

# The Hallwood Group Incorporated

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## FOR IMMEDIATE RELEASE

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### HALLWOOD GROUP REPORTS RESULTS FOR THE FOURTH QUARTER AND YEAR ENDED DECEMBER 31, 1998

Dallas, Texas, March 29, 1999—The Hallwood Group Incorporated (NYSE-HWG) today reported results for the fourth quarter and year ended December 31, 1998.

For the quarter, revenue was \$26.3 million, compared to \$32.6 million in the prior year. Net income was \$4.6 million, which included a tax benefit of \$3.5 million and an extraordinary gain from the early extinguishment of debt of \$1.4 million, or \$3.62 per share, compared to 1997 net income of \$1.2 million, which included an extraordinary loss from the early extinguishment of debt of \$677,000, or \$0.90 per share.

For the year, revenue was \$116.2 million, compared to \$148.8 million in 1997. Net income was \$7.1 million, or \$5.40 per share, compared to \$12.8 million, or \$8.77 per share in 1997. Results for 1998 included a tax benefit of \$3.1 million and an extraordinary gain from the early extinguishment of debt of \$1.5 million. Results for 1997 included a gain of \$18.3 million from the sale of the Company's investment in its former associated company, ShowBiz Pizza Time, Inc., now known as CEC Entertainment, Inc., partially offset by a related non-cash deferred tax charge of \$8.96 million and a current tax charge of \$535,000, and an extraordinary gain from the early extinguishment of debt of \$200,000.

Following is a divisional comparison of the fourth quarter and annual results:

Asset management, consisting of real estate and energy segments, earned \$1.9 million in the 1998 quarter and \$2.1 million in the 1997 quarter. The real estate segment earned \$2.0 million for the 1998 quarter on revenue of \$2.8 million, compared to income of \$1.7 million in the 1997 quarter on revenue of \$2.9 million. The increase is primarily due to higher equity income from the Company's Hallwood Realty Partners, L.P. affiliate. The energy segment reported a loss of \$131,000 in the 1998 quarter on

revenue of \$1.2 million, compared to income of \$391,000 on revenue of \$1.8 million in the 1997 quarter, due to declining oil and gas prices and related property impairments.

For the year, the asset management division earned \$5.4 million in 1998 and \$5.7 million in 1997, on revenue of \$13.0 million and \$13.6 million, respectively.

**Operating subsidiaries**, consisting of textile products and hotel operations, reported a loss of \$1.3 million in the 1998 quarter, compared to a \$166,000 loss in the 1997 quarter. The 1998 quarter loss for the textile products segment was \$50,000 compared to income of \$240,000 in 1997, and revenue decreased to \$16.9 million from \$21.4 million. The hotel segment reported a loss of \$1.2 million, after depreciation and amortization of \$1.1 million in the 1998 quarter, compared to a loss of \$406,000, after depreciation and amortization of \$842,000 in the 1997 quarter, on revenue of \$5.1 million and \$4.5 million, respectively.

For the year, the loss for the operating subsidiaries division was \$998,000, compared to income of \$1.7 million in 1997, and revenue was \$101.5 million and \$112.6 million, respectively.

**Associated Company**, consisted of Hallwood's former investment in ShowBiz Pizza Time, Inc. which was sold in March 1997. For 1997, income was \$18.8 million, including a gain of \$18.3 million from the sale of its ShowBiz investment.

**Other**, consisting of miscellaneous corporate income, offset by debenture interest and administrative expenses, reported a loss of \$834,000 in the 1998 quarter, compared to income of \$61,000 in the 1997 quarter.

For the year, the loss was \$1.9 million, compared to \$3.7 million in 1997. The reduced loss was attributable to substantially lower interest costs resulting from the early retirement of the Company's 13.5% Debentures in 1997, partially offset by an increase in interest costs resulting from \$6.5 million of a new issue of 10% Debentures exchanged for 7% Debentures in August 1998.

**Income Taxes (Benefit)** - The Company reported an income tax benefit of \$3.5 million for the 1998 fourth quarter, compared to tax expense of \$132,000 in 1997.

For the year, the Company reported an income tax benefit of \$3.1 million in 1998, compared to income tax expense of \$9.9 million in 1997. The 1998 income tax benefit reflects a federal deferred tax credit of \$4.3 million from the increase in the

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Company's deferred tax asset, offset by \$1.2 million of federal and state current tax charges. The 1997 income tax expense includes an \$8.96 million federal deferred tax charge and a \$948,000 federal and state current tax charge principally related to the ShowBiz sale.

**Extraordinary Gain** - The Company reported an extraordinary gain of \$1.4 million in the 1998 fourth quarter, compared to a loss of \$677,000 in 1997. The 1998 fourth quarter gain represents the Company's pro-rata share of an extraordinary gain from early extinguishment of debt reported by the Company's Hallwood Realty Partners, L.P. affiliate. The 1997 fourth quarter loss was the result of refinancing two hotel term loans prior to their maturities.

For the year, the Company reported an extraordinary gain of \$1.5 million, which included the aforementioned \$1.4 million gain and a \$107,000 gain from the repurchase of 7% Debentures earlier in 1998, compared to the net gain of \$200,000 in 1997, which included a gain of \$877,000 from a self-tender offer for the 13.5% Debentures in the 1997 second quarter, offset by the aforementioned \$677,000 loss.

The following table sets forth selected financial information for the fourth quarter and years ended December 31, 1998 and 1997.

**THE HALLWOOD GROUP INCORPORATED**  
(In thousands, except per share amounts)

	Fourth Quarter Ended December 31,		Years Ended December 31,	
	1998	1997	1998	1997
Revenue.....	\$ <u>26,262</u>	\$ <u>32,583</u>	\$ <u>116,230</u>	\$ <u>148,769</u>
Income (loss) before income taxes and extraordinary gain.....	\$ (202)	\$ 1,999	\$ 2,471	\$ 22,555
Income taxes (benefit).....	(3,455)	132	(3,115)	9,908
Income before extraordinary gain.....	3,253	1,867	5,586	12,647
Extraordinary gain (loss) from early extinguishment of debt....	<u>1,374</u>	<u>(677)</u>	<u>1,481</u>	<u>200</u>
Net income.....	4,627	1,190	7,067	12,847
Less: Preferred dividends.....	-	-	50	50
Earnings available to common stockholders.....	\$ <u>4,627</u>	\$ <u>1,190</u>	\$ <u>7,017</u>	\$ <u>12,797</u>
 <b>PER COMMON SHARE</b>				
<b>BASIC</b>				
Income before extraordinary gain per share.....	\$ 2.59	\$ 1.48	\$ 4.41	\$ 8.96
Extraordinary gain (loss) per share.....	1.10	(0.54)	1.18	0.14
Net income per share.....	\$ <u>3.69</u>	\$ <u>0.94</u>	\$ <u>5.59</u>	\$ <u>9.10</u>

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Average shares outstanding.....	1,255	1,262	1,255	1,406
ASSUMING DILUTION				
Income before extraordinary gain per share.....	\$ 2.54	\$ 1.41	\$ 4.26	\$ 8.63
Extraordinary gain (loss) per share.....	<u>1.08</u>	<u>(0.51)</u>	<u>1.14</u>	<u>0.14</u>
Net income per share.....	\$ <u>3.62</u>	\$ <u>0.90</u>	\$ <u>5.40</u>	\$ <u>8.77</u>
Average shares outstanding.....	1,276	1,321	1,298	1,460

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