

# The Hallwood Group Incorporated

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## FOR IMMEDIATE RELEASE

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### THE HALLWOOD GROUP INCORPORATED REPORTS RESULTS FOR THE FIRST QUARTER ENDED MARCH 31, 2002

Dallas, Texas, May 15, 2002 – The Hallwood Group Incorporated (AMEX-HWG) today reported results for the first quarter ended March 31, 2002.

For the quarter, income from continuing operations was \$1.3 million, or \$0.85 per share, compared to income of \$351,000, or \$0.23 per share in 2001, on revenue of \$24.4 million and \$20.9 million, respectively. Net income was \$3.4 million, or \$2.15 per share, compared to \$5.3 million, or \$3.07 per share, in 2001. The 2002 quarter included a \$1.7 million gain from the early extinguishment of debt associated with one of its former hotel properties and income of \$568,000 from cumulative effect of adopting SFAS No. 142 - Goodwill and Other Intangibles. The 2001 quarter included a \$9,000 extraordinary loss from the early extinguishment of debt and a \$40,000 loss from cumulative effect of adopting SFAS No. 133 - Accounting for Derivative Investments and Hedging Activities.

**Real Estate.** The real estate segment earned \$1.3 million on revenue of \$1.7 million in the 2002 quarter, compared to income of \$2.0 million on revenue of \$2.7 million in 2001. The decrease was due to decreased fee income and equity income from earnings of its Hallwood Realty Partners, L.P. affiliate.

**Textile products.** Textile products reported income of \$507,000 in the 2002 quarter on revenue of \$21.4 million, compared to a loss of \$350,000 on revenue of \$17.8 million in 2001. The increase in income and revenue for the quarter was due to increased sales of its finishing and laminating divisions and equity income from joint venture.

**Other,** consisting of amortization of deferred revenue, leased hotel revenue and expenses, interest and other income less interest and administrative expenses, reported income \$283,000 in the 2002 quarter, compared to a loss of \$997,000 in 2001. The 2002 quarter

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included \$604,000 of income from amortization of deferred revenue from a noncompete agreement and income \$296,000 from sale of miscellaneous securities. The 2001 interest expense included \$432,000 attributable to the senior secured term loan that was repaid in May 2001.

**Income taxes** - The 2002 quarter income tax expense from continuing operations of \$738,000, included a non-cash, deferred federal tax charge of \$566,000, a current federal tax charge of \$11,000 and state tax expense of \$161,000. The 2001 quarter expense of \$272,000 included a non-cash, deferred federal tax charge of \$200,000, a current federal tax charge of \$21,000 and \$51,000 of state tax expense.

**Discontinued operations.** Discontinued operations include the former hotels and energy business segments. Income from the hotels segment in 2002 was \$1.5 million, including a \$1.7 million gain from the extinguishment of a mortgage loan upon completion of foreclosure, compared to income of \$21,000 in 2001. The energy segment reported income of \$4.9 million in 2001, including a non-cash, deferred tax benefit of \$3.6 million.

The following table sets forth selected financial information for the three months ended March 31, 2002 and 2001.

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

	<u>Three Months Ended</u> <u>March 31,</u>	
	<u>2002</u>	<u>2001</u>
Revenue . . . . .	\$ <u>24,354</u>	\$ <u>20,879</u>
Income from continuing operations before income tax . . . . .	\$2,054	\$ 623
Income taxes . . . . .	<u>(738)</u>	<u>(272)</u>
Income from continuing operations . . . . .	1,316	351
Income from discontinued operations, net of tax . . . . .	<u>1,476</u>	<u>4,949</u>
Income before extraordinary loss and cumulative effect of change in accounting principle . .	2,792	5,300
Extraordinary loss . . . . .	<u>--</u>	<u>(9)</u>
Income before cumulative effect of change in accounting principle . . . . .	2,792	5,291
Gain (loss) from cumulative effect of change in accounting principle . . . . .	<u>568</u>	<u>(40)</u>
Net income . . . . .	\$ <u>3,360</u>	\$ <u>5,251</u>
 PER COMMON SHARE		
BASIC:		
Income from continuing operations . . . . .	\$0.97	\$ 0.25
Income from discontinued operations . . . . .	1.08	3.47
Extraordinary loss . . . . .	--	--
Gain (loss) from cumulative effect of change in accounting principle . . . . .	<u>0.42</u>	<u>(0.03)</u>
Net income . . . . .	\$ <u>2.47</u>	\$ <u>3.69</u>
Weighted average shares outstanding . . . . .	1,361	1,425
 ASSUMING DILUTION:		
Income from continuing operations . . . . .	\$0.85	\$ 0.23
Income from discontinued operations . . . . .	0.94	2.87
Extraordinary loss . . . . .	--	--
Gain (loss) from cumulative effect of change in accounting principle . . . . .	<u>0.36</u>	<u>(0.03)</u>
Net income . . . . .	\$ <u>2.15</u>	\$ <u>3.07</u>
Weighted average shares outstanding . . . . .	1,579	1,727

Certain statements in this press release may constitute "forward-looking statements" which are subject to known and unknown risks and uncertainties including, among other things, certain economic conditions, competition, development factors and operating costs that may cause the actual results to differ materially from results implied by such forward-looking statements.

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