ended December 31, 2006

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 15236

(Address of principal executive offices, including zip code)

(412) 281-2111

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:
Title of Each Class: COMMON STOCK, \$.01 par value
Name of Each Exchange on Which Registered: AMERICAN STOCK EXCHANGE
Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No X

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes No X

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of regulation S-K is not contained herein, and will not be contained, to the best of the Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

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

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At March 15, 2007, 17,419,019 shares of common stock were issued and outstanding. As of June 30, 2006, the aggregate market value of the voting stock held by non-affiliates of the registrant (computed by reference to the average of the high and low sales prices on the American Stock Exchange) was \$7,315,988.

DOCUMENTS INCORPORATED BY REFERENCE: Part III, Items 10 through 14 of this report, is incorporated from the Registrant's definitive proxy statement to be filed on or before May 1, 2007.

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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 that are 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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PART I

ITEM 1. BUSINESS

GENERAL

Reunion Industries, Inc., a Delaware corporation ("Reunion Industries" or "Reunion"), is the successor by merger, effective March 16, 2000, of Chatwins Group, Inc. ("Chatwins Group") with and into Reunion Industries, Inc. The terms "Company" and "We" refer to Reunion after the merger. Reunion Industries' executive offices are located at 11 Stanwix Street, Suite 1400, Pittsburgh, Pennsylvania 15222 and its telephone number is (412) 281-2111.

The Company owns and operates industrial manufacturing operations that design and manufacture engineered, high-quality products for specific customer requirements. Such products include large-diameter seamless pressure vessels, hydraulic and pneumatic cylinders and metal bar grating. Until December 2005, the Company's products included precision plastic components made by its thermoplastics division ("Oneida"). During the year 2005, the Company decided to exit the plastics business and, effective March 1, 2006, Oneida was sold. See ITEM 7, MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS, RECENT EVENTS-Sale of Oneida.

The Company's customers include original equipment manufacturers and end-users in a variety of industries, such as transportation, power generation, chemicals, metals and electronics. The Company's continuing operations are comprised of the following businesses.

CPI - CPI, founded in 1897 and located in McKeesport, Pennsylvania, specializes in manufacturing large, seamless pressure vessels for the above ground storage and transportation of highly pressurized gases such as natural gas, hydrogen, nitrogen, oxygen and helium. These pressure vessels are

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provided to customers such as industrial gas producers and suppliers, the alternative fueled vehicle compressed natural gas fuel industry, chemical and petrochemical processing facilities, shipbuilders, NASA, public utilities and gas transportation companies.

Hanna - Hanna, founded in 1901 and located in Libertyville, Illinois, designs and manufactures a broad line of hydraulic and pneumatic cylinders, actuators, accumulators and manifolds. These products are used in a wide variety of industrial and mobile machinery and equipment requiring the application of force in a controlled and repetitive process. Hanna's specialty is custom cylinders in both small quantities packaged by its distributors with valves, pumps and controls as complete fluid power systems and large quantities sold directly to equipment manufacturers.

Shanghai Klemp Metal Products Co., Ltd. Located in Shanghai, China, this business was formed in 1995 when the Company entered into a joint venture agreement with two other Chinese based entities. The Company has a 65% interest in the joint venture. In 1999, the Company adopted a plan to exit the grating manufacturing business and was able to sell all of its grating businesses, with the exception of this business in China, in that year. This grating business was classified as a discontinued business from that time until the year 2004. In the four years since adopting this plan, the Company had made several unsuccessful attempts to dispose of its investment in the joint venture and now perceives that a presence in China is consistent with its future plans for certain of its continuing operations. As a result and in connection with our Chinese partners' expressed desire to return control of the business to the Company for various reasons, the Company has decided to retain its investment in the Chinese joint venture and returned it to continuing operations effective at the beginning of 2004

Markets and Customers. Our businesses operate in mature markets. Except for pressure vessels, products are sold in highly competitive markets both in the U.S. and internationally and compete with a significant number of companies of varying sizes, including divisions or subsidiaries of larger companies, on the basis of price, service, quality and the ability to supply customers in a timely manner. CPI is the largest provider of pressure vessels

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in the U.S. Many of our competitors have financial and other resources that are substantially greater than ours. [Competitive pressures or other factors could cause us to lose market share or erode prices which could negatively impact the Company's results of operations.]

Individual customers sometimes account for more than 10% of a business unit's sales. During 2006, one pressure vessel customer accounted for approximately 13.6% of consolidated sales. However, during 2005, no customer accounted for more than 10% of consolidated sales.

Sales and Marketing. We market and distribute our products in a variety of ways including in-house marketing and sales personnel at all of our divisions, domestic independent and manufacturer representatives, domestic and international agents and independent distributors that specialize in metal products.

Raw Materials. The major raw materials used in our businesses include welded and seamless steel tubing and pipe, steel alloy bars, steel plates, brass tubing and bars and aluminum extrusions, all of which are supplied by various domestic sources. Prices began to rise half way through the 2004 year and continued to rise in 2005 before leveling off in 2006 to a 4-5% increase. [Increases in the prices of raw materials could negatively affect our

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operating results if they cannot be passed on to our customers.]

Backlog. Our U.S. backlog, which the Company believes is firm, was \$ 19.5 million at December 31, 2006 and \$22.2 million at December 31, 2005.

Research and Development. Our research and development activities relate to improving the quality and performance of our products. We also develop ways to meet the design requirements and specifications of customers that require customized products. To do this, there are engineering departments at all manufacturing divisions. Products are not materially dependent on any patents, licenses or trademarks.

REPORTABLE SEGMENT DATA - See PART IV, NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, NOTE 17 of this report for financial information about Reunion's segments. See Item 7A, QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK, of this report for financial information about geographic areas.

Employees

At December 31, 2006, Reunion Industries employed 349 full time employees in its continuing businesses, both in the United States and in China, of which 7 were Corporate employees. The Company believes its relations with its employees are good. A breakdown of the Company's workforce by location and function at December 31, 2006 is as follows.

Location -----	Manufacturing		General and Administrative		Total -----
	Union -----	Non-Union -----	Union -----	Non-Union -----	
McKeesport, PA	91 (1)	8	8 (1)	14	121
Libertyville, IL		94		22	116
Shanghai, China		85		19	104
Beijing, China				1	1
Corporate:					
Pittsburgh, PA				7	7
	---	---	-	---	-----
Totals	91	187	8	63	349
	===	===	=	===	=====

(1) Employees belong to The United Steel, Paper & Forestry, Rubber, Manufacturing, Energy, Allied Industrial and Service Workers International Union. A new agreement was signed in 2006 with an expiration date of May 31, 2011.

The employee in Beijing, China is a Chinese national and relates to seamless pressure vessel sales efforts in that region. The employees in Shanghai,

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China are Chinese nationals and relate to the Company's grating subsidiary. These Chinese nationals are not covered by a union nor are they covered by any benefit or insurance plans sponsored by the Company.

As of December 31, 2006, approximately 28% of the Company's workforce was covered by collective bargaining agreements, all of which expire May 31, 2011.

Available Information

Reunion's website is <http://www.reunionindustries.com>. Reunion makes available free of charge, through its website, its annual, quarterly and current reports, and any amendments to those reports, as soon as reasonably practicable after electronically filing such reports with the Securities and

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Exchange Commission. Information contained on Reunion's website is not part of this report.

ITEM 1A. RISK FACTORS

See ITEM 7, MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS, FACTORS THAT COULD EFFECT FUTURE RESULTS, and ITEM 7A, QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK for risk factors applicable to the Company.

ITEM 2. PROPERTIES

The Company owns a total of 37.0 acres and approximately 85,500 square feet under roof being used for ongoing operations. Except for CPI's sales office in Beijing, China and the Company's corporate office in Pittsburgh, PA, which are administrative, all locations are both manufacturing and administrative facilities:

Location	Approx. Square Feet	Land Acres	Title	Expiration Date
-----	-----	-----	-----	-----
McKeesport, PA	603,000	37.0	Owned	-
Beijing, China	1,000	-	Leased	10/31/07
Shanghai, China	20,500	-	Leased	01/01/25
Libertyville, IL	56,000	-	Leased	12/31/13
Headquarters:				
Pittsburgh, PA	8,000	-	Leased	4/30/07

The Company also has land and a building in Lafayette, IN that housed the Company's Rostone business, which business was sold in 2005. Such property is classified in discontinued operations as property held for sale. The Company's owned properties are subject to mortgages in favor of its lenders.

We also own certain oil and gas properties in Louisiana that were retained when we disposed of our oil and gas operations in 2000. We retained these properties because of litigation concerning environmental matters. [We plan to operate the wells on the property for the net production revenues as required by a litigation settlement agreement]

All of our facilities have been in operation for a sufficient period of time to demonstrate their suitability for manufacturing and administrative purposes. [The production capacities of our facilities are sufficient for future needs.]

ITEM 3. LEGAL PROCEEDINGS

The Company is and has been involved in a number of lawsuits and administrative proceedings, which have arisen in the ordinary course of business of the Company and its subsidiaries. A summary of pending legal proceedings follows.

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Asbestos (ORC)

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Since July 10, 2001, various legal actions, some involving multiple plaintiffs, alleging personal injury/wrongful death from asbestos exposure have been filed in multiple states, including California, Oregon, Washington, New York and Mississippi, against a large number of defendants, including Oneida Rostone Corporation (ORC), pre-merger Reunion's Plastics subsidiary and the Company's Plastics segment. In October 2001, Allen-Bradley Company (currently owned by Rockwell Automation), a former owner of the Rostone business of ORC, accepted Reunion Industries' tender of its defense and indemnification in the first such lawsuit filed, pursuant to a contractual obligation to do so. Subsequent to this acceptance in the first lawsuit, Rockwell Automation has accepted and defended all additional lawsuits, a total of 241 separate actions, that the Company has tendered.

Asbestos (Alliance)

The Company has been named in a multitude of separate asbestos suits filed since January 1, 2001 by various plaintiffs' law firms in Michigan, Pennsylvania, Ohio, Illinois, Maryland, Alabama and W. Virginia. Currently, there are 2,368 open and active claims. The claims are primarily directed against over 100 defendants, including Reunion, and allege that cranes from the Company's former crane manufacturing location in Alliance, OH, were present in various steel mills located in those states and that those cranes contained asbestos to which plaintiffs were exposed over a 40 year span. Counsel for the Company has filed an answer to each complaint denying liability by the Company and asserting all alternative defenses permitted under the various Courts' Case Management Orders. Counsel for the Company has successfully resolved approximately 750-800 cases without any liability to the Company. The Company denies that it manufactured any products containing asbestos or otherwise knew or should have known that any component part other manufacturers provided contained any dangerous or toxic materials. It has been further denied that the Company was otherwise advised by component part manufacturers that component parts could be hazardous, or otherwise constitutes a health risk. The Company intends to vigorously defend against these lawsuits.

PART II

ITEM 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Reunion Industries' common stock is traded on the American Stock Exchange. As of March 15, 2007, there were 775 holders of record of Reunion Industries' common stock with an aggregate of 17,419,019 shares outstanding. The table below reflects the high and low sales prices for the quarterly periods for 2006 and 2005.

QUARTER ENDED -----	High -----	Low -----
2006		
March 31.....	\$ 1.50	\$ 0.32
June 30.....	\$ 1.81	\$ 0.40
September 30.....	\$ 0.95	\$ 0.25
December 31.....	\$ 1.07	\$ 0.27
2005		
March 31.....	\$ 0.39	\$ 0.25
June 30.....	\$ 0.32	\$ 0.15
September 30.....	\$ 0.22	\$ 0.15
December 31.....	\$ 0.36	\$ 0.20

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No cash dividends have been declared or paid during the past two fiscal years. Cash dividends are limited by the availability of funds, by restrictions contained in our loan agreements and by statutory restrictions on a corporation's payment of dividends when it has negative net worth. [We do not anticipate paying cash dividends on our common stock in the foreseeable future.]

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Equity Compensation Plan Information

Securities issued, and securities available, under equity compensation plans as of December 31, 2006 are as follows:

	Equity Compensation Plans	
	Approved by Security Holders	Not Approved by Security Holders
Number of common stock shares to be issued upon exercise of outstanding options	1,444,000 =====	- =====
Weighted-average exercise price of outstanding options	\$0.25 =====	- =====
Number of common stock shares remaining available for future issuance under equity compensation plans (excluding outstanding options)	280,600 =====	- =====

During the past three years, the Company issued certain securities without registration under the Securities Act of 1993 (the "Securities Act"), as described in the next two paragraphs.

In 2005, the Company issued a total of 378,000 shares of its common stock to two of its executive officers (Kimball J. Bradley and Charles E. Bradley, Sr.) in consideration of (i) a \$68,440 reduction in the amount of certain indebtedness owed to them by the Company and (2) their forgiveness of an additional \$309,960 of such indebtedness (the "Stock for Debt Issuance").

In 2005, the Company issued warrants to two private capital funds to purchase a total of 1,775,000 shares of the Company's common stock at a price of \$0.01 per share (the "Warrants"). The Company issued these Warrants as part of the consideration for loans in the amount of \$7,100,000 made by these private capital funds to the Company. In 2006, one of such private capital funds exercised its Warrants in full to purchase 762,500 for a total price of \$7,625. (This warrant holder also is entitled to 16,920 shares resulting from certain anti-dilution provisions of the converted warrants. Such shares are expected to be issued in 2007.) The Company used the proceeds for working capital purposes.

By reason of Section 4(2) of the Securities Act and Rules 505 and 506 of Regulation D of the Securities and Exchange Commission, the issuances of securities referred to in the preceding two paragraphs were exempt from the registration requirements of the Act, based on the following: (1) The transactions were private placements involving only two persons, in the case of the Stock for Debt Issuance, and only two entities, in the case of the issuance of the Warrants. (2) Each of such persons and entities represented to the Company that it was an "accredited investor" within the meaning of Rule 501(a) of Regulation D. (3) Such persons (as executive officers and directors of the Company) and such entities (as significant lenders to the Company) at all relevant times had access to the same kind of information that would have

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been included in a registration statement covering such securities and, in the case of the Warrants, the shares issued or issuable upon exercise thereof. (4) Each of such persons and entities represented to the Company that he or it was acquiring the applicable securities for his or its own account and not with a view to the distribution thereof. (5) By the terms of the relevant governing documents, such securities may not be sold or transferred by the holder in the absence of an effective registration statement under the Securities Act covering such securities or an applicable exemption from such registration.

ITEM 6. SELECTED FINANCIAL DATA

All data is reported in thousands, except for per-share data. The data is derived from the consolidated financial statements presented in Item 15 which also should be read.

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Year Ended December 31,	2006	2005	2004	2003	2002
	-----	-----	-----	-----	-----
EARNINGS DATA:					
Net sales (1)	\$ 59,490	\$ 49,727	\$ 50,715	\$ 39,262	\$ 35,404
Cost of sales	46,029	39,848	40,914	32,032	30,969
	-----	-----	-----	-----	-----
Gross profit	13,461	9,879	9,801	7,230	4,435
Selling, general and administrative expenses	7,081	7,046	7,152	7,722	9,311
Gain on extinguishment of debt	(4,945)	(3,450)	(3,540)	(10,991)	-
Other (income) expense, net	(42)	(203)	(798)	(293)	(919)
	-----	-----	-----	-----	-----
Operating profit (loss)	11,367	6,486	6,987	10,792	(3,957)
Interest expense, net (2)	8,725	8,906	7,933	6,902	8,010
	-----	-----	-----	-----	-----
Income (loss) from continuing operations before income taxes and minority interests	2,642	(2,420)	(946)	3,890	(11,967)
Provision for income taxes	115	49	-	-	-
	-----	-----	-----	-----	-----
Income (loss) from continuing operations before minority interests	2,527	(2,469)	(946)	3,890	(11,967)
Less: minority interests	494	211	330	-	-
	-----	-----	-----	-----	-----
Income (loss) from continuing operations	\$ 2,033	\$ (2,680)	\$ (1,276)	\$ 3,890	\$ (11,967)
	=====	=====	=====	=====	=====
Income (loss) from continuing operations applicable to common stockholders	\$ 2,033	\$ (2,680)	\$ (1,276)	\$ 3,890	\$ (11,967)
	=====	=====	=====	=====	=====
Weighted average common shares Outstanding - basic	17,143	16,479	16,279	16,279	15,591
	=====	=====	=====	=====	=====
Weighted average common shares Outstanding - diluted	21,931	16,479	16,279	16,654	15,591
	=====	=====	=====	=====	=====
Income (loss) from continuing operations per common share - basic	\$ 0.12	\$ (0.16)	\$ (0.08)	\$ 0.24	\$ (0.77)

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	=====	=====	=====	=====	=====
Income (loss) from continuing operations per common share - diluted	\$ 0.10	\$ (0.16)	\$ (0.08)	\$ 0.24	\$ (0.77)
	=====	=====	=====	=====	=====

OPERATING AND OTHER DATA:

Cash flow from (used in) operating activities(3)	\$ (4,006)	\$ 139	\$ (3,323)	\$ (2,665)	\$ (979)
	=====	=====	=====	=====	=====
Cash flow from (used in) investing activities(3)	\$ 10,883	\$ 3,095	\$ (780)	\$ 173	\$ 27,931
	=====	=====	=====	=====	=====
Cash flow from (used in) financing activities(3)	\$ (7,442)	\$ (2,311)	\$ 4,565	\$ 2,440	\$ (27,337)
	=====	=====	=====	=====	=====
Depreciation and amortization(4)	\$ 703	\$ 720	\$ 804	\$ 949	\$ 1,088
	=====	=====	=====	=====	=====
Capital expenditures(5)	\$ 584	\$ 472	\$ 546	\$ 104	\$ 139
	=====	=====	=====	=====	=====

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BALANCE SHEET DATA:

Total assets	\$ 44,418	\$ 51,260	\$ 56,596	\$ 51,523	\$ 51,009
	=====	=====	=====	=====	=====
Debt in default	\$ 39,957	\$ 43,236	\$ -	\$ -	\$ 40,049
	=====	=====	=====	=====	=====
Revolving credit facility	\$ -	\$ -	\$ 14,485	\$ 9,214	\$ -
	=====	=====	=====	=====	=====
Long-term debt(6)	\$ -	\$ -	\$ 35,628	\$ 31,915	\$ 61
	=====	=====	=====	=====	=====
Stockholders' equity (deficit)	\$ (23,029)	\$ (27,517)	\$ (25,583)	\$ (27,755)	\$ (30,840)
	=====	=====	=====	=====	=====
EBITDA(7):	\$ 7,125	\$ 3,756	\$ 4,251	\$ 750	\$ (2,869)
	=====	=====	=====	=====	=====

(1) Represents sales from continuing operations. The Company has adjusted prior year financial data for the classifications of its Oneida division as discontinued operations.

(2) Includes amortization of debt issuance expenses and estimated warrant value of the following amounts for the following years: 2006: \$1,111; 2005: \$1,241; 2004: \$1,002; 2003: \$87; and 2002: \$754.

(3) Not restated for discontinued operations.

(4) Excludes amortization of debt issuance expenses and depreciation and amortization related to discontinued operations. See note (2) above.

(5) Excludes capital expenditures of discontinued operations.

(6) Excludes borrowings under revolving credit facilities.

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(7) EBITDA is calculated as follows:

	2006	2005	2004	2003	2002
	-----	-----	-----	-----	-----
Income (loss) from continuing operations before taxes	\$ 2,642	\$ (2,420)	\$ (946)	\$ 3,890	\$ (11,967)
Interest expense, net (2)	8,725	8,906	7,933	6,902	8,010
Depreciation and amortization (4)	703	720	804	949	1,088
Gain on extinguishment of debt	(4,945)	(3,450)	(3,540)	(10,991)	-
	-----	-----	-----	-----	-----
EBITDA	\$ 7,125	\$ 3,756	\$ 4,251	\$ 750	\$ (2,869)
	=====	=====	=====	=====	=====

EBITDA is presented in the Selected Historical Financial Data, 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. Gains on extinguishment of debt are excluded from the current definition of EBITDA.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis is provided to assist readers in understanding the Company's financial performance during the periods presented and significant trends which may impact the future performance of the Company. It should be read in conjunction with the consolidated financial statements and accompanying notes included elsewhere in this Form 10-K.

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GENERAL

The Company owns and operates industrial manufacturing operations that design and manufacture engineered, high-quality products for specific customer requirements. Such products include large-diameter seamless pressure vessels, hydraulic and pneumatic cylinders and metal bar grating. Until December 2005, the Company's products included precision plastic components made by its thermoplastics division ("Oneida"). During the year 2005, the Company decided to exit the plastics business and, effective March 1, 2006, Oneida was sold. See below RECENT EVENTS-Sale of Oneida. Previously, during the year 2004, the Company decided to exit the thermoset plastics portion ("Rostone") of its plastics segment. The Rostone business was sold in the first quarter of 2005. Until December 2004, the Company's products also included leaf springs. Such business was sold in January 2005. These sold businesses are reported as discontinued operations.

The Company's customers include original equipment manufacturers and end-users in a variety of industries, such as transportation, power generation, chemicals, metals and electronics. The Company's continuing operations are comprised of the following businesses.

RECENT EVENTS

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Sale of Oneida

During the 2005 year, the Company decided to exit the plastics business. In January 2006, the Company signed an Asset Purchase Agreement to sell substantially all of the assets of its Oneida business to an unrelated entity. On March 2, 2006, effective March 1, 2006, the Company completed the sale for a purchase price of \$11,573,000 subject to a post-closing adjustment based on a closing balance sheet. Of the net sale proceeds, after deducting \$374,621 in related expenses, \$300,000 was put into a one-year escrow as security for any claims by the buyer that may arise after the closing, \$2,000,000 was used to pay down a note payable to a private capital fund that was secured by the real estate of the Company, \$980,974 was used to completely pay off the existing Wachovia Bank ("Wachovia") term loan and the remaining \$7,917,405 was used to pay down the revolving credit facility. The post-closing adjustment reduced the purchase price by \$116,000, \$55,000 of which was paid from the escrow fund. The remaining \$245,000 in the escrow fund is included in other current assets on the balance sheet as of December 31, 2006. The Company recognized a \$4.2 million gain on sale during 2006.

Change in Officers

Effective March 2, 2006, Charles E. Bradley, Sr. resigned his officership as Chairman of the Board of Directors and Chief Executive Officer of the Company. However, he will continue to serve as a director. Effective March 2, 2006, the Board of Directors elected Mr. Kimball J. Bradley Chairman of the Board of Directors and Chief Executive Officer.

Note Payable Settlements

On March 2, 2006, the Company entered into a settlement agreement with the holder of a \$1.017 million note payable from the Company, pursuant to which the Company paid the holder a total of \$400,000 for such note and all accrued interest. Such settlement was effected on March 3, 2006, and the Company recognized a gain from this debt settlement of \$925,000 during 2006.

On March 21, 2006, the Company entered into a settlement agreement with the Stanwich Financial Services Corp. Liquidating Agent ("SFSC"), pursuant to which the Company agreed to pay SFSC \$1.125 million in settlement of its existing \$4.290 million judgment and all accrued interest. In connection with such agreement, the Company made a \$150,000 payment to SFSC during the first quarter of 2006. As provided in the settlement agreement, payment of the remaining \$975,000 amount was subject to bankruptcy court approval in SFSC's Chapter 11 proceeding. Such approval was received in May 2006, the final payment was promptly made and the Company recognized a gain from this debt settlement of \$4.0 million during 2006.

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Tender Offer

On October 27, 2006, the Company initiated a tender offer to purchase for cash all of its outstanding 13% Senior Notes ("Notes"). The consideration offered in the tender offer, as amended, for each \$1,000 principal amount of the original 2003 Senior Notes and for each \$880 principal amount of the restructured Senior Notes was comprised of (i) a cash amount of \$563.20, (ii) warrants to purchase 140.82 shares of the common stock of the Company and (iii) \$160.93 principal amount of a junior subordinated note. The Company's financing for such tender offer was contingent on acceptance of such offer by holders of a significant percentage of the outstanding amount of such Senior Notes. The tender offer was eventually terminated and withdrawn when a holder of approximately 72% of the outstanding Notes did not accept the offer. (See

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also PART IV, NOTE 3: SUBSEQUENT EVENTS.)

RESULTS OF OPERATIONS

Year Ended December 31, 2006 Compared to
Year Ended December 31, 2005

Continuing Operations

Net sales, gross margins and EBITDA percentages for 2005 and 2004 are as follows. The percentages of EBITDA to net sales exclude corporate and other EBITDA. Including corporate and other EBITDA, the percentages of consolidated EBITDA to net sales for the years ended 2006 and 2005 are 12.0% and 7.6%.

	Net Sales		Gross Margin		EBITDA	
	2006	2005	2006	2005	2006	2005
Pressure vessels	\$ 34,386	\$ 22,894	25.7%	21.8%	22.5%	15.9%
Cylinders	16,662	19,611	14.2%	16.8%	1.7%	7.8%
Grating	8,442	7,222	26.9%	22.3%	16.7%	9.5%
Totals	\$ 59,490	\$ 49,727	22.6%	19.9%	15.9%	11.8%

Net sales of \$59.5 million for the year ended December 31, 2006 were up \$9.8 million, approximately 20%, over net sales in 2005. This increase results from increases in the pressure vessel and grating segments of \$12.7 million, offset by a decrease of \$2.9 million in the cylinders segment. Pressure vessel sales increased \$11.5 million in 2006 over 2005 primarily as a result of the Company's sale of Oneida that generated the liquidity necessary to provide increased raw material to meet the demand in growing gas storage markets. The increase of \$1.2 million in 2006 sales over 2005 sales in the grating segment primarily reflects the growing economy in China where this segment is located. The decrease in the cylinder business in year 2006 from 2005 reflects the loss of a customer in 2006 due to foreign competition and the general lack of demand in this segment's mobile cylinder line. Backlogs at the U.S. locations are down 12% at December 31, 2006 compared to December 31, 2005 but this is not considered indicative of any trend. As of February 28, 2007, backlogs were lower than the comparable period in 2006 but were up over the December 31, 2006 amount by more than 20%.

Gross margin as a percentage of sales increased to 22.6% in 2006 from 19.9% in 2005. This increase in gross margin percentage is the net result of increases in gross margin percentages in the pressure vessel and grating segments offset marginally by a decrease in gross margin percentage in the cylinder segment. The gross margin increases in 2006 in the pressure vessel and grating segments were primarily attributable to operating efficiencies resulting from the higher production and sales activities in those segments as noted above as compared to the 2005 year. The gross margin decrease in the cylinder segment primarily reflects manufacturing inefficiencies resulting from the decrease in production and sales volume in 2006 compared to 2005.

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

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its borrowing agreements. EBITDA as a percentage of sales increased in 2006 compared to 2005 primarily due to the same factors affecting gross profit margin discussed above. A reconciliation of EBITDA to operating income for 2006 and 2005 by segment and corporate and other is as follows (in thousands):

	Operating Profit (Loss)	Deprec- iation	EBITDA
	-----	-----	-----
2006:			

Pressure vessels	\$ 7,216	\$ 525	\$ 7,741
Cylinders	140	140	280
Grating	1,400	12	1,412
Corporate and other(1)	(2,334)	26	(2,308)
	-----	-----	-----
Totals	6,422	\$ 703	\$ 7,125
		=====	=====
Gain on debt extinguishment	4,945		

Operating profit	\$ 11,367		
	=====		
2005:			

Pressure vessels	\$ 3,106	\$ 534	\$ 3,640
Cylinders	1,398	134	1,532
Grating	679	9	688
Corporate and other(1)	(2,147)	43	(2,104)
	-----	-----	-----
Totals	3,036	\$ 720	\$ 3,756
		=====	=====
Gain on debt extinguishment	3,450		

Operating profit	\$ 6,486		
	=====		

(1) Excludes gain on debt extinguishment of \$4.945 million in 2006 and \$3.450 million in 2005.

Selling, General and Administrative

Selling, general and administrative (SGA) expenses were approximately the same for years 2006 and 2005 even though sales volume rose by almost 20%. The pressure vessel business had a significant volume increase in 2006 of more than 50% over the prior year and yet recorded \$264,000 less SGA expense in 2006. This reduction was due primarily to a decrease in sales commissions and marketing expense related to foreign sales as this business unit had a higher percentage of sales in the U.S. in 2006 compared to year 2005. Cylinder SGA increased \$338,000 in 2006 compared to 2005 due to an increase in marketing and engineering expenses, including the hiring of new employees. Grating SGA expenses were down approximately 7% in 2006 compared to 2005 even though sales volume increased due primarily to a reduction in administrative costs resulting from the implementation of cost reduction programs while there was no significant change in Corporate expenses. Overall, SGA as a percentage of sales decreased from 14.2% in 2005 to 11.9% in 2006.

Gains on Debt Extinguishments

During 2006, as described above in this Item 7 under the caption RECENT EVENTS ? Note Payable Settlements, a settlement agreement with the holder of a \$1.17 million note and with SFSC resulted in gains on debt settlements of \$.925 million and \$4.020 million, respectively. During 2005, the settlement

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of the Company's obligations to NapTech resulted in a \$3.45 million gain on debt extinguishment.

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Other Income

Other income from continuing businesses for 2006 was \$42,000, compared to other income of \$203,000 for 2005. During 2005, the Company completed the sale of an inactive subsidiary, Reunion Potash Company (Potash). Proceeds of the sale were \$150,000 and a gain of that amount was recognized. There were no other individually significant items of other income or expense in 2006 or 2005.

Minority Interests

Minority interests of \$0.5 million in 2006 and \$0.2 million in 2005 represent income allocated to the minority ownerships of the Company's consolidated foreign grating joint venture. Minority interests are calculated based on the percentage of minority ownership.

Interest Expense

Interest expense for 2006 was \$8.7 million compared to \$8.9 million for 2005. This decrease is the net of several offsetting factors. In the middle of 2005 and during the first half of 2006, several debt settlements occurred as described above in Gains on Debt Extinguishments. These settlements resulted in an interest expense reduction of \$0.6 million in 2006 compared to 2005. Additionally, as a result of the Oneida sale in the first quarter of 2006, debt was paid down and resulted in an interest expense reduction of \$0.3 million in 2006 compared to 2005. Offsetting these reductions were increases in interest expense as a result of recognizing interest expense on the interest that should have been paid to the Senior Note holders and an increase in interest expense related to the increase in the junior participation interest in the Wachovia loan that occurred in the middle of 2005.

Income Taxes

The tax provision in 2006 and 2005 relates solely to the Company's China joint venture. There was no U.S. tax provision from continuing operations in either year. At December 31, 2006, Reunion had net operating loss carryforwards for federal tax return reporting purposes of approximately \$61.5 million. The years in which such net operating losses expire are as follows (in thousands):

Year ending December 31:	

2007	737
2008	611
2009	3,235
2010	2,520
After 2010	54,433

[The Company may be able to utilize its loss carryforwards against possible future profitability.] However, management has determined to fully reserve for the total amount of net deferred tax assets as of December 31, 2006 [and to continue to do so during 2007 until management can conclude that it is more likely than not that some or all of our loss carryforwards can be utilized.]

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Year Ended December 31, 2005 Compared to
Year Ended December 31, 2004

Continuing Operations

Net sales, gross margins and EBITDA percentages for 2005 and 2004 are as follows. The percentages of EBITDA to net sales exclude corporate and other EBITDA. Including corporate and other EBITDA, the percentages of consolidated EBITDA to net sales for the years ended 2005 and 2004 are 7.6% and 8.4%.

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	Net Sales		Gross Margin		EBITDA	
	2005	2004	2005	2004	2005	2004
Pressure vessels	\$ 22,894	\$ 22,921	21.8%	21.4%	15.9%	17.4%
Cylinders	19,611	18,488	16.8%	14.0%	7.8%	3.1%
Grating	7,222	9,306	22.3%	24.9%	9.5%	13.7%
Totals	\$ 49,727	\$ 50,715	19.9%	19.3%	11.8%	11.5%

Net sales for the year ended December 31, 2005 were down approximately 2% from the prior year. This decrease was net of a \$1.1 million increase in sales at our cylinder operation offset by a \$2.1 decrease in grating sales at our China joint venture. The increase in cylinders sales primarily reflects the higher backlog at the beginning of the year over the backlog that existed at the beginning of year 2004. Due to an improving economy, backlogs continued to grow throughout the 2005 year at both U.S. operations, and the U.S. backlog has continued to increase in the first two months of the 2006 year at the pressure vessel business. Pressure vessel sales were relatively flat from year to year but would have been higher for the 2005 year were it not for both a plant accident in January 2005 that crippled the plant's heat treating operation, preventing this division from completing and shipping product for a period in excess of five weeks which negatively impacted the division's ability to take on additional new business, as well as a vendor delay in the second half of the year in the manufacture and delivery of raw material. Material has now been received [and the recent declining trend in sales when compared to the prior period is expected to be reversed in the first quarter of 2006.] The reduction in sales at the grating business reflects increased competition in China, [a condition that is expected to level off in 2006].

Gross margin as a percentage of sales increased from 19.3% in 2004 to 19.9% in 2005, as all U.S. operations had improving gross profit margins while margins in China declined. The increase in gross profit margins in the U.S. is primarily attributable to operating efficiencies from the increase in sales in 2005 combined with overall cost reduction efforts. The pressure vessel margin increase would have been larger were it not for the unreimbursed costs and inefficiencies resulting from the plant accident in the first quarter of 2005 as noted above. Although approximately \$714,000 was received from business interruption insurance, the Company calculates that this amount does not cover the costs incurred and opportunities lost. The decrease in gross margin percentage in China is related to the reduction in sales volume in the face of increasing competition in China.

Management evaluates the Company's segments based on EBITDA, a measure of

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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 as a percentage of sales increased in 2005 compared to 2004 primarily due to the same factors affecting gross profit margin discussed above. A reconciliation of EBITDA to operating income for 2005 and 2004 by segment and corporate and other is as follows (in thousands):

	Operating Profit (Loss)	Deprec- iation	EBITDA
	-----	-----	-----
2005:			

Pressure vessels	\$ 3,106	\$ 534	\$ 3,640
Cylinders	1,398	134	1,532
Grating	679	9	688
Corporate and other(1)	(2,147)	43	(2,104)
	-----	-----	-----
Totals	3,036	\$ 720	\$ 3,756
		=====	=====
Gain on debt extinguishment	3,450		

Operating profit	\$ 6,486		
	=====		
		- 15 -	
2004:			

Pressure vessels	\$ 3,395	\$ 584	\$ - \$ 3,979
Cylinders	409	171	- 580
Grating	1,267	7	1,274
Corporate and other(2)	(1,624)	42	- (1,582)
	-----	-----	-----
Totals	3,447	\$ 804	\$ - \$ 4,251
		=====	=====
Gain on debt extinguishment	3,540		

Operating profit	\$ 6,987		
	=====		

(1) Excludes gain on debt extinguishment of \$3.450 million in 2005 and \$3.540 million in 2004.

(2) Includes income totaling \$0.6 million from reduction in environmental reserve.

Selling, General and Administrative

Selling, general and administrative (SGA) expenses for 2005 were \$7.0 million, compared to \$7.2 million for 2004. This decrease in SGA primarily reflects decreased salaries, benefits and office expenses at Corporate, while increased commissions in the pressure vessel business were offset by reduced volume costs in the grating business in China. SGA as a percentage of sales decreased marginally in 2005 compared 2004.

Gains on Debt Extinguishments

As described above in this Item 7 under the caption RECENT EVENTS ? NapTech Settlement, the settlement of the Company's obligations to NapTech resulted in a \$3.45 million gain on debt extinguishment in 2005.

Other Income

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Other income from continuing businesses for 2005 was \$203,000, compared to other income of \$798,000 for 2004. The components are as follows:

	2005	2004	Change
	-----	-----	-----
Costs to consolidate cylinder locations	\$ -	\$ 264	\$ (264)
Adjustments of environmental reserve	-	(601)	601
Reduction of the lease termination reserve	-	(97)	97
Other income, net	(203)	(364)	161
	-----	-----	-----
Total other income, net	\$ (203)	\$ (798)	\$ 595
	=====	=====	=====

During 2005, the Company completed the sale of an inactive subsidiary, Reunion Potash Company (Potash). Proceeds of the sale were \$150,000 and a gain of that amount was recognized. During May 2004, we completed the consolidation of our cylinder manufacturing operations into a single facility in Libertyville, Illinois. Costs totaling \$264,000 were incurred in 2004. The Company finalized the settlement of a Louisiana environmental litigation matter in 2004. Such settlement resulted in a new estimate of the required reserve, which resulted in a \$601,000 adjustment. There were no other individually significant items of other income or expense in 2005 or 2004.

Minority Interests

Minority interests of \$0.2 million in 2005 and \$0.3 million in 2004 represent income allocated to the minority ownerships of the Company's consolidated foreign grating joint venture. Minority interests are calculated based on the percentage of minority ownership

Interest Expense

Interest expense for 2005 was \$8.9 million compared to \$7.9 million for 2004. This increase is primarily attributable to two items. First, Senior

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Note interest expense increased \$584,000 as the Company was obliged to accrue interest expense on the Senior Note interest that has not been paid as discussed in Item 7 above under the caption RECENT EVENTS - 13% Senior Notes. Second, the Company recorded \$300,000 of additional financing and amortization of warrant value expenses in 2005 over 2004. The warrant amortization is attributable to the Junior Participations in the Wachovia revolving credit facility in both 2004 and 2005.

Income Taxes

The tax provision in 2005 relates solely to the Company's China joint venture. There was no U.S. tax provision from continuing operations in 2005 or 2004. At December 31, 2005, Reunion had net operating loss carryforwards for federal tax return reporting purposes of approximately \$66.5 million. The years in which such net operating losses expire are as follows (in thousands):

Year ending December 31:	

2007	6,067
2008	611
2009	3,235
2010	2,520
After 2010	54,067

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[The Company may be able to utilize its loss carryforwards against possible future profitability.] However, management has determined to fully reserve for the total amount of net deferred tax assets as of December 31, 2005 [and to continue to do so during 2006 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.

Summary of 2006 Activities

Cash and cash equivalents totaled \$ 1.6 million and \$1.9 million at December 31, 2006 and 2005, respectively. For 2006, \$10.9 million of cash was provided by investing activities of which \$4.0 million was used in operating activities and, along with cash on hand, \$7.4 million was used in financing activities.

Operating Activities

Cash used in operating activities of \$4.0 million was primarily for increases of \$5.1 million in receivables and inventory offset to some extent by a net increase in other liabilities, mainly accruals of interest expense.

Investing Activities

Cash provided by investing activities of \$10.9 million consisted of \$10.4 million from the sale of Oneida and \$1.1 million from the sale of Milwaukee property less the use of \$0.6 million for capital expenditures.

Financing Activities

Cash used in financing activities of \$7.4 million primarily consisted of principal payments of debt and a reduction in the Company's revolving credit facility. Cash available from the sale of Oneida and the sale of the Milwaukee property was used to pay the remaining Wachovia term loan of \$1.0 million, pay \$3.1 million on a note payable to a private capital fund that was

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secured by the real estate sold and pay \$1.5 million in connection with settlement agreements entered into with the holder of a \$1.017 note and with SFSC. Additionally, the Company reduced amounts outstanding under its revolving credit facility by \$1.4 million during the year and the Company's Chinese joint venture paid a dividend during the year of which \$0.3 million was paid to the minority partner.

CONTRACTUAL OBLIGATIONS

The following represents a tabular summarization of the Company's contractual obligations at December 31, 2006 for each of the next five years and thereafter (in thousands):

Description	Total	2007	2008	2009	2010	2011	2011+
-------------	-------	------	------	------	------	------	-------

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Wachovia revolving credit facility	\$14,434	\$14,434	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Note payable	882	882	-	-	-	-	-	-
Note payable	3,500	3,500	-	-	-	-	-	-
13% senior notes	22,013	22,013	-	-	-	-	-	-
Note payable-related parties	500	500	-	-	-	-	-	-
Noncancellable operating lease commitments	6,922	1,093	996	971	938	953	1,971	
Total contractual obligations	\$48,251	\$42,422	\$ 996	\$ 971	\$ 938	\$ 953	\$ 1,971	

The above table shows the contractual aggregate maturities of debt, including \$14.4 million of revolving credit facility borrowings, and commitments under noncancellable operating leases. All debt obligations are currently due or are in default.

CRITICAL ACCOUNTING POLICIES

Use of Estimates

The accompanying consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States. Application of the accounting principles requires the Company's management to make estimates about the future resolution of existing uncertainties and that affect the reported amounts of assets, liabilities, revenues, expenses which in the normal course of business are subsequently adjusted to actual results. Actual results could differ from such estimates. In preparing these financial statements, management has made its best estimates and judgments of the amounts and disclosures included in the consolidated financial statements giving due regard to materiality.

Revenue Recognition, Accounts Receivable and Allowance for Doubtful Accounts

Sales are recorded when title and risks of ownership transfer to the buyer. Shipping and handling fees charged to customers are recorded as revenues and the related costs are recorded as cost of sales.

The Company markets its products to a diverse customer base in the United States and in other countries. Credit is extended after a credit review by management, which is based on a customer's ability to perform its obligations. Such reviews are regularly updated. The allowance for doubtful accounts is based upon agings of customer balances and specific account reviews by management. Reunion Industries has no concentration of credit risks and generally does not require collateral or other security from its customers.

Accounts receivable are presented net of a reserve for doubtful accounts of \$183,000 at December 31, 2006 and \$211,000 at December 31, 2005, which represented 2.1% and 2.9%, respectively, of gross trade receivables (excluding other non-trade receivables). Write-offs of accounts receivable in the last two years have been insignificant.

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Inventories and Inventory Reserves

At December 31, 2006, inventories are stated at the lower of cost or market, at costs that approximate the first-in, first-out method of inventory

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valuation. Work-in-process and finished goods include material costs, labor costs and manufacturing overhead. Reserves for excess, slow-moving and obsolete inventories are based on reviews of inventory usage reports for items more than one year old. The Company evaluates its inventories on a quarterly basis to identify excess, slow-moving and obsolete inventories and assess reserve adequacy. When this evaluation indicates such inventories exist, the reserve is increased by a charge to operations or such inventories are written off. Write-offs of inventory in the last two years have been insignificant.

Goodwill and Impairment

The excess of the purchase consideration over the fair value of the net assets of acquired businesses is considered to be goodwill. The Company reviews goodwill when events or changes in circumstances indicate that the carrying amount of goodwill may not be recoverable. We also review goodwill as required by SFAS No. 142, "Goodwill and Other Intangible Assets", which requires that goodwill be tested annually using a two-step process. The first is to identify any potential impairment by comparing the carrying value of reporting units to their fair value. If a potential impairment is identified, the second step is to compare the implied fair value of goodwill with its carrying amount to measure the impairment loss. Reporting unit fair value is estimated using the income approach, which assumes that the value of a reporting unit can be computed as the present value of the assumed future returns of an enterprise discounted at a rate of return that reflects the risk of an investment. A significant increase in the rate at which the assumed future returns are discounted could result in an unexpected impairment charge to goodwill, which could have a negative impact on our operating results.

At December 31, 2006, the Company had \$11.0 million of goodwill on its consolidated balance sheet. Of the \$11.0 million of goodwill, \$9.5 million relates to the pressure vessels segment and \$1.5 million relates to the cylinders segment. We have completed all transitional and annual impairment tests necessary to date and concluded that our goodwill is not impaired.

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements" ("SFAS 157"). SFAS 157 clarifies the principle that fair value should be based on the assumptions market participants would use when pricing an asset or liability and establishes a fair value hierarchy that prioritizes the information used to develop those assumptions. Under the standard, fair value measurements would be separately disclosed by level within the fair value hierarchy. SFAS 157 is effective for the Company on January 1, 2008. The Company is in the process of evaluating SFAS 157 but does not believe it will have a significant effect on its financial position or results of operations.

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

Pensions

The Company accounts for its defined benefit pension plans in accordance with U.S. generally accepted accounting standards which require that amounts recognized in the consolidated financial statements be determined on an

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actuarial basis. In September 2006, the Financial Accounting Standards Board issued Financial Accounting Standard 158 which requires that the funded status of defined benefit pension and other post retirement benefit plans be fully

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recognized on the balance sheet. The adoption of FAS 158 had no effect on the recognition of pension related costs in the income statement. The Company makes contributions to the defined benefit plans based on the minimum funding requirements of the Employee Retirement Income Security Act of 1974.

The Company uses the fair value of plan assets to determine the expected and actual returns on plan assets. The difference between the expected return and actual return is deferred for income statement purposes. Although management believes the long-term rates of return used to calculate the expected returns on plan assets are reasonable, a trend of actual returns being less than expected returns would cause future pension costs to increase.

In determining the discount rates to be used at the end of each year to determine plan liabilities, the Company looks at rates of return on high-quality, fixed-income investments that receive one of the two highest ratings given by a recognized ratings agency. Changes in discount rates over the last three years have not materially affected pension costs and the net effect of changes in the discount rate, as well as the net effect of other changes in actuarial assumptions and experience, have been deferred as allowed by SFAS 87.

[The Company currently expects consolidated pension costs in 2007 will be approximately \$100,000 less than those incurred in 2006.]

Other Postretirement Benefits

The Company provides health benefits for certain retired employees at the Company's pressure vessel - and discontinued Plastics operations and of its Corporate Executive Payroll. These plans are not funded. The other postretirement benefit costs and the benefit obligation are actuarially determined based on discount rates and expected trends in healthcare costs. Costs from continuing operations increased slightly in 2006 over 2005 and [the Company currently expects consolidated other postretirement benefit costs for 2007 to be more than \$90,000 less than those incurred in 2006.]

Stock-Based Compensation

Prior to January 1, 2006, the Company elected to follow Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" and related interpretations in accounting for stock options and awards. Accordingly, no compensation costs for stock options is included in operating results since all awards were made at exercise prices at or above their fair value on the dates of grants.

Effective January 1, 2006, the Company adopted the fair value recognition provisions of Financial Accounting Standards No. 123R, "Share Based Payment", which requires the Company to expense the cost of employee services received in exchange for an award of equity instruments based on the grant date fair value of such instruments. The Company adopted the modified prospective method to apply this Standard in which compensation cost is recognized for all equity instrument awards after January 1, 2006 and for all awards granted to employees prior to that date that remain unvested on that date. Had the Company applied the fair value recognition provisions of SFAS No. 123R to prior years, there would have been no material effect on reported income (loss) for such years.

Environmental Contingencies

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When it is probable that a liability has been incurred or an asset has been impaired, a loss is recognized assuming the amount of the loss can be reasonably estimated. The Company believes it is currently in material compliance with existing environmental protection laws and regulations and is no longer 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. As a result, the Company has no significant amount of accruals for environmental costs.

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FACTORS THAT COULD AFFECT FUTURE RESULTS

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

Since 2001, the Company has not been able to make any of the scheduled interest payments on the Senior Notes and has not been able to make any payments of principal on such currently matured Senior Notes. Additionally, the principal amount of the restructured Senior Notes matured on January 3, 2007 and was not paid. As a result, events of default have occurred under the Indenture ("Indenture Default") under which the Senior Notes were issued. With an Indenture Default, holders of more than 25% of the principal amount of the Senior Notes may, by written notice to the Company and to the Trustee, declare the principal of and accrued but unpaid interest on all the Senior Notes to be immediately due and payable (the "acceleration"). However, under an Intercreditor and Subordination Agreement entered into in December 2003 among Wachovia, the holders of the Senior Notes and certain other lenders, the Senior Note holders can not commence any action to enforce their liens on any collateral for a 180 day period beginning after the date of receipt by Wachovia, the senior secured lender, of a written notice from the Senior Note holders informing Wachovia of such Indenture Default and demanding acceleration or immediate payment. On February 2, 2007, Wachovia received written notice of such demand for payment. (See PART IV, NOTE 3: SUBSEQUENT EVENTS - 13% Senior Notes.)

Additionally, a \$3.5 million subordinated promissory note payable to a private capital fund matured on December 5, 2006 and is in default. The defaults under the Senior Notes and the \$3.5 million subordinated promissory note payable have triggered cross default provisions in the Wachovia Bank loan agreement and the Company's bank debt is also in default.

Although the Company is investigating restructuring or recapitalization scenarios in an effort to provide additional liquidity for the extinguishments or deferrals of such debt obligations, (See NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-Note 3: SUBSEQUENT EVENTS - Restructure Plan), no assurances exist that the Company will be successful in these efforts and failure to accomplish these plans could have an adverse impact on the Company's liquidity, financial position and future operations.

Reunion's vendors may restrict credit terms

We have corrected many vendor-related problems with liquidity generated from the refinancing of debt and from asset sales. However, 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.

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Reunion's past performance could impact future prospects

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

Reunion as a going concern

The financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. At December 31, 2006, the Company has a deficiency in working capital of \$39.1 million, a loss from continuing operations of \$2.9 million before gain on debt extinguishment and a deficiency in assets of \$22.8 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.

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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 restructuring or recapitalization scenarios in an effort to provide additional liquidity and extinguishments or deferrals of debt obligations. (See PART IV, NOTE 3: SUBSEQUENT EVENTS - Restructure Plan.) No assurances exist that the Company will be successful in these efforts and failure to accomplish these plans could have an adverse impact on the Company's liquidity, financial position and future operations.

RECENT ACCOUNTING PRONOUNCEMENTS

In September 2006, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans" ("SFAS 158"). This statement amends several earlier issued statements, including Financial Accounting Standards No. 87, "Employers' Accounting for Pensions" ("SFAS 87") and Financial Accounting Standards No. 106, "Employers' Accounting for Postretirement Benefits Other than Pensions" ("SFAS 106"). For companies with publicly traded equity securities, SFAS 158 is effective for fiscal years ending after December 31, 2006. The statement requires employers with pension and other post-employment benefit plans to recognize the funded status of such plans in its financial statements, recognize as a component of other comprehensive income the gains or losses that arise during the period but are not recognized as components of cost pursuant to SFAS 87 and SFAS 106 and provide other additional disclosures. The Company has both defined pension plans and other postretirement benefit plans and, in connection with the adoption of FAS 158, recorded additional liabilities of \$701,000 as of December 31, 2006. This amount was also recorded as a component of other comprehensive loss in shareholders' deficit.

In June 2006, the FASB issued Interpretation 48, "Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109" ("FIN 48"). FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 is effective for the 2007 year. The Company is assessing the impact of FIN 48 but does not anticipate that it will have a material effect on its financial statements.

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ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

In the operation of its business, Reunion Industries has market risk exposure to foreign currency exchange rates, raw material prices and interest rates. Each of these risks and Reunion Industries' strategies to manage the exposure is discussed below.

Excluding its subsidiary in Shanghai, China, Reunion Industries manufactures its products in the United States and sells its products in the United States and in foreign countries. During 2006, one pressure vessel customer accounted for approximately 13.6% of consolidated sales. However, during 2005, no one customer accounted for more than 10% of the net sales of Reunion. Of Reunion's \$51.0 million, \$42.6 million and \$41.4 million of consolidated net sales from U.S. continuing operations for 2006, 2005 and 2004, respectively, approximately \$5.0 million, \$8.8 million and \$6.4 million, respectively, were export sales. Of these export sales, \$2.8 million in 2006, \$6.4 million in 2005 and \$4.3 million in 2004 were to customers in the Far East (principally China and Taiwan) and \$1.2 million in 2006, \$1.0 in 2005 and \$1.3 million in 2004 were to customers in Canada.

Export sales to foreign countries are denominated in U.S. dollars, the Company's reporting currency. Accordingly, transaction loss exposures due to fluctuations in the currencies of the countries to which the Company's domestic locations export are minimal.

The major raw materials used include welded and seamless steel tubing and pipe, steel alloy bars, steel plates, brass tubing and bars and aluminum extrusions. These materials are generally available from a number of suppliers. Prices for these materials are affected by changes in market demand and prices of seamless steel tubing have risen by approximately 5% over the past year. [There can be no assurances that prices for these and other raw

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materials will not increase in the future.] [A 1.00% change in raw material prices that is not passed through to the customer would affect results of operations by approximately \$129,000.

Reunion Industries' operating results are subject to risk from interest rate fluctuations on debt that carries variable interest rates. The variable rate debt was approximately \$14.4 million at December 31, 2006, which is representative of balances outstanding during the year. A 1.00% change in interest rates would affect results of operations by approximately \$144,000.

ITEM 8. CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Reunion's consolidated financial statements are set forth beginning at Page F-1.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

Not applicable.

ITEM 9A. CONTROLS AND PROCEDURES

As required by Rule 13a-15(b), Reunion's management, including the Chief Executive Officer and Chief Financial Officer, conducted an evaluation

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as of the end of the period covered by this report, of the effectiveness of Reunion's disclosure controls and procedures as defined in Exchange Act 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 the 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 fourth fiscal quarter that have materially affected, or are reasonably likely to materially affect, Reunion's internal control over financial reporting. Our auditors proposed numerous adjusting entries and several were booked. Such entries were deemed not material to the financial statements taken as a whole. Management has concluded that no material decline in internal controls has occurred.

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

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PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information under the captions "Proposal, Election of Directors" and "Management Information; Executive Officers" is incorporated herein by reference from the Company's definitive Proxy Statement to be filed with the Securities and Exchange Commission on or before May 1, 2007.

ITEM 11. EXECUTIVE COMPENSATION

The information under the captions "Management Information" and "Proposal; Election of Directors; Director Compensation" is incorporated herein by reference from the Company's definitive Proxy Statement to be filed with the Securities and Exchange Commission on or before May 1, 2007.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information under the caption "Ownership Information" is incorporated herein by reference from the Company's definitive Proxy Statement to be filed with the Securities and Exchange Commission on or before May 1, 2007.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information under the caption "Ownership Information; Certain Relationships and Related Transactions" is incorporated herein by reference from the Company's definitive Proxy Statement to be filed with the Securities and Exchange Commission on or before May 1, 2007.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information under the caption "Fees Paid to Mahoney Cohen & Company, CPA, P.C." is incorporated herein by reference from the Company's definitive

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Proxy Statement to be filed with the Securities and Exchange Commission on or before May 1, 2007.

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PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

(a) Documents included in this report:

The following consolidated financial statements and financial statement schedules of Reunion Industries, Inc. and its subsidiaries are included in Part II, Item 8:

1. Financial Statements (Pages F-1 through F-40)

Report of Management

Report of Independent Registered Public Accounting Firm ?

Mahoney Cohen & Company, CPA, P.C.

Consolidated Balance Sheets - December 31, 2006 and 2005

Consolidated Statements of Operations and Comprehensive

Income (Loss) - Years Ended December 31, 2006, 2005 and 2004

Consolidated Statements of Cash Flows - Years Ended December 31, 2006, 2005 and 2004

Notes to Consolidated Financial Statements

2. Financial Statement Schedules (Page S-1)

Schedule II - Valuation and Qualifying Accounts and Reserves

Other schedules have been omitted because they are either not required, not applicable, or the information required to be presented is included in Reunion Industries' financial statements and related notes.

3. Exhibits

See pages E-1 to E-4 for a listing of exhibits filed with this report or incorporated by reference herein.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: April 2, 2007

REUNION INDUSTRIES, INC.

By: /s/ Kimball J. Bradley

Kimball J. Bradley

Chairman and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this Annual Report on Form 10-K has been signed by the following persons in the

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capacities and on this 30th day of March, 2007.

Signature -----	Title -----
/s/ John M. Froehlich ----- John M. Froehlich	Executive Vice President, Chief Financial Officer, Treasurer and Secretary (chief financial and accounting officer)
/s/ Thomas N. Amonett ----- Thomas N. Amonett	Director
/s/ Charles E. Bradley, Sr. ----- Charles E. Bradley, Sr.	Director
/s/ Thomas L. Cassidy ----- Thomas L. Cassidy	Director
/s/ David E. Jackson ----- David E. Jackson	Director
/s/ Joseph C. Lawyer ----- Joseph C. Lawyer	Vice Chairman and Director
/s/ John G. Poole ----- John G. Poole	Director

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REUNION INDUSTRIES, INC.

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Consolidated Balance Sheets.....	F-4
Consolidated Statements of Operations and Comprehensive Income (Loss).....	F-5
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Report of Management

Management is responsible for the preparation and integrity of the consolidated financial statements appearing in this Annual Report on Form 10-K. The financial statements were prepared in conformity with accounting principles generally accepted in the United States of America appropriate under the circumstances and, accordingly, include some amounts based on management's best judgments and estimates. Financial information in this Annual Report on Form 10-K is consistent with that in the financial statements.

Management is responsible for maintaining a system of internal business controls and procedures to provide reasonable assurance, at an appropriate cost/benefit relationship, that assets are safeguarded and that transactions are authorized, recorded and reported properly. The internal control system is augmented by appropriate reviews by management, written policies and guidelines, careful selection and training of qualified personnel and a written code of business ethics applicable to all employees of Reunion and its subsidiaries. Management believes that Reunion's internal controls provide reasonable assurance that assets are safeguarded against material loss from unauthorized use or disposition and that the financial records are reliable for preparing financial statements and other data and maintaining accountability for assets.

The Audit Committee of the Board of Directors, composed solely of Directors who are not employees or officers of Reunion, meets on a regular periodic basis with the independent auditors and management to discuss internal business controls, auditing and financial reporting matters. The Committee reviews with the independent auditors the scope and results of the audit effort. The Committee also meets with the independent auditors without management present to ensure that the independent auditors have free access to the Audit Committee.

The independent registered Public Accounting Firm, Mahoney Cohen & Company, CPA, P.C., are engaged to audit the consolidated financial statements of Reunion and to conduct such tests and related procedures as they deem necessary in accordance with auditing standards promulgated by the Public Company Accounting Oversight Board (United States). The opinion of the independent registered Public Accounting Firm, based upon their audits of the consolidated financial statements, is contained in this Annual Report on Form 10-K.

Date: April 2, 2007

/s/ Kimball J. Bradley

Kimball J. Bradley, Sr.
Chairman and Chief Executive Officer

/s/ John M. Froehlich

John M. Froehlich
Executive Vice President and
Chief Financial Officer

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Report of Independent Registered Public Accounting Firm

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Board of Directors and Stockholders
Reunion Industries, Inc.

We have audited the accompanying consolidated balance sheets of Reunion Industries, Inc. and Subsidiaries as of December 31, 2006 and 2005, and the related consolidated statements of operations and comprehensive income (loss) and cash flows for the years then ended. Our audits also included the financial statement schedule listed in the Index at Item 15. These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Reunion Industries, Inc. and Subsidiaries at December 31, 2006 and 2005, and the consolidated results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects, the information set forth therein.

The accompanying financial statements have been prepared assuming that Reunion Industries, Inc. and Subsidiaries will continue as a going concern. As more fully described in Note 1, at December 31, 2006, the Company has a deficiency in working capital of \$39.3 million, a loss from continuing operations of \$2.9 million before gain on debt extinguishment and a deficiency in assets of \$23.0 million. These conditions raise substantial doubt about the Company's ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 1 and Note 3. 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 classification of liabilities that may result from the outcome of this uncertainty.

/s/ Mahoney Cohen & Company, CPA, P.C.

New York, New York
March 16, 2007

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REUNION INDUSTRIES, INC. AND SUBSIDIARIES CONSOLIDATED BALANCE SHEETS (in thousands)

	At December 31, 2006	At December 31, 2005
	-----	-----
ASSETS:		
Cash and cash equivalents	\$ 1,575	\$ 1,923
Receivables, net	9,241	7,386
Inventories, net	11,316	8,606
Other current assets	1,460	1,306
Assets of discontinued operations, current	-	6,237
	-----	-----
Total current assets	23,592	25,458
Property, plant and equipment, net	4,476	4,594
Property, plant and equipment, held for sale	2,056	6,050
Due from related parties	963	891
Goodwill, net	10,994	10,994
Other assets, net	2,337	3,273
	-----	-----
Total assets	\$ 44,418	\$ 51,260
	=====	=====
LIABILITIES AND STOCKHOLDERS' DEFICIT:		
Debt in default	\$ 39,957	\$ 43,236
Trade payables	3,057	6,129
Accrued salaries and benefits	1,003	1,082
Accrued interest	11,113	8,052
Due to related party	365	140
Other current liabilities	5,715	4,182
Notes payable	882	8,240
Note payable - related party	500	500
Current liabilities of discontinued operations	300	2,641
	-----	-----
Total current liabilities	62,892	74,202
Other liabilities	3,437	3,465
Non-current liabilities of discontinued operations	620	781
	-----	-----
Total liabilities	66,949	78,448
Minority interests	498	329
Commitments and contingent liabilities	-	-
Stockholders' deficit:		
Common stock (\$.01 par value, 30,000,000 shares authorized, 17,419,019 shares issued and outstanding at December 31, 2006 and 16,656,519 shares issued and outstanding at December 31, 2005)	174	167
Capital in excess of par value	28,127	28,325
Accumulated other comprehensive loss	(2,587)	(1,879)
Accumulated deficit	(48,743)	(54,130)
	-----	-----
Stockholders' deficit	(23,029)	(27,517)

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Total liabilities and stockholders' deficit	----- \$ 44,418 =====	----- \$ 51,260 =====
---	-----------------------------	-----------------------------

See accompanying notes to consolidated financial statements.

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REUNION INDUSTRIES, INC. AND SUBSIDIARIES CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS) (in thousands, except per share information)

	Year Ended December 31,		
	2006	2005	2004
	-----	-----	-----
Net Sales	\$ 59,490	\$ 49,727	\$ 50,715
Total cost of sales	46,029	39,848	40,914
	-----	-----	-----
Gross profit	13,461	9,879	9,801
Selling, general & administrative	7,081	7,046	7,152
Gain on debt extinguishment	(4,945)	(3,450)	(3,540)
Other (income) expense, net	(42)	(203)	(798)
	-----	-----	-----
Operating profit	11,367	6,486	6,987
Interest expense, net	8,725	8,906	7,933
	-----	-----	-----
Income (loss) from continuing operations before income taxes and minority interests	2,642	(2,420)	(946)
Provision for income taxes	115	49	-
	-----	-----	-----
Income (loss) from continuing operations Before minority interests	2,527	(2,469)	(946)
Less: Minority interests	494	211	330
	-----	-----	-----
Income (loss) from continuing operations	2,033	(2,680)	(1,276)
Discontinued operations, net of tax:			
Income(loss)from discontinued Oneida operations, less applicable income taxes of \$-0-	(297)	1,355	1,343
Gain on disposal of Oneida operations, less applicable income taxes of \$-0-	4,239	-	-
Loss from sale of Milwaukee, WI property, less applicable income taxes of \$-0-	(572)	-	-
Income(Loss) from discontinued Rostone operations, less applicable income taxes of \$-0-	230	(849)	(87)
Gain on disposal of Rostone operations, less applicable income taxes of \$-0-	-	370	-
Loss on prior disposal of discontinued materials handling operations, less applicable income taxes of \$-0-	-	(119)	-
Loss on prior disposal of discontinued bridges and cranes operations, less applicable income taxes of \$-0-	(246)	(465)	-
Income(loss)from discontinued springs operations, less applicable income taxes of \$-0-	-	(32)	176
Loss on disposal of springs operations,			

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less applicable income taxes of \$-0-	-	-	(318)
	-----	-----	-----
Income from discontinued operations	3,354	260	1,114
	-----	-----	-----

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REUNION INDUSTRIES, INC. AND SUBSIDIARIES CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS) (continued) (in thousands, except per share information)

	Year Ended December 31,		
	2006	2005	2004
	-----	-----	-----
Net income (loss)	5,387	(2,420)	(162)
Other comprehensive income (loss), net of \$-0- tax:			
Reduction in (additional) pension liability in excess of unrecognized prior service cost	(7)	23	77
	-----	-----	-----
Comprehensive income (loss)	\$ 5,380	\$ (2,397)	\$ (85)
	=====	=====	=====
Earnings (loss) applicable to common stockholders	\$ 5,397	\$ (2,420)	\$ (162)
	=====	=====	=====
Earnings (loss) per common share-basic:			
Continuing operations	\$ 0.12	\$ (0.16)	\$ (0.08)
Discontinued operations	0.19	0.01	0.07
	-----	-----	-----
Income (loss) per common share-basic	\$ 0.31	\$ (0.15)	\$ (0.01)
	=====	=====	=====
Earnings (loss) per common share-diluted:			
- basic and diluted:			
Continuing operations	\$ 0.10	\$ (0.16)	\$ (0.08)
Discontinued operations	0.15	0.01	0.07
	-----	-----	-----
Income (loss) per common share - basic and diluted	\$ 0.25	\$ (0.15)	\$ (0.01)
	=====	=====	=====
Weighted average shares outstanding - basic	17,143	16,479	16,279
	=====	=====	=====
Weighted average shares outstanding - diluted	21,931	16,479	16,279
	=====	=====	=====

See accompanying notes to consolidated financial statements.

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REUNION INDUSTRIES, INC. AND SUBSIDIARIES CONSOLIDATED STATEMENTS OF CASH FLOWS (in thousands)

Year Ended December 31,

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	2006	2005	2004
	-----	-----	-----
Cash flow from operating activities:			
Net income (loss)	\$ 5,387	\$ (2,420)	\$ (162)
Adjustments to reconcile net (loss) income to net cash provided by (used in) operating activities:			
Depreciation	785	1,651	2,480
Amortization of deferred financing fees	866	869	864
Amortization of estimated warrant value	269	259	138
Gain on extinguishment of debt	(4,945)	(3,450)	(3,540)
Gain on sale of Oneida	(4,239)	-	-
Gain on sale of property and equipment	-	(360)	-
Loss on sale of Milwaukee, WI property	572	-	-
Increase in minority interest	494	211	330
Stock based compensation	45	-	-
Changes in assets and liabilities:			
(Increase) decrease in receivables	(1,855)	2,277	(4,014)
(Increase) decrease in inventories	(3,295)	(948)	(2,819)
(Increase) decrease in other current assets	(154)	(288)	517
Increase (decrease) in trade payables and other current liabilities	2,100	2,552	1,076
Net change in other assets and liabilities	(36)	(214)	(267)
Capitalization from China joint venture	-	-	2,074
Cash provided by (used in) operating activities	(4,006)	139	(3,323)
	-----	-----	-----
Cash flow from investing activities:			
Proceeds from sale of discontinued operations, net of expenses	10,437	3,680	-
Proceeds from sale of property	1,068	-	-
Capital expenditures	(622)	(585)	(780)
Cash provided by (used in) investing activities	10,883	3,095	(780)
	-----	-----	-----
Cash flow from financing activities:			
Proceeds from issuance of debt	-	3,100	3,000
Repayments of debt	(5,680)	(3,352)	(682)
China dividend paid to minority interest	(325)	(212)	-
Revolving credit facilities borrowings	58,215	67,964	70,774
Revolving credit facilities repayments	(59,659)	(69,826)	(68,340)
Payments of deferred financing costs	-	(7)	(431)
Proceeds from sale of stock	7	-	-
Net increase (decrease) in outstanding checks	-	22	244
Cash provided by (used in) financing activities	(7,442)	(2,311)	4,565
	-----	-----	-----
Net increase (decrease) in cash and cash equivalents	(565)	923	462
Less: Change in cash of discontinued operations	217	(146)	28
Cash and cash equivalents, beginning of year	1,923	1,146	656
Cash and cash equivalents, end of year	\$ 1,575	\$ 1,923	\$ 1,146
	=====	=====	=====

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	Year Ended December 31,		
	2006	2005	2004
	-----	-----	-----
Supplemental cash flow information:			
Interest paid	\$ 3,130	\$ 3,156	\$ 2,642
	=====	=====	=====
Income taxes paid	\$ -	\$ -	\$ 6
	=====	=====	=====
Non-cash financing and investing activities:			
Conversion of fees/interest to common stock	\$ -	\$ 378	\$ -
	=====	=====	=====
Calculation of the previously recorded Chinese joint venture contribution - finalized in 2006 (Note 1)	\$ 243	\$ -	\$ -
	=====	=====	=====

See accompanying notes to consolidated financial statements.

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REUNION INDUSTRIES, INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2006

NOTE 1: ACCOUNTING POLICIES

Nature of Business

Reunion Industries, Inc. (the Company) owns and operates industrial manufacturing operations that design and manufacture engineered, high-quality products for specific customer requirements. Such products include large-diameter seamless pressure vessels, hydraulic and pneumatic cylinders and metal bar grating. Until December 2005, the Company's products included precision plastic components made by its thermoplastics division ("Oneida"). During the year 2005, the Company decided to exit the plastics business and, effective March 1, 2006, Oneida was sold. See Note 2: RECENT EVENTS-Sale of Oneida. Previously, during the year 2004, the Company decided to exit the thermoset plastics portion ("Rostone") of its plastics segment. The Rostone business was sold in the first quarter of 2005. Until December 2004, the Company's products also included leaf springs. Such business was sold in January 2005. Prior to 2003, the Company's products also included heavy duty cranes, bridge structures and materials handling systems. These businesses were sold during 2002. All of these sold businesses are reported as discontinued operations.

In December 1995, the Company entered into a joint venture agreement with China Metallurgical Import & Export Shanghai Company and Wanggang Township Economic Development Corporation. The Company has a 65% interest in the joint

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venture. During 1996, the Company capitalized its investment in the joint venture by contributing cash of \$150,000 and machinery and equipment with an estimated fair market value of \$1.9 million to the joint venture. The joint venture manufactures grating panels and is located in Wanggang Township, Pudong New Area, Shanghai in the People's Republic of China.

In 1999, the Company adopted a plan to exit the grating manufacturing business through the disposition of its grating businesses, including its Chinese joint venture investment. Upon adoption of the plan, the grating businesses and assets were classified and accounted for as discontinued operations, including a provision for estimated loss on disposal of the Chinese joint venture of \$2.0 million, and ceased consolidating the joint venture as control of its daily operations was given to our joint venture partners and our then expatriate management was removed.

In the four years since adopting this plan, the Company has made several unsuccessful attempts to dispose of its investment in the joint venture and now perceives that a presence in China is consistent with its future plans for certain of its continuing operations. As a result and in connection with our Chinese partners' expressed desire to return control of the business to the Company for various reasons, the Company has decided to retain its investment in the Chinese joint venture and returned it to continuing operations effective at the beginning of 2004. The calculation of the previously recorded contribution to capital from this joint venture was finalized in 2006 and a reduction of \$243,000 was recorded in the current year.

The Consolidated Statement of Operations for 2006, 2005 and 2004 includes the sales of this grating subsidiary along with the Company's ownership share of the profits for the same periods. The Consolidated Balance Sheets at December 31, 2006 and 2005 include the existing assets and liabilities of this subsidiary, excluding those assets that were previously written down in 1999. The minority interest in this subsidiary represents the calculated amount attributable to the 35% ownership not owned by the Company.

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 December 31, 2006, the Company has a deficiency in working capital of \$39.1 million, a loss from continuing operations of \$2.9 million before gain on debt extinguishment and a deficiency in assets of \$22.8 million. Additionally, at December 31, 2006,

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the Company was in default on substantially all of its debt. These conditions raise substantial doubt about the Company's ability to continue as a going concern. 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.

Over the past several years, the Company has taken steps to improve its liquidity and defer the principal maturities of a significant portion of its debt. During 2005, the Company sold its leaf spring business and all operating assets of its Rostone business. During the first quarter of 2006, the Company sold its Oneida business, the remaining portion of its plastics segment. (See Note 2: RECENT DEVELOPMENTS - Sale of Oneida.) Additionally, during the first half of 2006, the Company effected a settlement with the holder of a \$1.017 million note payable and accrued interest of \$308,000 from the Company wherein the Company recognized a gain from this debt settlement of \$925,000 and effected a settlement with the holder of a \$4.290 million judgment and accrued interest of \$880,000 payable by the Company, in

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connection with which the Company recognized a gain from this debt settlement of \$4.0 million. (See Note 2: RECENT DEVELOPMENTS - Note Payable Settlements.) The Company is investigating other restructuring or recapitalization scenarios in an effort to provide additional liquidity and extinguishments or deferrals of debt obligations. (See Note 3: SUBSEQUENT EVENTS - Restructure Plan.) No assurances exist that the Company will be successful in these efforts and failure to accomplish these plans could have an adverse impact on the Company's liquidity, financial position and future operations.

Principles of Consolidation

The consolidated financial statements include the accounts of Reunion Industries and its subsidiaries. All significant intercompany transactions and balances have been eliminated.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates that affect the reported amounts of assets, liabilities, revenues, expenses, and disclosures of contingencies during the reporting period. Actual results could differ from management's estimates.

Cash and Cash Equivalents

Cash and cash equivalents consist of demand deposit accounts and other cash equivalents with original maturities of 3 months or less.

Accounts Receivable and Allowance for Doubtful Accounts

Accounts receivable are net of \$183,000 and \$211,000 in allowance for doubtful accounts at December 31, 2006 and 2005, respectively. Credit is extended after a credit review by management that is based on a customer's ability to perform its obligations. Such reviews are regularly updated. The allowance for doubtful accounts is based upon agings of customer balances and specific account reviews by management. The Company has no concentration of credit risks and generally does not require collateral or other security from its customers.

Inventories and Reserves for Obsolescence

At December 31, 2006, inventories are stated at the lower of cost or market, at costs that approximate the first-in, first-out method of inventory valuation. During the third quarter of 2003, for those locations of the Company that had been using the last-in, first-out method of inventory valuation, the Company changed the method of valuing inventory to the first-in, first-out method. Work-in-process and finished goods include material costs, labor costs and manufacturing overhead. Reserves for excess, slow-moving and obsolete inventories are based on reviews of inventory usage reports for items more than one year old.

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Property, Plant and Equipment

Property, plant and equipment is recorded at cost, including costs as determined by the allocation of the purchase price in business acquisitions accounted for using the purchase method, and depreciated over their estimated useful lives using the straight-line method for financial statement purposes. Estimated useful lives in years for depreciation are as follows: 25 to 40 for buildings and improvements; 7 to 12 for machinery and equipment; 5 to 8 for computer systems; 7 to 10 for furniture and fixtures. Additions, betterments

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and replacements are capitalized, while expenditures for repairs and maintenance are charged to operations when incurred. As units of property are sold or retired, the related cost and accumulated depreciation are removed from the accounts, and any resulting gain or loss is recognized in income.

Goodwill

The Company has recorded goodwill totaling \$11.0 million at December 31, 2006 and 2005, of which \$9.5 million relates to our pressure vessels and \$1.5 million relates to our cylinders segment. Effective January 1, 2002, the Company adopted Statement of Financial Accounting Standards (SFAS) No. 142, "Goodwill and Other Intangible Assets" and ceased amortizing goodwill. The Company completed internal impairment tests of goodwill as of January 1, 2002 and engaged an independent valuation consultant to confirm our conclusions. The Company completed additional impairment tests of goodwill as of December 31, for each succeeding year and has concluded that goodwill is not impaired.

Long-Lived Assets and Impairment

The Company reviews long-lived assets for impairment whenever circumstances indicate that the carrying amount of the asset may not be recoverable, and recognizes an impairment loss when the undiscounted future cash flows expected to be generated by the asset are less than the carrying amount of the asset. Long-lived assets held for sale, other than assets to be disposed of in connection with disposal of a discontinued business segment, are reported at the lower of carrying amount or fair value less cost to sell.

Revenue Recognition

Sales are recorded when shipped and title and risks of ownership transfer to the buyer. Shipping and handling fees charged to customers are recorded as revenues and the related costs are recorded as cost of sales.

Environmental Policies

Environmental expenditures that relate to current operations are either expensed or capitalized depending on the nature of the expenditure. Expenditures relating to conditions caused by past operations that do not contribute to current or future revenue generation are expensed. Liabilities are recorded when environmental assessments and/or remediation actions are probable, and the costs can be reasonably estimated.

Income Taxes

The Company provides deferred income taxes for all temporary differences between financial and income tax reporting using the liability method. Deferred taxes are determined based on the estimated future tax effect of differences between the financial statement and tax bases of assets and liabilities given the provisions of enacted tax laws. A valuation allowance is recorded for net deferred tax assets if it is more likely than not that such assets will not be realized. The Company has significant net operating loss and investment tax credit carryforwards for tax purposes, portions of which may expire unutilized.

Earnings Per Share

Basic earnings per share is computed based on the weighted average number of common shares outstanding during the period. Diluted earnings per share gives effect to all dilutive potential common shares outstanding during this period. Potential common shares include shares issuable upon exercise of the Company's stock options and issuable upon exercise of warrants.

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Potential common shares relating to warrants and options to purchase common stock aggregating approximately 4,787,754, 3,765,803 and 2,533,000 shares are included in the weighted average number of shares for the years ended December 31, 2006, 2005 and 2004, respectively. When the Company has losses from continuing operations, such shares are anti-dilutive and are not considered in earnings per share calculations for those years.

Recent Accounting Pronouncements

In September 2006, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans" ("SFAS 158"). This statement amends several earlier issued statements, including Financial Accounting Standards No. 87, "Employers' Accounting for Pensions" ("SFAS 87") and Financial Accounting Standards No. 106, "Employers' Accounting for Postretirement Benefits Other than Pensions" ("SFAS 106"). For companies with publicly traded equity securities, SFAS 158 is effective for fiscal years ending after December 31, 2006. The statement requires employers with pension and other post-employment benefit plans to recognize the funded status of such plans in its financial statements, recognize as a component of other comprehensive income the gains or losses that arise during the period but are not recognized as components of cost pursuant to SFAS 87 and SFAS 106 and provide other additional disclosures. The Company has both defined pension plans and other postretirement benefit plans and, in connection with the adoption of FAS 158, recorded additional liabilities of \$701,000 as of December 31, 2006. This amount was also recorded as a component of other comprehensive loss in shareholders' deficit.

In June 2006, the FASB issued Interpretation 48, "Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109" ("FIN 48"). FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 is effective for the 2007 year. The Company is assessing the impact of FIN 48 but does not anticipate that it will have a material effect on its financial statements.

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements" ("SFAS 157"). SFAS 157 clarifies the principle that fair value should be based on the assumptions market participants would use when pricing an asset or liability and establishes a fair value hierarchy that prioritizes the information used to develop those assumptions. Under the standard, fair value measurements would be separately disclosed by level within the fair value hierarchy. SFAS 157 is effective for the Company on January 1, 2008. The Company is in the process of evaluating SFAS 157 but does not believe it will have a significant effect on its financial position or results of operations.

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

Reclassifications

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Certain reclassifications of prior year amounts may have been made to conform to 2006 classifications.

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NOTE 2: RECENT EVENTS

Sale of Oneida

During the 2005 year, the Company decided to exit the plastics business. In January 2006, the Company signed an Asset Purchase Agreement to sell substantially all of the assets of its Oneida business to an unrelated entity. On March 2, 2006, effective March 1, 2006, the Company completed the sale for a purchase price of \$11,573,000 subject to a post-closing adjustment based on a closing balance sheet. Of the net sale proceeds, after deducting \$374,621 in related expenses, \$300,000 was put into a one-year escrow as security for any claims by the buyer that may arise after the closing, \$2,000,000 was used to pay down a note payable to a private capital fund that was secured by the real estate of the Company, \$980,974 was used to completely pay off the existing Wachovia Bank ("Wachovia") term loan and the remaining \$7,917,405 was used to pay down the revolving credit facility. The post-closing adjustment reduced the purchase price by \$116,000, \$55,000 of which was paid from the escrow fund. The remaining \$245,000 in the escrow fund is included in other current assets on the balance sheet as of December 31, 2006. The Company recognized a \$4.2 million gain on sale during 2006.

Change in Officers

Effective March 2, 2006, Charles E. Bradley, Sr. resigned his officership as Chairman of the Board of Directors and Chief Executive Officer of the Company. However, he will continue to serve as a director. Effective March 2, 2006, the Board of Directors elected Mr. Kimball J. Bradley Chairman of the Board of Directors and Chief Executive Officer.

Note Payable Settlements

On March 2, 2006, the Company entered into a settlement agreement with the holder of a \$1.017 million note payable from the Company, pursuant to which the Company paid the holder a total of \$400,000 for such note and all accrued interest. Such settlement was effected on March 3, 2006, and the Company recognized a gain from this debt settlement of \$925,000 during 2006.

On March 21, 2006, the Company entered into a settlement agreement with the Stanwich Financial Services Corp. Liquidating Agent ("SFSC"), pursuant to which the Company agreed to pay SFSC \$1.125 million in settlement of its existing \$4.290 million judgment and all accrued interest. In connection with such agreement, the Company made a \$150,000 payment to SFSC during the first quarter of 2006. As provided in the settlement agreement, payment of the remaining \$975,000 amount was subject to bankruptcy court approval in SFSC's Chapter 11 proceeding. Such approval was received in May 2006, the final payment was promptly made and the Company recognized a gain from this debt settlement of \$4.0 million during 2006.

Defaults

The Company failed to make interest and principal payments on the Senior

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Notes which are events of default under the Indenture under which the Senior Notes were issued. Such defaults also constitute cross defaults under the Wachovia loan agreement and under the documents securing the \$3.5 million loan from a private capital fund. As a result, the Senior Notes and all cross defaulted debt are shown as debt in default at December 31, 2006.

Wachovia Loan Agreement

Under the terms of the Wachovia Loan Agreement, which had an expiration date of December 3, 2006, the Agreement was to automatically renew from year to year unless either party gave notice of non-renewal within a specified time. Wachovia did inform the Company that it would not extend the term of the Loan Agreement. Subsequent to such notification, the Company and Wachovia entered into letter agreements dated December 1, 2006 and December 19, 2006 under which Wachovia agreed to extend the Loan Agreement and all associated financing agreements until December 22, 2006 and January 22, 2007, respectively. (For a further extension, see NOTE 3: SUBSEQUENT EVENTS - Wachovia Loan Agreement.)

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Tender Offer

On October 27, 2006, the Company initiated a tender offer to purchase for cash all of its outstanding 13% Senior Notes ("Notes"). The consideration offered in the tender offer, as amended, for each \$1,000 principal amount of the original 2003 Senior Notes and for each \$880 principal amount of the restructured Senior Notes was comprised of (i) a cash amount of \$563.20, (ii) warrants to purchase 140.82 shares of the common stock of the Company and (iii) \$160.93 principal amount of a junior subordinated note. The Company's financing for such tender offer was contingent on acceptance of such offer by holders of a significant percentage of the outstanding amount of such Senior Notes. (See NOTE 3: SUBSEQUENT EVENTS - 13% Senior Notes.)

Milwaukee Property Sale

In December 2006, the Company completed the sale of its property in Milwaukee, WI, property that has been classified in discontinued operations as held for sale, for a purchase price of \$1.175 million. Net proceeds from the sale were \$1.067 million which was used to pay down a note payable to a private capital fund that was secured by the real estate of the Company. The Company recorded a loss of \$572,000 on this sale which is included in income(loss) from discontinued operations.

NOTE 3: SUBSEQUENT EVENTS

13% Senior Notes

The Company's tender offer, as discussed in NOTE 2 above, was not accepted by a holder of approximately 72% of the outstanding Senior Notes. As a result, the tender offer was terminated and withdrawn on January 10, 2007. The 13% restructured Senior Notes and accumulated interest, which totaled \$30.8 million at December 31, 2006, became due and payable on January 3, 2007. The Company did not make such payment and thus continued to be in default under the Indenture ("Indenture Default") under which the Senior Notes were issued. With an Indenture Default, holders of more than 25% of the principal amount of the Senior Notes may, by written notice to the Company and to the Trustee, declare the principal of and accrued but unpaid interest on all the Senior Notes to be immediately due and payable (an "acceleration"). However, under an Intercreditor and Subordination Agreement entered into in December 2003 among Wachovia, the holders of the Senior Notes and certain other lenders, the Senior Note holders cannot commence any action to enforce their

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liens on any collateral for a 180 day period beginning after the date of receipt by Wachovia, the senior secured lender, of a written notice from the Senior Note holders informing Wachovia of such Indenture Default and demanding acceleration. On February 2, 2007, Wachovia received written notice of such demand for payment.

Wachovia Loan Agreement

On January 22, 2007, the Company and Wachovia entered into a letter agreement to extend the term of the existing Loan Agreement and all other associated financing agreements from January 22, 2007 until April 23, 2007.

Restructuring Plan

In late January 2007, management decided that it would actively market its pressure vessel business in order to provide liquidity to pay off all, or the majority, of its debt either through a recapitalization of the Company or the sale of this pressure vessel business. As of this date, several recapitalization scenarios and indications of value for this business have been received and the Company is investigating the various results that would follow from transactions with either the potential investors or potential buyers.

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NOTE 4: INVENTORIES

Inventories of continuing operations are comprised of the following (in thousands):

	At December 31,	
	2006	2005
	-----	-----
Raw material	\$ 5,481	\$ 2,732
Work-in-process	3,136	2,997
Finished goods	3,284	2,877
	-----	-----
Inventories	\$ 11,901	\$ 8,606
	=====	=====

Inventories are valued at the lower of cost or market, cost being determined on the first-in, first-out method. In the third quarter of 2003, for those locations of the company that had been using the last-in, first-out method of inventory valuation, the Company changed the method of valuing inventory to the first-in, first-out method. The effect on the results of operations for the year ended December 31, 2003 was inconsequential. The above amounts are net of inventory reserves of \$342 and \$328 at December 31, 2006 and 2005, respectively.

NOTE 5: PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment (PP&E) of continuing operations is comprised of the following (in thousands):

	At December 31,	
	2006	2005
	-----	-----
Land	\$ 309	\$ 309

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Buildings and improvements	3,527	3,405
Machinery and equipment	13,425	13,114
Computer systems	1,922	2,233
Furniture and fixtures	422	426
Construction-in-progress	204	147
	-----	-----
Property, plant and equipment	19,809	19,634
Less: Accumulated depreciation	(15,333)	(15,040)
	-----	-----
Property, plant and equipment, net	\$ 4,476	\$ 4,594
	=====	=====

NOTE 5: OTHER ASSETS

At December 31, 2006, other assets were composed almost entirely of the cash surrender value of life insurance policies on key employees of the Company. At December, 2005, other assets were composed of \$2.4 million of such cash surrender values of these policies along with net deferred financing costs of approximately \$.9 million. Such deferred financing costs were first incurred when the Company refinanced its bank debt in 2003. The Company amortized such costs using a straight line amortization method, which approximated the effective interest method of amortization, over the original three year period of the bank debt which ended in December of 2006. The cash surrender values of these policies secure borrowings of \$1.75 million under the Wachovia revolving credit loan.

NOTE 6: OTHER CURRENT LIABILITIES

Other current liabilities consist of the following (in thousands):

	At December 31,	
	2006	2005
	-----	-----
Customer deposits	\$ 2,002	\$ 1,222
Accrued liabilities - legacy costs	1,350	708
Accrued health self-insurance liability	259	451
Accrued liabilities - Shanghai China	966	393
Other	1,138	1,408
	-----	-----
Total other current liabilities	\$ 5,715	\$ 4,182
	=====	=====

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Customer deposits represent advances received from customers to purchase raw material for the pressure vessel business. Accrued liabilities - legacy costs represents the remaining estimated liabilities of our discontinued operations which include employee-related legacy costs such as deferred and workers compensation costs, legal/settlement costs associated with asbestos claims and terminated lease obligations. The increase in accrued legacy costs in 2006 primarily results from the sale of the Milwaukee property. Accrued liabilities - Shanghai China represent that subsidiary's accrued liabilities in China.

NOTE 7: DEBT IN DEFAULT AND LONG-TERM DEBT

At December 31, 2006, the Company was in default on its Wachovia bank financing (including the junior participation portion thereof), its note payable to a private capital fund and its 13% senior notes.

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

	At December 31,	
	2006	2005
	-----	-----

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Wachovia revolving credit facility	\$ 8,334	\$ 9,788
Junior participation portion of the revolving credit facility (net of warrant value of \$139 in 2005)	6,100	5,961
Wachovia term loan	-	1,087
Note payable due December 5, 2006 (net of warrant value of \$31 in 2005)	3,500	3,469
13% senior notes (net of warrant value of \$99 in 2005)	22,013	21,914
Notes payable	-	1,017
	-----	-----
Total debt in default	\$ 39,947	\$ 43,236
	=====	=====

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

	At December 31,	
	2006	2005
	-----	-----
Note payable due December 1, 2006	\$ 882	\$ 3,950
Notes payable	-	4,290
Note payable - related party	500	500
	-----	-----
Total long-term debt	1,382	8,740
Classified as current	(1,382)	(8,740)
	-----	-----
Long-term debt	\$ -	\$ -
	=====	=====

Wachovia Revolving and Term Loan Credit Facility

On December 3, 2003, the Company entered into a revolving and term loan bank credit facility with Wachovia Bank (formerly, Congress Financial Corporation) (the "Wachovia Loan Facility"). At the time, the Wachovia Loan Facility consisted of revolving credit, term loan and letter of credit accommodations up to a maximum credit of \$25.0 million. The term loan amortized to the revolving credit availability at a rate of \$53,000 per month and was paid in full in March 2006 with proceeds from the sale of Oneida. At that time, the maximum credit was also reduced to \$15.0 million. The facility had a three-year initial term with automatic renewals for additional one-year increments unless either party gave the other notice of termination at least 90 days prior to the beginning of the next one-year term. Wachovia did give such termination notice but has, on two separate occasions, agreed to extend the facility. The facility now expires on April 23, 2007 unless a further extension is granted. The Wachovia Loan Facility is collateralized by a continuing security interest and lien on substantially all of the Company's assets.

Interest on loans outstanding under the Wachovia facility (other than the Wachovia Supplemental Loan described in the next paragraph) is payable monthly

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at a variable rate tied to the prime rate publicly announced from time to time by Wachovia Bank, National Association, plus 2.50%. The facility also provides for a default interest rate of the prime rate plus 4.50%. The interest rate at December 31, 2006 was 10.75%.

In May 2004, the Company and Wachovia entered an amendment to the loan and security agreement whereby Wachovia provided an additional \$3.0 million Supplemental Loan to the Company. Proceeds from the loan were used to pay trade payables and for other corporate purposes. Funds for the additional \$3.0 million of supplemental financing were provided to Wachovia by two private capital funds as the result of the execution of a junior participation

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loan transaction between Wachovia and the two funds. Each fund participated in the supplemental financing at a ratio of 50% each. In addition to their junior participation loan having the same collateral security as Wachovia, as described below, each private equity fund received, subject to shareholder approval, a warrant to purchase 375,000 shares of the Company's common stock at an initial exercise price of \$0.01 per share, together with registration rights. The warrants were issued in January 2005, following the approval by the Company's stockholders to amend the Company's Articles of Incorporation to increase the authorized number of shares of common stock of the Company by 10,000,000. The value of the warrants was estimated to be \$165,000 at December 31, 2004 using the Black-Scholes pricing model. This amount was recorded as an original issue discount with an increase to paid-in capital and was amortized to interest expense using the effective interest method of amortization during 2005 and 2006.

In July 2005, the Company and Wachovia entered into an amendment to the loan and security agreement whereby Wachovia provided an additional \$3.1 million of supplemental revolving credit financing to the Company. Proceeds from the loan were used to pay the settlement with Shaw NapTech in July 2005 and to fund inventory purchases. Funds for the additional \$3.1 million of supplemental financing were provided to Wachovia by two private capital funds as the result of the execution of a junior participation loan transaction between Wachovia and the two funds. Each fund participated in the additional supplemental financing at a ratio of 50% each. In addition to their junior participation loan having the same level of collateral security as Wachovia as described below, each private equity fund received a warrant to purchase 375,000 shares of the Company's common stock at an initial exercise price of \$0.01 per share, together with registration rights. The warrants were issued in July 2005. The value of the warrants was estimated to be \$85,000 at July 1, 2005 using the Black-Scholes pricing model. This amount was recorded as an original issue discount with an increase to paid-in capital and was amortized to interest expense using the effective interest method of amortization during 2005 and 2006.

Interest on the Wachovia Supplemental Loans is payable monthly at a fixed rate of 15% per annum. The Wachovia Supplemental Loans are collateralized by a continuing security interest and lien on substantially all of the current and after-acquired assets of Reunion including, without limitation, all accounts receivable, inventory, real property, equipment, chattel paper, documents, instruments, deposit accounts, contract rights and general intangibles.

The Wachovia Supplemental Loans are subject to the same financial covenants and other covenants as the revolving credit and term loan facilities, including the minimum amount of earnings before interest, taxes, depreciation and amortization (EBITDA).

Through August 2004, the Company achieved the minimum monthly EBITDA required for compliance with the Wachovia covenant. However, in September 2004 the Company was unable to achieve the required minimum monthly covenant amount. From that time forward, the Company and Wachovia have entered into several amendments of the loan and security agreement which either reduced the covenant threshold or eliminated certain covenants. The Company is currently in compliance with such revised financial covenants. However, the loan and security agreement contains cross default provisions related to other debt and, since the Company is in default with such other debt, the Company is in default under the Wachovia loan facility.

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On August 11, 2003, Reunion borrowed \$2.5 million from a private capital fund by executing a senior subordinated secured promissory note payable in the amount of and with cash proceeds of \$2.5 million. The note bore interest at 10% per annum, such interest being payable, in arrears, on the last day of every month. The principal amount of \$2.5 million was due on August 11, 2005 with voluntary prepayments permitted but was extended to December 5, 2006 as discussed below. The note is secured by a majority of the assets of Reunion, provided that such security interest is subordinate to the security interest of Wachovia. In addition to its subordinated security interest, the fund received a warrant to purchase 625,000 shares of the Company's common stock and registration rights with respect to the warrant and shares issuable thereto at a price of \$0.01 per share. The value of the warrants was estimated to be \$90,000 at the time of their issuance using the Black-Scholes pricing model. This amount was recorded as an original issue discount with an increase to paid-in capital and was amortized to interest expense using the effective interest method of amortization during 2004, 2005 and 2006. The cash proceeds were used for working capital and other general corporate purposes.

In connection with the Wachovia refinancing on December 3, 2003, this same private capital fund amended and restated its senior subordinated secured promissory note to provide an additional \$1.0 million of financing to the Company at the same interest rate but changed the maturity date from August 11, 2005 to December 5, 2006. Additional warrants to purchase 250,000 shares were eventually issued to the fund in January 2005, following the approval by the Company's stockholders to amend the Company's Articles of Incorporation to increase the authorized number of shares of common stock of the Company by 10,000,000. The value of these warrants was estimated to be \$18,000 at the time of their issuance using the Black-Scholes pricing model. This amount was recorded as an original issue discount with an increase to paid-in capital and was amortized to interest expense using the effective interest method of amortization during 2005 and 2006.

The principal of the above promissory note, due December 5, 2006, has not been paid and the note is currently in default. Effective December 5, 2006, the interest rate on the note increased to the default rate of 13% per annum. Interest on the note has been paid on a current basis.

In connection with the Wachovia refinancing on December 3, 2003, a separate private capital fund provided the Company with a \$4.2 million loan evidenced by a senior subordinated secured promissory note payable with net cash proceeds of \$4.0 million after fees and expenses. The note bore interest at the rate of 12% until December 2005 when the rate increased to the then prime rate as published in the Wall Street Journal plus 8%. This rate is now 15%. Interest is payable, in arrears, on the first day of every month. The principal amount of the note was due on December 3, 2006 but was extended by mutual agreement until June 3, 2007. The note is secured by mortgage liens and/or deed of trust security interests encumbering all premises owned by the Company. In connection with the sale of the leaf spring segment in 2005, a prepayment of \$250,000 was made on this note. In connection with the sale of Oneida in March 2006, a prepayment of \$2,000,000 was made on this note. In connection with the sale of the Milwaukee, WI property in December 2006, a prepayment of \$1,068,000 was made on this note. In addition to its security interest, the fund received a warrant to purchase 500,000 shares of the Company's common stock and registration rights with respect to the warrant and shares issuable thereto at a price of \$0.50 per share. The warrants were estimated to have no value at the time of their issuance using the Black-Scholes pricing model.

13% Senior Notes

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Prior to December 2003, the Company had a total of \$24.855 million of 13% senior notes outstanding. The senior notes required semi-annual interest payments every November 1st and May 1st and sinking fund payments of \$12.5 million on May 1, 2002 and \$12.355 million on May 1, 2003. Since November 1, 2001, the Company was unable to make the required semi-annual interest payments or the sinking fund payments due May 1, 2002 and 2003. As a result, an event of default, as defined in the indenture governing the 13% senior

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notes, had existed since December 1, 2001 as the Company was not able to make the November 1, 2001 semi-annual interest payment within the 30-day cure period provided for in the indenture.

In November 2003, the Company solicited the consent of our noteholders to certain provisions and waivers of the indenture governing the 13% senior notes in an effort to facilitate the Wachovia refinancing. The significant provisions of the solicitation requested that the noteholders consent to permanently waive all then existing defaults under the indenture, cancel all accrued and unpaid interest, cancel 12% of the principal amount of senior notes and extend the maturity of the notes to December 2006. In order for the consent to be effective, the Company needed noteholders comprising at least 90% of the principal amount of outstanding senior notes to consent. As of December 1, 2003, the end of the consent period, \$23,250,700 of the \$24,855,000 principal amount of senior notes, or 93.55%, had consented. Accordingly, 12% of the \$23,250,700 principal amount of senior notes of noteholders that had consented to the various provisions and waivers, or \$2.8 million, was extinguished pursuant to the provisions of the consent.

In January 2004, the Company re-solicited our noteholders who had not previously consented to the provisions and waivers referred to in the preceding paragraph. In the first consent in November 2003, \$23,250,700 of the \$24,855,000 principal amount of senior notes, or 93.55%, had consented. The second consent solicitation period ended on April 28, 2004 at which time holders of an additional \$434,300 principal amount of senior notes had consented. Accordingly, 12% of the \$434,300 principal amount of senior notes of noteholders that had consented to the various provisions and waivers in the second solicitation, or \$52,000, was extinguished pursuant to the provisions of the consent.

In exchange for their consent, each consenting noteholder received a consent fee of \$27.625, warrants to purchase 76.18 shares of the Company's common stock at \$0.01 per share for each \$1,000 of principal amount of notes owned and a junior priority lien on the Company's assets. In the refinancing that took place on December 3, 2003, the Company placed in escrow with the trustee of the senior notes, \$686,619 for payment of consent fees, of which \$642,301 has been or will be disbursed to consenting senior noteholders. Warrants to purchase the Company's common stock totaling 1,771,217 have been reserved for future issuance to consenting noteholders. The value of the warrants was estimated to be \$324,000 at the time of their issuance using the Black-Scholes pricing model. This amount was recorded as an original issue discount with an increase to paid-in capital and was amortized to interest expense using the effective interest method of amortization during 2005 and 2006. Effective with having obtained the consents of holders of at least 90% of the principal amount of outstanding senior notes, all previously existing defaults under the indenture for the 13% senior notes have been permanently waived.

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 Company's 13% Senior Notes. Holders of more than 80% of the principal amount of such Senior Notes entered into a Standstill Agreement with the Company, pursuant to which such holders agreed that they would not exercise and will

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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 failed to make the next scheduled interest payment due April 1, 2005 (which the Company did not make). In the Standstill Agreement, such holders agreed to defer such interest payments to December 2006.

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

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Intercreditor and Subordination Agreement entered into in December 2003 among Wachovia, the holders of the Senior Notes and certain other lenders, the Senior Note holders can not commence any action to enforce their liens on any collateral for a 180 day period beginning after the date of receipt by Wachovia, the senior secured lender, of a written notice from the Senior Note holders informing Wachovia of such Indenture Default and demanding acceleration or immediate payment. On February 2, 2007, Wachovia received written notice of such demand for payment. (See NOTE 3: SUBSEQUENT EVENTS - 13% Senior Notes.)

SFSC Judgment

On March 21, 2006, the Company entered into a settlement agreement with Stanwich Financial Services Corp. ("SFSC") pursuant to which the Company agreed to pay SFSC \$1.125 million in settlement of its existing \$4.290 million judgment and all accrued interest. The settlement was subject to bankruptcy court approval in SFSC's Chapter 11 proceeding. Such approval was received in May 2006 and the Company promptly made the final payment and recognized a gain from this settlement of \$4.0 million during 2006.

Notes Payable

At December 31, 2005, included in Debt in default is a \$1,017,000 note payable assumed by Reunion in a previous year acquisition of a plastics operation. Effective, March 3, 2006, the Company entered into a settlement agreement with the holder of this note pursuant to which the Company paid the holder a total of \$400,000 for such note and all accrued interest. The Company recognized a gain from this debt extinguishment of \$925,000 during 2006.

Notes Payable - Related Parties

Note payable to related parties consists only of a December 31, 2002 note payable to Mr. Charles E. Bradley, Sr. of \$500,000 with interest at 10% per annum, which note was issued to evidence a loan from him. Such note was due on October 31, 2004. This note is subordinated to the Company's indebtedness to Wachovia. No cash payments of principal or interest have been made on this note. See NOTE 8 regarding interest on this note that was converted to equity in 2005.

NOTE 8: STOCKHOLDERS' DEFICIT

The Company's Certificate of Incorporation was amended by vote of the stockholders in 2005 to increase the authorized common stock from 20,000,000

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shares to 30,000,000 shares and to eliminate the 10,000,000 shares of "blank check" preferred stock of the Company. The common stock retained its par value \$.01 per share

No dividends have been declared or paid during the year with respect to the common stock of the Company. Cash dividends are limited by the availability of funds, by restrictions in the Company's debt agreements and by statutory restrictions on a corporation's payment of dividends when it has negative net worth.

The following represents stockholders' equity (deficit) activity for each year in the 3-year period ended December 31, 2006 (in thousands):

	2006	2005	2004
	-----	-----	-----
Par value of common stock, January 1	\$ 167	\$ 163	\$ 163
Stock issuance	7	4	-
	-----	-----	-----
Par value of common stock, December 31	\$ 174	\$ 167	\$ 163
	=====	=====	=====
Capital in excess of par value, January 1	\$ 28,325	\$ 27,866	\$ 25,609
Stock issuance	-	374	-
Stock based compensation	45	-	-
Warrant issuances	-	85	183
Capitalization from China Joint Venture (NOTE 1)	(243)	-	2,074
	-----	-----	-----
Capital in excess of par value, December 31	\$ 28,127	\$ 28,325	\$ 27,866
	=====	=====	=====
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	2006	2005	2004
	-----	-----	-----
Accumulated other comprehensive loss, January 1	\$ (1,879)	\$ (1,902)	\$ (1,979)
Additional pension liability in excess of unrecognized prior service cost	(7)	23	77
Adjustment to initially apply FASB 158, net of \$-0- tax	(701)	-	-
	-----	-----	-----
Accumulated other comprehensive loss, December 31	\$ (2,587)	\$ (1,879)	\$ (1,902)
	=====	=====	=====
Accumulated deficit, January 1	\$ (54,130)	\$ (51,710)	\$ (51,548)
Net income (loss)	5,387	(2,420)	(162)
	-----	-----	-----
Accumulated deficit, December 31	\$ (48,743)	\$ (54,130)	\$ (51,710)
	=====	=====	=====
Total stockholders' equity (deficit), January 1	\$ (27,517)	\$ (25,583)	\$ (27,755)
Stock issuance	7	-	-
Share based compensation	45	-	-
Conversion of debt	-	378	-
Warrant issuances	-	85	183
Capitalization from China Joint Venture (NOTE 1)	(243)	-	2,074
Other comprehensive income (loss)	(708)	23	77
Net income (loss)	5,387	(2,420)	(162)
	-----	-----	-----
Total stockholders' deficit, December 31	\$ (23,029)	\$ (27,517)	\$ (25,583)
	=====	=====	=====

In 2005, 2004 and 2003, the Company issued to certain of its lenders

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warrants to purchase an aggregate of 2.4 million shares of its common stock, in each case at a price of \$0.01 per share. The warrants and the transactions in connection with which they were issued are described above in NOTE 7 OF NOTES TO CONSOLIDATED FINANCIAL STATEMENTS. The values of the warrants issued in 2005, 2004 and 2003 were estimated to be, respectively, \$85,000, \$183,000 and \$414,000 at the times of their issuance, in all cases using the Black-Scholes pricing model. These amounts were recorded as original issue discounts with an increase to paid-in-capital and were amortized to interest expense using the effective interest method of amortization during 2005 and 2006.

The following represents common stock activity for each of the three years shown (in thousands of shares):

	Year Ended December 31,		
	2006	2005	2004
Outstanding common stock, January 1	16,656	16,278	16,278
Stock issuance	763	378	-
Outstanding common stock, December 31	17,419	16,656	16,278

In May 2006, a warrant holder elected to convert all of its 762,500 outstanding warrants into common stock of the Company at the exercise price of \$0.01 per each share issued. (This warrant holder also is entitled to 16,920 shares resulting from certain anti-dilution provisions of the converted warrants. Such shares are expected to be issued in 2007.) In June 2005, the Board of Directors granted approval for the Company to enter into settlement agreements with Kimball J. Bradley and Charles E. Bradley, Sr., two officers of the Company. Under such agreements, the officers agreed to forgive \$309,960 of guarantee fees and interest owed to them by the Company and to convert an additional \$68,040 of such fees and interest into 378,000 shares of common stock of the Company. Such conversion added \$378,000 to the Company's equity, \$4,000 to common stock and \$374,000 to capital in excess of par value.

NOTE 9: STOCK BASED COMPENSATION ARRANGEMENTS

In December 2004, the Financial Accounting Standards Board (FASB) issued

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SFAS No. 123R, "Share-Based Payment". SFAS No. 123R established standards for the accounting for transactions in which an entity exchanges its equity instruments for goods or services. It also addresses transactions in which an entity incurs liabilities in exchange for goods or services that are based on the fair value of the entity's equity instruments or that may be settled by the issuance of those equity instruments. This statement requires a public entity to measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award (with limited exceptions). That cost will be recognized over the period during which an employee is required to provide service in exchange for the award.

SFAS No. 123R is effective for all awards granted on or after January 1, 2006 and for awards modified, repurchased, or cancelled after that date. SFAS No. 123R requires that compensation cost be recognized on or after the effective date for the unvested portions of outstanding awards, as of the effective date, based on the grant-date fair value of those awards calculated under SFAS No. 123, "Accounting for Stock-Based Compensation". Share-based compensation expenses include the impact of expensing the fair value of the stock options as well as expenses associated with non-vested share awards. The Company adopted the provisions of SFAS No. 123R effective January 1, 2006, using the modified prospective transition method.

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Prior to 2006, the Company applied the intrinsic-value based method of accounting prescribed by Accounting Principles Board (APB) Opinion No.25, "Accounting for Stock Issued to Employees", and related interpretations, including FASB Interpretation No.44, "Accounting for Certain Transactions Involving Stock Compensation, an Interpretation of APB Opinion No. 25". Under this methodology, the Company adopted the disclosure requirements of SFAS No.123, and recognized compensation expense only if, on the date of grant, the market price of the underlying stock exceeded the exercise price.

At September 30, 2006, the Company had two stock option plans, stockholder approved, that permit the grants of share options and shares to its key employees, directors and consultants. As of December 31, 2006, 280,600 options remain available for grant under these plans, 1,444,000 options have been granted and 299,333 of the granted options are unvested. The Company believes that such awards better align the interests of its key employees, directors and consultants with those of its stockholders. Option awards are generally granted with an exercise price equal to the market value of the Company's stock on the date of grant, generally vest over a two to three year period and have exercise terms ranging from five to ten years.

On July 18, 2006, 100,000 new options were approved for issuance and 74,000 options were actually issued to various non-officer employees of the Company at an exercise price of \$0.39, the then existing market price. These options vested one-third at issuance date with the remaining options vesting in equal amounts on the next two annual anniversary dates of the option grant. Vested options are exercisable at any time within 10 years of the grant date. Using the Black-Scholes option pricing model, which assumed a risk-free interest rate of 6%, no dividend yield, expected volatility of 144% and an expected option exercise life of 10 years, these options were determined to have a fair value of \$28,000 on the date of grant. Of this amount, \$7,000 was recognized as stock based compensation expense during 2006 and the remaining amount will be recognized over the next 18 months.

As to the outstanding options at January 1, 2006, the fair value of such option grants was estimated on the date of grant using the Black-Scholes option pricing model. The Company is using the modified prospective application method to transition to SFAS 123R. Accordingly, based on the requirements of SFAS 123R, in addition to recognizing compensation cost for all new awards beginning in 2006, the Company will also recognize compensation cost for all unvested previously issued awards. Under SFAS 123R, \$45,000 of share based compensation expense was recognized during 2006 of which \$38,000 related to compensation cost on prior year unvested options based upon the requisite outstanding service period. Had compensation costs for the years ended December 31, 2005 and 2004 been determined based on the fair value recognition provisions of SFAS 123R, pro forma earnings and per share amounts would not have been materially different from those reported.

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A summary of the status of the Company's stock options and warrants as of December 31, 2006 and changes during the year is presented below:

		Weighted	Weighted	
		Average	Average	
		Exercise	Remaining	Aggregate
		Price	Contractual	Intrinsic
			Term	Value
Fixed Options	Shares			
-----	-----	-----	-----	-----
Outstanding at				
beginning of year	1,370,000	\$0.25	5.1 yrs	-
Granted	74,000	0.39	9.5 yrs	-

Outstanding at				

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end of year	1,444,000	\$0.25	4.8 yrs	
	=====			
Options exercisable				
at December 31 , 2006	1,144,667	\$0.26	4.4 yrs	-
	=====			

A summary of the status of the Company's non-vested shares as of December 31, 2006 and changes during the year is presented below:

Nonvested Shares	Shares	Weighted Average Grant Date Fair Value
-----	-----	-----
Nonvested at January 1, 2006	690,001	\$0.23
		=====
Vested in June, 2006	(250,002)	\$0.11
		=====
Issued in July, 2006	74,000	\$0.39
		=====
Vested in July, 2006	(81,333)	\$0.33
		=====
Vested in December, 2006	(133,333)	\$0.35
	-----	=====
Nonvested at December 31, 2006	299,333	\$0.22
	=====	=====

As of December 31, 2006, there was \$40,000 of total unrecognized compensation cost related to nonvested share-based compensation arrangements granted under the Plans.

The Company expects to issue shares upon exercise of the options from its authorized but unissued shares of common stock.

The following table summarizes information about stock options outstanding at December 31, 2006:

Exercise Price	Remaining Contractual Life	Number Outstanding at 12/31/06	Number Exercisable at 12/31/06
-----	-----	-----	-----
\$0.180	8.50 years	400,000	283,334
\$0.200	3.50 years	400,000	266,667
\$0.250	6.58 years	70,000	70,000
\$0.275	1.58 years	100,000	100,000
\$0.352	2.00 years	400,000	400,000
\$0.390	9.50 years	74,000	24,666
		-----	-----
		1,444,000	1,144,667
		=====	=====

NOTE 10: EMPLOYEE BENEFIT PLANS

The Company sponsors defined benefit plans and other postretirement benefit plans for certain employees in its pressure vessel business and on its Corporate Executive Payroll (as defined in the plan document). The Company also sponsors a frozen defined benefit plan and provides a postretirement benefit plan for certain employees in its recently sold plastics divisions. Such benefit plans were not included in the sale of these divisions and continue to be an obligation of the Company.

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Continuing Operations

Reunion sponsors a defined benefit pension plan ("DB plan") which covers

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substantially all of its employees at its McKeesport, PA pressure vessel manufacturing location. This plan was amended in May 2006 in connection with the union contract negotiations so that new employees hired after May 2006 are no longer eligible for this DB plan. Rather, new hires are now entered into a new 401(k) plan established in connection with the new union contract. Benefits under the DB plan are based solely on continuous years of service and are not affected by changes in compensation rates.

The Company's funding policy with respect to this DB plan provides that payments to the pension trusts be at least equal to the minimum funding requirements of the Employee Retirement Income Security Act of 1974. Assets of the plan are invested principally in fixed income and equity securities.

Reunion maintains various postretirement healthcare and life insurance benefit plans for certain active and retired employees. Covered active and retired employees include those of the Company's McKeesport, PA pressure vessel manufacturing location, pursuant to a November 1997 plan amendment which became effective January 1, 1998 and employees of Reunion's Corporate Executive Payroll.

Eligible active and retired employees of the pressure vessel division for which postretirement benefits are provided include both union and nonunion employees. Healthcare benefits for both union and nonunion retirees are provided for the most part through comprehensive major medical and other health benefit provisions subject to various retiree cost-sharing features. The majority of employees eligible for healthcare benefits upon retirement are former employees of USX Corporation (USX). A significant portion of postretirement healthcare earned by such employees prior to 1987 is the responsibility of USX. Life insurance benefits provided to eligible union retirees are based on fixed amounts negotiated in labor agreements. Life insurance benefits provided to eligible nonunion retirees are based on the employee's annual base salary at retirement subject to a maximum benefit.

Postretirement healthcare benefits for eligible active and retired employees of Reunion's Corporate Executive Payroll are paid for by Reunion and subject to various retiree cost-sharing features. Postretirement healthcare benefits for Corporate Executive Payroll employees terminate when the retiree becomes Medicare eligible. Postretirement life insurance benefits for eligible active and retired employees of Reunion's Corporate Payroll are paid for by Reunion and are based on the employee's annual base salary at retirement. Except for certain life insurance benefits paid from reserves held by insurance carriers, benefits have not been funded. Contributions to the plans by Reunion equal benefits paid.

As described in NOTE 1: ACCOUNTING POLICIES-Recent Accounting Pronouncements, the Company is now required to recognize the funded status of its pension and other post retirement plans on its balance sheet in accordance with SFAS 158. Changes in the funded status of defined benefit plans are recorded through comprehensive income in the year in which those changes occur. The following table showing the incremental effect on individual line items in the Consolidated Balance Sheet as of December 31, 2006 is required as part of adopting SFAS 158. (Amounts in thousands)

	Before	SFAS Adoption	After Effect	Adoption
		-----	-----	-----
Current assets	\$ 23,714		\$ (122)	\$ 23,592
Total assets	\$ 44,540		\$ (122)	\$ 44,418
Other liabilities		\$ 2,806	\$ 631	\$ 3,437
Non-current liabilities of				
Discontinued Operations	\$ 550		\$ 70	\$ 620
Accumulated other comprehensive loss	\$ 1,886	\$ 701	\$ 2,587	

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Total stockholders' deficit	\$ (22,328)	\$ (701)	\$ (23,029)
-----------------------------	-------------	----------	-------------

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The following are amounts recognized in other comprehensive income(loss) for the years ended December 31 (in thousands):

		2006	2005	2004
		----	----	----
Net gain(loss)	\$ 11		\$ 42	\$ 97
Net prior year service cost	(18)		(19)	(20)
		----	----	----
Total		\$ (7)	\$ 23	\$ 77
		-----	-----	-----

During the year ended December 31, 2006, upon adoption of SFAS 158, the Company recognized a net transition obligation of approximately \$246,000 that is recognized as a component of net periodic benefit cost for the period. Below are amounts that have not yet been recognized as components of net period benefit cost at the dates indicated (in thousands):

	2006	2005
Net actuarial loss	\$ 2,222	\$ 1,739
Prior year service cost	119	140
Net transition obligation	246	-
Total	\$ 2,587	\$ 1,879

Amounts included in Accumulated other comprehensive loss that are expected to be recognized as components of net periodic cost during the year ended December 31, 2007 are as follows (in thousands):

Net actuarial loss	\$ 162	
Prior year service cost	54	
Net transition obligation	12	

Total		\$ 228
		=====

The following table sets forth the details relating to pension benefits and other post retirement benefits for the years ended December 31, 2006 and 2005(in thousands):

	Pension		Other Postretirement	
	2006	2005	2006	2005
Change in benefit obligation:				
Benefit obligation, beginning	\$ 4,472	\$ 4,016	\$ 2,545	\$ 2,060
Service cost	212	212	128	109
Interest cost	240	226	140	114
Actuarial loss (gain)	(33)	203	(405)	355
Benefits paid	(214)	(185)	(148)	(93)
Benefit obligation, ending	\$ 4,677	\$ 4,472	\$ 2,260	\$ 2,545
Change in plan assets:				
Fair value, beginning	\$ 3,590	\$ 2,689	\$ -	\$ -
Actual return	182	702	-	-
Company contribution	446	384	148	93

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Benefits paid	(214)	(185)	(148)	(93)
	-----	-----	-----	-----
Fair value, ending	\$ 4,004	\$ 3,590	\$ -	\$ -
	=====	=====	=====	=====
Funded status:				
Net obligation, ending	\$ 673	\$ 882	\$ 2,260	\$ 2,545
				=====
Unrecognized costs:				
Additional minimum pension				
Liability	\$ 1,022	997	-	-
Prior service costs	(122)	(140)		4
Net loss	(900)	(857)		(739)
Transition obligation	-	-		(295)
	-----	-----		-----
Accrued benefit costs	\$ 673	\$ 882		\$ 1,515
	=====	=====		=====

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At December 31, 2005, in addition to accrued benefit costs, amounts recognized in the consolidated balance sheet include an intangible asset of \$140,000 and other comprehensive losses of \$796,000.

Net periodic pension and other postretirement benefits costs for the following years for pension and other postretirement benefits plans ended December 31 are as follows (in thousands):

	Pension			Other Postretirement		
	2006	2005	2004	2006	2005	2004
	-----	-----	-----	-----	-----	-----
Benefits earned during year	\$ 212	\$ 212	\$ 139	\$ 128	\$ 109	\$ 93
Interest cost	240	226	214	140	115	116
Early retirement incentive	-	-	-	-	-	-
Amortization of:						
Prior service cost	18	19	21	(1)	(1)	(1)
Unrecognized net loss (gain)	31	63	54	68	71	75
Unrecognized net obligation	-	-	-	49	48	48
Expected return on plan assets	(289)	(219)	(195)	-	-	-
	-----	-----	-----	-----	-----	-----
Defined benefit pension and total other postretirement benefits costs	\$ 212	\$ 301	\$ 233	\$ 384	\$ 342	\$ 331
	=====	=====	=====	=====	=====	=====

Assumptions used to develop pension cost and projected benefit obligations for the pressure vessels' defined benefit pension plan for the following years ended December 31 are as follows:

	2006	2005	2004
	-----	-----	-----
Discount rate	5.75%	5.75%	6.00%
	=====	=====	=====
Expected rate of return on plan assets	7.75%	7.75%	7.75%
	=====	=====	=====
Rate of compensation increase	2.0%	2.0%	2.0%
	=====	=====	=====

The details of the pressure vessels' pension plan assets by asset category are as follows:

2006		2005	
-----		-----	
Assets	Percent	Assets	Percent
-----	-----	-----	-----

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Equity securities	\$ 3,171	79%	\$ 3,009	84%
Corporate bonds	539 13		408 11	
Government obligations	143 4		145 4	
Cash and other	151 4		28 1	
	-----		-----	
Total	\$ 4,004 100%		\$ 3,590 100%	
	=====		=====	

The Company's investment strategy for pension funds is to maintain at least 50% of such funds in equity securities with the balance invested primarily in bonds and other fixed income securities. The Company believes that the returns on common stock over the long term will be higher than returns from fixed income securities. Both equity and fixed income investments are made across a wide range of industries and companies in order to provide protection against the impact of volatility in any single industry or company. The Company is currently using an expected rate of return of 7.75% on our assets and a 2.5% anticipated inflation rate which produces an expected real rate of return of 5.25%. This rate was chosen by taking into account our intended asset mix and the historical returns of the plan since its inception. The Company expects to contribute \$540,000 to the plan in 2007.

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Expected benefit payments under the pension plan, which reflect expected future service, as appropriate, are as follows for the years indicated (in thousands):

	Benefits

2007	\$ 288
2008	286
2009	347
2010	341
2011	374
2012-2016	1,738

Assumptions used to develop the net periodic postretirement benefit costs and accumulated postretirement benefit obligations for the following years ended December 31 are as follows:

	2006	2005	2004
	-----	-----	-----
Discount rate	5.75%	5.75%	6.25%
	=====	=====	=====
Healthcare cost trend rate (USX eligible)	2.0%	2.0%	2.0%
	=====	=====	=====
Healthcare cost trend rate (All others)	7.0%	7.0%	7.0%
	=====	=====	=====

USX administers the postretirement healthcare plans for the eligible employees of the McKeesport, PA location previously owned by USX and bills Reunion for its share of the postretirement costs related to Reunion's retirees covered by the plans. The Company's actuary reviews the rates charged by USX for retiree medical coverage on an annual basis and, as a result, has calculated and elected to use 2% as the applicable healthcare cost trend rate for all years subsequent to 2003. For all others, 7.0% is the weighted-average rate based on an assumed rate of increase in per capita healthcare costs of 10% for 2006 with a gradual decrease over ten years to 5%

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and remaining at that level thereafter. A one percentage point increase in the assumed healthcare cost trend rate would increase the benefit obligation at December 31, 2006 by approximately \$200,000 and increase the total of the service and interest cost components by approximately \$51,000. Conversely, a one percentage point decrease in the assumed healthcare cost trend rate would result in approximate decreases in each by \$172,000 and \$41,000, respectively.

Discontinued Plastics Operations

Reunion sponsors a defined benefit pension plan which covered substantially all of its employees at its New York facilities. Effective June 15, 1999, benefits were frozen. These New York facilities were sold in connection with the Oneida sale discussed in NOTE 2: RECENT EVENTS-Sale of Oneida. However, the defined benefit pension plan was not part of the sale and was retained by the Company.

Reunion maintains a postretirement healthcare plan for certain salaried and union retirees and their dependents of the discontinued plastics segment. Covered employees were eligible to participate in the medical benefit plan if, at the time they retire, they had at least 10 years of service and had attained 62 years of age. This plan is contributory via employee contributions, deductibles and co-payments and benefits are subject to certain annual, lifetime and benefit-specific maximum amounts. The liabilities associated with this plan were not assumed in the sale of the plastics segment and continue to be retained by the Company.

As described in NOTE 1: ACCOUNTING POLICIES-Recent Accounting Pronouncements, the Company is now required to recognize the funded status of its pension and other post retirement plans on its balance sheet in accordance with SFAS 158. The initial impact of this standard on the discontinued operations of the Company was \$69,571 and has been recognized as a charge to accumulated other comprehensive loss in shareholders' deficit. This charge represents the net actuarial losses of the plans.

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The following table sets forth the details related to pension benefits and other post retirement benefits for the years ended December 31, 2006 and 2005 (in thousands):

	Pension		Other Postretirement	
	2006	2005	2006	2005
Change in benefit obligation:				
Benefit obligation, beginning	\$ 3,970	\$ 3,896	\$ 704	\$ 915
Service cost	-	-	-	-
Interest cost	219	224	31	46
Plan curtailment	-	-	-	-
Actuarial loss (gain)	112	63	151	(81)
Benefits paid	(209)	(213)	(265)	(176)
Benefit obligation, ending	\$ 4,092	\$ 3,970	\$ 621	\$ 704
Change in plan assets:				
Fair value, beginning	\$ 3,510	\$ 3,133	\$ -	\$ -
Actual return	400	227	-	-
Company contribution	-	363	265	176
Benefits paid	(227)	(213)	(265)	(176)
Fair value, ending	\$ 3,683	\$ 3,510	\$ -	\$ -

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Funded status:				
Net obligation, ending	\$ 409	\$ 460	\$ 621	\$ 709
			=====	
Unrecognized costs:				
Additional minimum pension				
Liability	1,447	1,525	-	-
Net loss	(1,447)	(1,525)		77
	-----	-----	-----	-----
Accrued benefit costs	\$ 409	\$ 460		\$ 786
	=====	=====		=====

Net periodic pension and other postretirement benefits costs for the following years for Plastics pension and other postretirement benefits plan ended December 31 are as follows (in thousands):

	Pension			Other Postretirement		
	2006	2005	2004	2006	2005	2004
Benefits earned during year	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 56
Interest cost	219	224	224	31	31	138
Unrecognized net loss (gain)	67	62	62	(1)	(1)	52
Plan curtailment		-	-	-	-	(804)
Expected return on plan assets	(259)	(315)	(237)	-	-	-
	-----	-----	-----	-----	-----	-----
Defined benefit pension and total other postretirement benefits costs (income)	\$ 27	\$ (29)	\$ 49	\$ 30	\$ 30	\$ (558)
	=====	=====	=====	=====	=====	=====

Assumptions used to develop the pension cost and projected benefit obligation for the discontinued operations' defined benefit pension plan for the following years ended December 31, 2006, 2005 and 2004 are as follows:

	2006	2005	2004
	-----	-----	-----
Discount rate	5.75%	5.75%	6.00%
	=====	=====	=====
Expected rate of return on plan assets	7.75%	7.75%	7.75%
	=====	=====	=====

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The details of the pension plan assets by asset category are as follows:

	2006		2005		
	Assets	Percent	Assets	Percent	
Equity securities	\$ 2,577		\$ 2,470		70%
Fixed income/bond funds	1,081	29	1,021	29	
Cash and other	25	1	19	1	
	-----	-----	-----	-----	
Total	\$ 3,683	100%	\$ 3,510	100%	
	=====	=====	=====	=====	

The Company's investment strategy for pension funds is to maintain at

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least 50% of such funds in equity securities with the balance invested primarily in bonds and other fixed income securities. The Company believes that the returns on common stock over the long term will be higher than returns from fixed income securities. Both equity and fixed income investments are made across a wide range of industries and companies in order to provide protection against the impact of volatility in any single industry or company. The Company is currently using an expected rate of return of 7.75% on our assets and a 2.5% anticipated inflation rate which produces an expected real rate of return of 5.25%. This rate was chosen by taking into account our intended asset mix and the historical returns of the plan since its inception. The Company expects that it will contribute \$101,000 to the plan in 2007.

Expected benefit payments under the Plastic's pension plan, which reflect expected future service, as appropriate, are as follows for the years indicated (in thousands):

	Benefits

2007	\$ 180
2008	186
2009	189
2010	199
2011	199
2012-2016	1,178

Assumptions used to develop the net periodic postretirement benefit costs and accumulated postretirement benefit obligations for the following years ended December 31 are as follows:

	2006	2005	2004
	-----	-----	-----
Discount rate	5.75%	5.75%	6.25%
	=====	=====	=====
Healthcare cost trend rate	7.00%	7.00%	7.00%
	=====	=====	=====

For measurement purposes, an assumed rate of increase in per capita healthcare costs of 10% was used for 2005 with a gradual decrease over ten years to 5% and remaining at that level thereafter. A one percentage point increase in the assumed healthcare cost trend rate would increase the benefit obligation at December 31, 2006 by approximately \$32,000 and increase the total of the service and interest cost components by approximately \$1,000. Conversely, a one percentage point decrease in the assumed healthcare cost trend rate would result in approximate decreases in each by \$29,000 and \$2,000, respectively.

Other Employee Benefit Plans

The Company also sponsors qualified contributory 401(k) plans covering substantially all employees. Additionally, as noted above in connection with union negotiations in May 2006 at the pressure vessel business, a new 401(k) plan was established for union employees at that business. For those employees electing to participate in the 401(k) plans, employees can contribute up to an annually determined maximum amount permitted by law and the Company makes

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matching contributions up to specified limits. Effective December 31, 2002, the Company suspended its matching contributions to the then existing 401(k) plans. Currently, matching contributions are made only for the new 2006 plan and total matching contribution expense was \$2,000 in 2006.

The Company does not provide any other postemployment benefits to former

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or inactive employees except for unemployment compensation benefits required by law.

NOTE 11: EARNINGS PER COMMON SHARE

The computations of basic and diluted earnings per common share (EPS) for the years ended December 31, 2006, 2005 and 2004 are as follows (in thousands, except per share amounts):

	Income	Shares	EPS
	-----	-----	-----
Year ended December 31, 2006:			
Income applicable to common stockholders, weighted average shares outstanding and basic EPS	\$ 5,387	17,143	\$ 0.31
			=====
Dilutive effect of stock options and warrants	-	4,788	
	-----	-----	
Income applicable to common stockholders, shares outstanding and diluted EPS	\$ 5,387	21,931	\$ 0.25
	=====	=====	=====
Year ended December 31, 2005:			
Loss applicable to common stockholders, weighted average shares outstanding and basic EPS	\$ (2,420)	16,479	\$ (0.15)
			=====
Dilutive effect of stock options and warrants	-	-	
	-----	-----	
Loss applicable to common stockholders, shares outstanding and diluted EPS	\$ (2,420)	16,479	\$ (0.15)
	=====	=====	=====
Year ended December 31, 2004:			
Loss applicable to common stockholders, weighted average shares outstanding and basic EPS	\$ (162)	16,279	\$ (0.01)
			=====
Dilutive effect of stock options and warrants	-	-	
	-----	-----	
Loss applicable to common stockholders, shares outstanding and diluted EPS	\$ (162)	16,279	\$ (0.01)
	=====	=====	=====

At December 31, 2006, 2005 and 2004, the Company's stock options outstanding totaled 1,444,000, 1,370,000 and 614,000, respectively. Such options included a dilutive component of 825,791, 182,588 and 128,711 shares, respectively. At December 31, 2006, 2005 and 2004, outstanding warrants to purchase the Company's common stock totaled 4,173,489, 5,009,477 and 3,476,585, respectively. Such warrants included a dilutive component of 3,961,963, 3,583,215 and 2,404,000 shares, respectively.

NOTE 12: INCOME TAXES

Due to the existence and use of the Company's net operating loss carryforwards, there was no United States tax provision recorded for the years ending December 31, 2006, 2005 and 2004. The Company's majority owned joint venture in China operates in a special economic zone. Prior to 2005, this entity enjoyed a tax holiday. Beginning in 2005 and lasting through 2007, this China entity will enjoy a reduced tax rate of 7.5% of net income. Subsequent to 2007, the rate will go to the full income tax rate, which is currently 15%. As a result, the 2005 and 2006 current year provisions relate solely to the China entity.

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The Company's effective income tax rate from continuing operations, reflected in the accompanying consolidated statement of income, differs from the statutory rate due to the following (in thousands):

	Year Ended December 31,		
	2006	2005	2004
Computed amount at statutory rate (34%)	\$ 1,835	\$ (823)	\$ 43
Net change in valuation allowance	(1,552)	921	(17,794)
Section 108 cancellation of indebtedness income exclusion	1,681	1,173	3,558
Section 108 reduction of loss carryforwards from cancellation of indebtedness income exclusion	(1,681)	(1,173)	(3,558)
Goodwill amortization	(140)	(140)	(140)
Foreign sales exclusions	(28)	(45)	(40)
Expiration of loss carryforwards	-	-	18,054
Chinese income tax exclusion	(284)	(158)	(336)
Federal return to prior year's provision adjustments	-	-	33
Foreign income tax	115	49	-
Non-deductible expenses	123	138	84
Other - net	46	107	96
Total tax provision from continuing operations	\$ 115	\$ 49	\$ -

Temporary differences and carryforwards that gave rise to significant portions of deferred tax assets and liabilities are as follows (in thousands):

	At December 31,	
	2006	2005
Depreciation	\$ -	\$ -
Historical goodwill	(1,120)	(650)
Other	(114)	(179)
Deferred tax liabilities	(1,234)	(829)
Loss carryforwards (NOLs)	20,922	22,555
Book reserves	2,579	2,376
Deferred compensation	251	281
Tax credit carryforwards	851	851
Unicap adjustments	313	336
Depreciation	382	436
Other	2,131	1,741
Deferred tax assets	27,429	28,576
Less: Valuation allowance	(26,195)	(27,747)
Deferred tax assets, net	1,234	829
Deferred taxes, net	\$ -	\$ -

At December 31, 2006, Reunion had net operating loss carryforwards for federal tax return reporting purposes of approximately \$61.5 million, of which

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\$737,000 will expire by the end of 2007. Management has concluded that it is more likely than not that the Company's loss carryforwards will expire unutilized and has determined to continue to fully reserve for the total amount of net deferred tax assets as of December 31, 2006.

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The current and noncurrent classifications of the deferred tax balances are as follows (in thousands):

	At December 31,	
	2006	2005
	-----	-----
Current:		
Deferred tax assets	\$ 3,794	\$ 3,565
Deferred tax liabilities	(76)	(97)
Less: Valuation allowance	(3,623)	(3,462)
	-----	-----
Current deferred, net asset	95	6
	-----	-----
Noncurrent:		
Deferred tax assets	23,636	25,010
Deferred tax liabilities	(1,159)	(732)
Less: Valuation allowance	(22,572)	(24,284)
	-----	-----
Noncurrent deferred, net (liability)	(95)	(6)
	-----	-----
Deferred taxes, net	\$ -	\$ -
	=====	=====

No U.S. federal or state corporate income tax return examinations are currently in process. The Company believes adequate provisions for income taxes have been recorded for all years.

NOTE 13: RELATED PARTIES, TRANSACTIONS AND BALANCES

Related Parties

Reunion Industries, Inc. - Reunion is a publicly traded Delaware corporation headquartered in Pittsburgh, Pennsylvania. Charles E. Bradley, Sr. (Mr. C. Bradley) was chairman of the board and Chief Executive Officer of Reunion until March 2, 2006. Kimball Bradley (Mr. K. Bradley) was President, Chief Operating Officer, a director of Reunion and son of Mr. Bradley until March 2, 2006. As described in Note 2: Recent Events, on March 2, 2006, Mr. C. Bradley resigned as chairman of the board and CEO and Mr. K. Bradley was elected chairman of the board and CEO. Mr. K. Bradley also retained his office of President.

Stanwich Financial Services Corp. - SFSC is a privately held, currently inactive, corporation that was formerly in the structured settlement business. SFSC is owned 100% by Mr. C. Bradley. Prior to May 10, 2004, this company was a related party to Reunion. On that date, management control of SFSC was vested in a liquidating trustee and an executive committee, of which Mr. Bradley is not a member, in accordance with SFSC's plan of reorganization in its proceeding under Chapter 11 of the Bankruptcy Code. Accordingly, SFSC is no longer a related party. See also "SFSC Settlement" in NOTE 2 of NOTES TO

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CONSOLIDATED FINANCIAL STATEMENTS.

Transactions and Balances

SFSC Indebtedness

Pursuant to a settlement that became effective on May 10, 2004 (the "SFSC Settlement"), the Company was indebted in the amount of \$4.29 million, plus interest that accrues on that amount after May 10, 2004 at the rate of 10% per annum. As previously discussed in NOTE 2: RECENT EVENTS - Note Payable Settlements, during 2006, the Company entered into a settlement agreement with the Stanwich Financial Services Corp. Liquidating Agent ("SFSC"), pursuant to which the Company agreed to pay SFSC \$1.125 million in settlement of its existing \$4.290 million judgment and all accrued interest. The Company recognized a gain from this debt settlement of \$4.0 million during 2006.

Cash Surrender Value of Life Insurance Policies

The Company pays the premiums on life insurance policies covering Mr. C. Bradley and two directors, Mr. Joseph C. Lawyer (Mr. Lawyer) and Mr. John G. Poole (Mr. Poole). Pursuant to these arrangements, the Company will be

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reimbursed for the premiums it pays for such policies from either the death benefit of the policy or their cash surrender value. The covered individuals have agreed with the Company that if the policy proceeds are insufficient to reimburse the Company for the full amount of the premiums paid, they will cover the shortfall. As of December 31, 2006 and 2005, premiums paid by the Company in excess of the cash surrender values of the policies totaled \$963,000 and \$891,000, respectively, and are included in due from related parties in the accompanying consolidated balance sheets.

Mr. C. Bradley Note Payable

In January 2003, Mr. C. Bradley made a \$500,000 payment on behalf of the Company to Shaw NapTech, Inc. This payment was applied to reduce by \$500,000 the Company's indebtedness to Shaw NapTech, Inc. To evidence this loan by Mr. C. Bradley, the Company issued to him its unsecured \$500,000 10% note payable. The note payable became due on October 31, 2004. No principal or interest payments have been made on this note. In June 2005, as described in Note 8: Stockholders' Deficit, Mr. C. Bradley agreed to forgive \$98,400 of the interest payable to him and to convert an additional \$21,600 of such interest payable to him into 120,000 shares of the Company's common stock. At December 31, 2006 and 2005, accrued and unpaid interest related to this note totaled \$80,000 and \$30,000, respectively, and is included in due to related parties in the accompanying consolidated balance sheet. Mr. C. Bradley's rights under this note are subordinate to the Company's indebtedness to Wachovia Financial.

Mr. C. Bradley Guarantees

To facilitate the closing of the Wachovia refinancing in December 2003, Mr. C. Bradley provided a personal guarantee of \$1.5 million of the revolving credit portion of the Wachovia Loan Facility. In exchange for his guarantee, the Board of Directors approved a 2% per annum guarantee fee to be paid to Mr. C. Bradley during the time period such guarantee is in place. Amounts payable under this arrangement were first offset against an employee advance of \$58,000 previously received by Mr. C. Bradley and owed to the Company at the time of the refinancing. Such advance has now been fully recovered and as of December 31, 2006 and 2005, \$34,000 and \$4,219, respectively, is included in Due to related party in the accompanying balance sheet.

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Mr. K. Bradley Guarantees

To facilitate obtaining new financing with two private investment funds and the closing of the refinancing of the Company's bank debt with Wachovia in December 2003, Mr. K. Bradley provided personal guarantees totaling \$9.2 million, including guarantees of two notes payable totaling \$7.7 million and \$1.5 of the revolving credit portion of the new Wachovia facilities. In exchange for his guarantees, the Board of Directors approved 2% per annum guarantee fees to be paid to Mr. K. Bradley during the time period such guarantees are in place. In June 2005, as described in Note 8: Stockholders' Deficit, Mr. K. Bradley agreed to forgive \$211,560 of the guarantee fees payable to him and to convert an additional \$46,440 of such guarantee fees payable to him into 278,000 shares of the Company's common stock. At December 31, 2006 and 2005, \$251,000 and \$105,351, respectively, of such fees are included in Due to related parties in the accompanying consolidated balance sheet.

NOTE 14: COMMITMENTS AND CONTINGENCIES

The Company is and has been involved in a number of lawsuits and administrative proceedings, which have arisen in the ordinary course of business of the Company and its subsidiaries. A summary of such legal proceedings follows.

Asbestos (ORC)

Since July 10, 2001, various legal actions, some involving multiple plaintiffs, alleging personal injury/wrongful death from asbestos exposure have been filed in multiple states, including California, Oregon, Washington, New York and Mississippi, against a large number of defendants, including

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Oneida Rostone Corporation (ORC), pre-merger Reunion's Plastics subsidiary and the Company's Plastics segment. In October 2001, Allen-Bradley Company (currently owned by Rockwell Automation), a former owner of the Rostone business of ORC, accepted Reunion Industries' tender of its defense and indemnification in the first such lawsuit filed, pursuant to a contractual obligation to do so. Subsequent to this acceptance in the first lawsuit, Rockwell Automation has accepted and defended all additional lawsuits, a total of 241 separate actions, that the Company has tendered.

Asbestos (Alliance)

The Company has been named in approximately 2,368 separate asbestos suits filed since January 1, 2001 by various plaintiffs' law firms in Michigan, Pennsylvania, Ohio, Illinois, Maryland, Alabama and W. Virginia. The claims are primarily directed against over 100 defendants, including Reunion, and allege that cranes from the Company's former crane manufacturing location in Alliance, OH were present in various steel mills located in those states and that those cranes contained asbestos to which plaintiffs were exposed over a 40 year span. Counsel for the Company has filed an answer to each complaint denying liability by the Company and asserting all alternative defenses permitted under the various Courts' Case Management Orders. Counsel for the Company has successfully resolved approximately 750-800 cases without any liability to the Company. The Company denies that it manufactured any products containing asbestos or otherwise knew or should have known that any component part other manufacturers provided contained any dangerous or toxic materials. It has been further denied that the Company was otherwise advised by component part manufacturers that component parts could be hazardous, or

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otherwise constitute a health risk. The Company intends to vigorously defend against these lawsuits.

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 follows (in thousands):

Description	2006	2005
-----	-----	-----
Beginning balance	\$ 133	\$ 100
Add: Provision for estimated future claims	100	168
Deduct: Cost of claims	(111)	(135)
	-----	-----
Ending balance	\$ 122	\$ 133
	=====	=====

Operating leases

Minimum rental commitments under all noncancellable operating leases in effect for continuing operations at December 31, 2006, were as follows (in thousands):

Total	Year ended December 31,					
	2007	2008	2009	2010	2011	After 2011
-----	-----	-----	-----	-----	-----	-----
\$ 6,922	\$1,093	\$ 996	\$ 971	\$ 938	\$ 953	\$1,971
=====	=====	=====	=====	=====	=====	=====

Operating lease rental expense related to continuing operations for the years ended December 31, 2006, 2005 and 2004, amounted to \$1,381,201, \$1,494,267, and \$1,633,000, respectively.

NOTE 15: FAIR VALUE OF FINANCIAL INSTRUMENTS

The following methods and assumptions were used to estimate the fair value of each class of financial instruments:

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Cash and cash equivalents, accounts receivable and accounts payable - The carrying amounts approximate fair value because of the short maturities of these instruments.

Debt - \$14.4 million of the Company's debt has variable rates of interest and \$26.9 million bears interest at fixed rates. Management estimates the carrying value of variable-rate debt to approximate its fair value as its stated rate of interest changes with changes in market rates of interest. Of the \$26.9 million of fixed-rate debt, \$22.0 million represents the 13% senior note obligation. Such notes were restructured in 2003 and there was little trading activity until the last half of 2005. Recent trading activity has primarily centered on only large holders disposing of their entire positions at a discount. Based on this, the fair value of such notes is not readily determinable. Of the remaining fixed-rate debt, \$0.5 million is to a related party, for which comparable instruments do not exist, and \$4.4 million relates to debt that bears interest at rates ranging between 13% and 15.25%. Given our financial condition, the fair value of such debt is not readily determinable.

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NOTE 16: DISCONTINUED OPERATIONS

In December 2001, the Company classified and began accounting for its bridges and cranes and materials handling systems businesses 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).

On September 24, 2002, the Company sold Kingway, our discontinued materials handling systems operations, for cash proceeds of \$25.0 million and a \$7.0 million note receivable in amounts of up to \$2.333 million in each of 2003, 2004 and 2005. Future proceeds under the note receivable were contingent upon the combined operations of the buyer's material handling businesses exceeding certain specified EBITDA amounts. Such amounts were not achieved. The net cash proceeds of \$24.12 million after transaction-related expenses were used to reduce borrowings under our BOA revolving credit facility of \$15.96 million, term loan A facility of \$7.11 million and pay overadvance fees of \$1.05 million. The Company realized a net gain of \$3.1 million, classified within discontinued operations, on this transaction. Finalization of this sale was subject to a post-closing working capital adjustment. The buyer alleged it was owed approximately \$905,000 based on its calculation of working capital on the closing date. Pursuant to the asset purchase agreement, the Company submitted this dispute to a mutually agreed-upon independent accounting firm for resolution in arbitration. The arbitrator for the dispute determined that, of the \$905,000 working capital deficiency claimed by the buyer, \$705,000 was not valid. The Company paid the additional \$200,000. The additional loss in year 2005 reflects mainly legacy insurance expenses in both the casualty and healthcare areas.

On June 30, 2002, the Company sold the inventory and substantially all of the property, plant and equipment of Alliance, our discontinued bridges and cranes operations, for cash proceeds of \$3.058 million and the assumption by the buyer of \$242,000 of accrued liabilities. The Company retained all receivables, trade payables and certain other liabilities of this discontinued operation. The net cash proceeds of \$3.058 million were used to reduce borrowings under our then existing Bank of America revolving credit facility (\$322,000), term loan A facility (\$1.87 million) and capital expenditure facility (\$866,000). The Company realized a loss of \$3.9 million, classified within discontinued operations, on this transaction. Additional losses in the years ended December 31, 2003 and 2005 reflect higher than estimated on-going legacy costs related mainly to health benefits and legal fees and settlements associated with asbestos cases.

In January, 2005, the Company sold its springs division operations for cash proceeds of \$792,000. Net cash proceeds of \$775,000 after transaction related expenses were received on January 4, 2005, of which \$250,000 was used to reduce borrowings under the term loan from a private capital fund that is secured by the real property, \$41,000 was used to reduce borrowings under the term loan portion of the Wachovia Loan Facility and the remaining balance of \$484,000 was used to reduce borrowings under the Wachovia revolving credit facility. The Company recorded a loss of \$318,000 on such sale which was provided for in the Company's 2004 year.

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In December 2004, the Company classified and began accounting for its Rostone business, located in Lafayette, IN, as discontinued operations in accordance with FAS 144. During the first quarter of 2005, the Company sold certain of the receivables, inventory and intangibles of Rostone 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 Rostone's compounding operation assets being sold to one unrelated entity and the sale of certain of Rostone's molding operation assets being made to a

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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 Wachovia 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 during the year ended December 31, 2005.

During the 2005 year, the Company reclassified its land and building in Milwaukee, WI to property held for sale. In December 2006, the Company completed the sale of this property for a purchase price of \$1.175 million. Net proceeds from the sale were \$1.067 million which was used to pay down a note payable to a private capital fund that was secured by the real estate of the Company. The Company recorded a loss of \$572,000 on such sale.

During the fourth quarter of 2005, the Company classified and began accounting for its Oneida business as discontinued operations in accordance with FAS 144. As described in NOTE 2: Recent Events -, Oneida was ultimately sold in March 2006. The Company recognized a \$4.2 million gain on sale during 2006.

At December 31, 2006, the assets and liabilities of discontinued operations are comprised of the remaining assets and liabilities of the Rostone business. At December 31, 2005, the assets and liabilities of discontinued operations are comprised of the assets and liabilities of the Oneida business, the remaining Rostone assets and liabilities and the Company's land and building in Milwaukee, WI that was held for sale. Such assets and liabilities are as follows (in thousands):

	At December 31, 2006	2005
	-----	-----
CURRENT ASSETS:		
Cash and cash equivalents	\$ -	\$ 217
Receivables, net	-	3,236
Inventories, net	-	1,878
Other current assets	-	906
	-----	-----
Total current assets	\$ -	\$ 6,237
	=====	=====
CURRENT LIABILITIES:		
Trade payables	\$ -	\$ 1,964
Other current liabilities	300	677
	-----	-----
Total current liabilities	\$ 300	\$ 2,641
	=====	=====
OTHER ASSETS:		
Property, plant and equipment, held for sale	\$ 2,056	\$ 6,050
	=====	=====
OTHER LIABILITIES:		
Other liabilities	\$ 620	\$ 781
	=====	=====

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Summarized results of discontinued operations for the years ended December 31, 2005, 2004 and 2003 follow (in thousands):

	2005	2005	2004
	-----	-----	-----
Net sales	\$ 3,163	\$ 22,914	\$ 30,334
Income (loss) before taxes	3,354	260	1,114

The income from discontinued operations in 2006 includes a gain on disposal of Oneida of \$4.2 million and a loss from the sale of the Milwaukee, WI property of \$0.6 million. The gain from discontinued operations in 2005 includes a gain on disposal of Rostone of \$0.37 million. The gain from discontinued operations in 2004 includes a loss on disposal of our springs operation of \$0.3 million.

NOTE 17: SEGMENT DISCLOSURES AND RELATED INFORMATION

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 and metal bar grating.

The Company's customers include original equipment manufacturers and end-users in a variety of industries, such as transportation, power generation, chemicals, metals and electronics.

Excluding its subsidiary in Shanghai, China, Reunion Industries manufactures its products in the United States and sells its products in the United States and in foreign countries. During 2006, one pressure vessel customer accounted for approximately 13.6% of consolidated sales. However, during 2005 and 2004, no one customer accounted for more than 10% of the net sales of Reunion. Of Reunion's \$51.0 million, \$42.5 million and \$41.4 million of consolidated net sales from U.S. continuing operations for 2006, 2005 and 2004, respectively, approximately \$5.0 million, \$8.8 million and \$6.4 million, respectively, were export sales. Of these export sales, \$2.8 million in 2006, \$6.4 million in 2005 and \$4.3 million in 2004 were to customers in the Far East (principally China and Taiwan) and \$1.2 million in 2006, \$1.0 in 2005 and \$1.3 million in 2004 were to customers in Canada.

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Segment data, including earnings before interest, taxes, depreciation and amortization (EBITDA) (in thousands except for related notes):

	Net Sales	EBITDA(1)	Capital Spending	Total Assets(2)
	-----	-----	-----	-----
2006:				

Operating Businesses:				
Pressure vessels	\$ 34,386	\$ 7,741	\$ 202	\$ 18,429
Cylinders	16,662	280	325	6,825
Grating	8,442	1,412	55	4,565
	-----	-----	-----	-----
Subtotal	59,490	9,433	582	29,819
Corporate and other	-	(2,308)	2	12,543
Discontinued Operations	-	-	38	2,056

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Totals	\$ 59,490	7,125	\$ 622	\$ 44,418
	=====		=====	=====
Gain on extinguishment of debt		4,945		
Depreciation		(703)		
Interest expense		(8,725)		

Loss from continuing operations before income taxes and minority interests		\$ 2,642		
		=====		
2005:				

Operating Businesses:				
Pressure vessels	\$ 22,894	\$ 3,640	\$ 298	\$ 14,114
Cylinders	19,611	1,532	144	7,082
Grating	7,222	688	25	4,158
	-----	-----	-----	-----
Subtotal	49,727	5,860	467	25,354
Corporate and other	-	(2,104)	5	13,619
Discontinued Operations	-	-	113	12,287
	-----	-----	-----	-----
Totals	\$ 49,727	3,756	\$ 585	\$ 51,260
	=====		=====	=====
Gain on extinguishment of debt		3,450		
Depreciation		(720)		
Interest expense		(8,906)		

Loss from continuing operations before income taxes and minority interests		\$ (2,420)		
		=====		
2004:				

Operating Businesses:				
Pressure vessels	\$ 22,921	\$ 3,979	\$ 218	\$ 15,403
Cylinders	18,488	580	202	8,452
Grating	9,306	1,274	70	4,013
	-----	-----	-----	-----
Subtotal	50,715	5,833	490	27,868
Corporate and other (3)	-	(1,582)	56	14,601
Discontinued Operations	-	-	234	14,127
	-----	-----	-----	-----
Totals	\$ 50,715	4,251	\$ 780	\$ 56,596
	=====		=====	=====
Gain on extinguishment of debt		3,540		
Depreciation		(804)		
Interest expense		(7,933)		

Loss from continuing operations before income taxes and minority interests		\$ (946)		
		=====		

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(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.

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- (2) Corporate and other assets at December 31, 2006, 2005 and 2004 includes \$8.0 million of goodwill that relates to the Company's pressure vessel business. For evaluation purposes under SFAS No. 142, this goodwill is included in the carrying value of pressure vessels.
- (3) Includes income totaling \$0.6 million from reduction in environmental reserve.

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NOTE 18: QUARTERLY DATA (unaudited)

Results by quarter for 2006 and 2005 follow:

	2006 Quarter Ended			
	March 31	June 30	Sept 30	Dec 31
Operating revenue	\$ 13,641	\$ 14,800	\$ 15,710	\$ 15,339
Operating costs and expenses	11,447	9,310	14,036	13,330
Operating income	\$ 2,194	\$ 5,490	\$ 1,674	\$ 2,009
Income (loss) from continuing operations	\$ (41)	\$ 3,324	\$ (573)	\$ (677)
Income (loss) from discontinued operations	4,480	-	-	(1,126)
Net income (loss)	\$ 4,439	\$ 3,324	\$ (573)	\$ (1,803)
Income (loss) from continuing operations per common share:				
Basic	\$ (0.00)	\$ 0.20	\$ (0.03)	\$ (0.04)
Diluted	\$ (0.00)	\$ 0.15	\$ (0.03)	\$ (0.04)
Significant item included in results of continuing operations which might affect comparability:				
Gain on extinguishment of debt	\$ 925	\$ 4,020	\$ -	\$ -

	2005 Quarter Ended			
	March 31	June 30	Sept 30	Dec 31
Operating revenue	\$ 12,365	\$ 14,163	\$ 12,429	\$ 10,770
Operating costs and expenses	12,172	12,163	8,404	10,502
Operating income	\$ 193	\$ 2,000	\$ 4,025	\$ 268
Income (loss) from continuing operations	\$ (1,999)	\$ (227)	\$ 1,641	\$ (2,095)
Income (loss) from discontinued operations	293	-	(130)	97
Net income (loss)	\$ (1,706)	\$ (227)	\$ 1,511	\$ (1,998)

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	=====	=====	=====	=====
Income (loss) from continuing operations per common share:				
Basic	\$ (0.10)	\$ 0.02	\$ 0.09	\$ (0.12)
	=====	=====	=====	=====
Diluted	\$ (0.10)	\$ 0.01	\$ 0.07	\$ (0.12)
	=====	=====	=====	=====
Significant item included in results of continuing operations which might affect comparability:				
Gain on extinguishment of debt	\$ -	\$ -	\$ 3,450	\$ -
	=====	=====	=====	=====

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REUNION INDUSTRIES, INC. VALUATION AND QUALIFYING ACCOUNTS SCHEDULE II (dollars in thousands)

Year ended:	Beginning Balance	Charged to Costs and Expenses	Other	Deductions	Ending Balance
-----	-----	-----	-----	-----	-----
December 31, 2006:					
Allowance for doubtful accounts	\$ 211	\$ 64	\$ -	\$ 92 (1)	\$ 183
Inventory obsolescence reserve	328	70	-	56 (2)	342
Deferred tax valuation allowance	27,747	-	-	1,552 (7)	26,195
Reserve for restructuring	307	-	-	307	-
Product warranty reserve	133	100	-	111 (3)	122
December 31, 2005:					
Allowance for doubtful accounts	\$ 202	\$ 60	\$ (40) (4)	\$ 11 (1)	\$ 211
Inventory obsolescence reserve	682	96	(362) (4)	88 (2)	328
Deferred tax valuation allowance	26,826	921	-		27,747
Reserve for restructuring	240	206	192 (5)	125	307
Product warranty reserve	100	168	-	135 (3)	133
December 31, 2004:					
Allowance for doubtful accounts	\$ 485	\$ (36)	\$ (151) (4)	\$ 96 (1)	\$ 202
Inventory obsolescence reserve	560	229	(7) (4)	100 (2)	682
Deferred tax valuation allowance	44,620	-	-	17,794 (6)	26,826
Reserve for					

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restructuring	474	-	-	234	240
Product warranty					
reserve	211	(2)	-	109(3)	100

-
- (1) Uncollectible accounts written off, net of recoveries.
 - (2) Inventory written off.
 - (3) Cost of claims.
 - (4) Reduction to beginning balance due to businesses classified as discontinued operations during the year.
 - (5) Primarily a reclassification from trade payables.
 - (6) Primarily related to reduction in expired net operating losses.
 - (7) Primarily related to usage of net operating losses in connection with gains on settlements of debt.

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EXHIBIT INDEX

- 3.1 Certificate of Incorporation of the Company. Incorporated by reference to Exhibit 3.1 to Registration Statement on Form S-4 filed on March 4, 1996 (File No. 33-64325).
- 3.2 Bylaws of the Company. Incorporated by reference to Exhibit 3.2 to Registration Statement on Form S-4 filed on March 4, 1996 (File No. 33-64325).
- 3.3 Certificate of Amendment of Certificate of Incorporation of the Company, dated December 17, 2004. (2)
- 3.4 Amendment to Bylaws (1)
- 4.1 Specimen Stock Certificate evidencing the Common Stock, par value \$.01 per share, of Reunion Industries, Inc. Incorporated by reference to Exhibit 4.1 to Registration Statement on Form S-4 filed on March 4, 1996 (File No. 33-64325).
- 10.1 -
- 10.4 Not used.
- 10.5* The 1998 Stock Option Plan of the Company. Incorporated by reference to Exhibit 2.2 to Registration Statement on Form S-4 filed on June 26, 1998 (File No. 333-56153).
- 10.6* Form of Stock Option Agreement for options issued pursuant to the 1998 Stock Option Plan of the Company. Incorporated by reference to Exhibit 10.7 to Reunion Industries' Annual Report on Form 10-K for the year ended December 31, 1998 (File No. 33-64325).
- 10.7 -
- 10.15 Not used.
- 10.16 Indenture (the "Indenture"), dated as of May 1, 1993, by and between Chatwins Group, Inc. and The First National Bank of Boston, as trustee. Incorporated by reference to Exhibit 4.4 to Chatwins Group, Inc.'s Registration Statement on Form S-1 filed on July 30, 1993 (File No. 33-63274).
- 10.17 First Supplemental Indenture and Wavier of Covenants of Indenture

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between The First National Bank of Boston, as trustee, and Chatwins Group, Inc. Incorporated by reference to Exhibit 4.32 to Chatwins Group, Inc.'s Current Report on Form 8-K dated June 30, 1995 and filed with the Commission on July 3, 1995 (File No. 33-63274).

10.18 Second Supplemental Indenture between The First National Bank of Boston, as trustee, and Chatwins Group, Inc. Incorporated by reference to Exhibit 4.33 to Chatwins Group, Inc.'s Current Report on Form 8-K dated June 30, 1995 and filed with the Commission July 3, 1995 (File No. 33-63274).

10.19 Third Supplemental Indenture, dated as of May 28, 1999, between Chatwins Group, Inc. and State Street Bank and Trust company, as successor Trustee to The First National Bank of Boston. Incorporated by reference to exhibit 10.19 in the Company's Annual Report on Form 10-K for the year ended December 31, 1999 (File No. 33-64325).

10.20 Fourth Supplemental Indenture, dated as of March 8, 2000, between Chatwins Group, Inc. and State Street Bank and Trust Company, as successor Trustee to The First National Bank of Boston. Incorporated by reference to exhibit 10.20 in the Company's Annual Report on Form 10-K for the year ended December 31, 1999 (File No. 33-64325).

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10.21 Fifth Supplemental Indenture, dated as of March 16, 2000, between Chatwins Group, Inc., the Company and State Street Bank and Trust Company, as successor Trustee to The First National Bank of Boston. Incorporated by reference to Exhibit 10.21 in the Company's Annual Report on Form 10-K for the year ended December 31, 1999 (File No. 33-64325).

10.22 Memorandum regarding Notice of Consent Solicitation dated November 26, 2003 from the Company to the holders of the Company's 13% Senior Notes (the "Consent Solicitation"). (2)

10.23 Security Agreement dated December 2, 2003 between the Company and U.S. Bank, N.A., as successor trustee under the Indenture ("U.S. Bank, as trustee") for the holders of the Company's 13% Senior Notes. (2)

10.24 Form of Warrant issued by the Company to the holders of its 13% Senior Notes who provided consents to its Consent Solicitation. The Company has reserved a total of 1,771,217 shares of its common stock for issuance upon exercise of these Warrants. Each such Warrant is identical to all such other Warrants issued to such holders, except as to the name of the holder and the number of shares covered thereby. (2)

10.25 Not used.

10.26 Standstill Agreement regarding Default in Payment of Interest dated as of February 2, 2005 among Reunion and certain holders of its 13% Senior Notes. (2)

10.27 Loan and Security Agreement dated as of December 3, 2003 between

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the Company and Wachovia Bank, N.A. ("Wachovia"), successor to Congress Financial Corporation ("Congress Financial"). Incorporated by reference to Exhibit 10.46 in the Company's Annual Report on Form 10-K for the year ended December 31, 2003. (File No. 01-15739)

10.28 Amendment No. 1 to Loan and Security Agreement dated May 19, 2004 between the Company and Wachovia, successor to Congress Financial. (2)

10.29 Amendment No. 2 to Loan and Security Agreement dated October 18, 2004 between the Company and Wachovia, successor to Congress Financial. (2)

10.30 Amendment No. 3 to Loan and Security Agreement dated November 22, 2004 between the Company and Wachovia, successor to Congress Financial. (2)

10.31 Amendment No.4 to Loan and Security Agreement dated July 12, 2005 between Wachovia, successor to Congress Financial, and the Company. (2)

10.32 Intercreditor and Subordination Agreement dated December 3, 2003 among Wachovia (successor to Congress Financial), Mercury Capital Corporation ("Mercury Capital"), LC Capital Master Fund, Ltd. ("LC Capital") and U.S. Bank, N.A., as trustee ("U.S. Bank"), and acknowledged and agreed to by the Company. (2)

10.33 Amendment No.5 to Loan and Security Agreement dated February 28, 2006 between Wachovia, successor to Congress Financial, and the Company. (2)

10.34 Stipulation and Agreement between Stanwich Financial Services Corp. and the Company regarding Judgment dated March 21, 2006. (2)

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10.35 Asset Purchase Agreement dated January 13, 2006 between Oneida Molded Plastics, LLC and the Company (without Exhibits and Schedules). (2)

10.36 Amendment No.1 to Asset Purchase Agreement dated February 14, 2006 between Oneida Molded Plastics, LLC and the Company (without Exhibits and Schedules). (2)

10.37 ?

10.45 Not used.

10.46 Promissory Note dated November 25, 2003 in the original principal amount of \$4,200,000 issued by the Company to Mercury Capital. (2)

10.47 Option to Purchase dated November 25, 2003 issued by the Company to Mercury Capital. (2)

10.48 Open-End Mortgage, Assignment of Leases and Rents, Fixture Filing and Security Agreement dated November 25, 2003 granted by the Company to Mercury Capital with respect to Reunion's real property located in Pennsylvania. In November and December 2003, the

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Company also granted mortgages to the Other Mortgagees (as defined below) on this property and to Mercury Capital and the Other Mortgagees on the Company's other real properties. Such other mortgages are not being filed as exhibits to this report, because they are similar to this Exhibit in all material respects, except as to the location and description of the mortgaged properties, the names of the mortgagees and/or the debt secured thereby. As used in this paragraph the term "Other Mortgagees" means Wachovia (as successor to Congress Financial), LC Capital and U.S. Bank. (2)

10.49 Amended and Restated Senior Subordinated Secured Promissory Note dated December 3, 2003 in the original principal amount of \$3.5 million issued by the Company to LC Capital. (2)

10.50 Amended and Restated Security Agreement dated December 3, 2003 between the Company and LC Capital. (2)

10.51 Not used.

10.52 Warrant dated August 11, 2003 issued by the Company to LC Capital. (2)

10.53 Amendment to Warrant dated December 3, 2003 between the Company and LC Capital. (2)

10.54 Amendment No. 2 to Warrant dated May 19, 2004 between the Company and LC Capital. (2)

10.55 Registration Rights Agreement dated August 11, 2003 between the Company and LC Capital. (2)

10.56 Amendment to Registration Rights Agreement dated December 3, 2003 between the Company and LC Capital. (2)

10.57 Letter Agreement dated May 19, 2004 among the Company, LC Capital and WebFinancial Corporation ("WebFinancial"). (2)

10.58 Letter Agreement dated December 14, 2004 among the Company, LC Capital and WebFinancial. (2)

10.59 Warrant dated January 14, 2005 issued by the Company to LC Capital. (2)

10.60 Warrant dated January 14, 2005 issued by the Company to WebFinancial. (2)

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10.61 Chapter 11 Settlement Agreement dated as of December 1, 2003 among Stanwich Financial Services Corp., the Other Released Parties, the Further Released Parties and Bankers Trust. (2)

10.62 Warrant dated July 12, 2005 issued by the Company to LC Capital. (2)

10.63 Warrant dated July 12, 2005 issued by the Company to WebFinancial. (2)

10.64 Chapter 11 Settlement Agreement dated July 8, 2005 among Stanwich

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Financial Services Corp., Shaw NapTech, Inc. and the Company. (2)

21.1 List of subsidiaries and jurisdictions of organization.(1)

23.1 Consent of Independent Registered Public Accounting Firm ? Mahoney Cohen & Company, CPA, P.C.(1)

31.2 Not used.

31.1 Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.(1)

31.2 Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.(1)

32.1 Certification pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.(1)

32.2 Certification pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.(1)

(1) - Filed herewith.

(2) - To be filed as an Amendment to this Form 10-K.

* - Compensatory plan or arrangement.

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Exhibit 3

REUNION INDUSTRIES, INC. BY-LAW AMENDMENT

In 2006, the Board of Directors of the Company amended Section 2.3 of the Bylaws to change the first sentence thereof to read in its entirety as follows:

"Special meetings of stockholders may be called at any time by the President, or a majority of the Board of Directors, or the holder or holders of not less than 30% of all the shares of the capital stock of the Corporation outstanding and entitled to vote at the particular meeting."

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Exhibit 21.1

REUNION INDUSTRIES, INC. SUBSIDIARIES AS OF DECEMBER 31, 2005

Company -----	Incorporated -----	Parent -----
1 Reunion Industries, Inc.	Delaware	
2 Buttes Drilling-C Company	Texas	1
3 Reunion Titan, Inc.	Texas	2
4 Shanghai Klemp Metals Products Company	Peoples Republic of China	1 (65.0%)
Inactive Companies -----		
6 Ocean Phoenix Transport, Inc.	District of Columbia	1
7 Reunion Sub I, Inc.	Delaware	1
8 Reunion Sub II, Inc.	Delaware	1
9 Reunion Sub III, Inc.	Delaware	1
10 Asie-Dolphin Drilling SDN BHD	Malaysia	2 (49%)
11 Buttes Gas & Oil do Brasil, Ltda.	Brazil	1 (49%)
12 Dolphin Titan do Brasil Servicos de Perfuracoes, Ltd.	Brazil	2
13 Monaco Corporation	British Virgin Is.	2
14 Ocean Phoenix Holdings, N. V.	Netherlands Antilles	1
15 Progress Drilling International, Inc.	Panama	2
16 Progress Perfuracoes do Brasil, Ltd.	Brazil	15

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EXHIBIT 23.1

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in the Registration Statement (Form S-8 No. 333-37702) pertaining to the 1998 Stock Option Plan, the Registration Statement (Form S-8 No. 333-62074) pertaining to the 1998 Stock Option Plan, the Registration Statement (Form S-8 No. 33-77232) pertaining to the 1993 Stock Option Plan, the Registration Statement (Form S-3 No. 33-77566) pertaining to the registration of 248,500 shares of common stock, the Registration Statement (Form S-3 No. 333-37368) pertaining to the registration of 8,269,479 shares of common stock and the Registration Statement (Form S-3 No. 333-41842) pertaining to the registration of 3,245,515 shares of common stock of Reunion Industries, Inc. and Subsidiaries of our report dated March 17, 2006, with respect to the consolidated financial statements and schedule of Reunion Industries, Inc. and Subsidiaries included in the Annual Report (Form 10-K) for the year ended December 31, 2006.

/s/ Mahoney Cohen & Company, CPA, P.C.

New York, New York
April 2, 2007

EXHIBIT 31.1

CERTIFICATION

I, Kimball J. Bradley, Sr., certify that:

1. I have reviewed this annual report on Form 10-K 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: April 2, 2007

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/s/ Kimball J. Bradley

Chief Executive Officer

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EXHIBIT 31.2

CERTIFICATION

I, John M. Froehlich, certify that:

1. I have reviewed this annual report on Form 10-K 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.

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Date: April 2, 2007

/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 annual report on Form 10-K of Reunion Industries, Inc. for the fiscal year ended December 31, 2006, I, Kimball J. Bradley, Chief Executive Officer of Reunion Industries, Inc., hereby certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 Of the Sarbanes-Oxley Act of 2002, that:

1. this Form 10-K for the fiscal year ended December 31, 2006 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-K for the fiscal year ended December 31, 2006 fairly presents, in all material respects, the financial condition and results of operations of Reunion Industries, Inc. for the periods presented therein.

Date: April 2, 2007

/s/ Kimball J. Bradley

Chief Executive Officer

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EXHIBIT 32.2

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

In connection with this annual report on Form 10-K of Reunion Industries, Inc. for the fiscal year ended December 31, 2006, 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-K for the fiscal year ended December 31, 2006 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-K for the fiscal year ended December 31, 2006 fairly presents, in all material respects, the financial condition and results of operations of Reunion Industries, Inc. for the

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periods presented therein.

Date: April 2, 2007

/s/ John M. Froehlich

Chief Financial Officer

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