

# The Hallwood Group Incorporated

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## FOR IMMEDIATE RELEASE

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### HALLWOOD GROUP REPORTS RESULTS FOR THE SECOND QUARTER AND SIX MONTHS ENDED JUNE 30, 2002

**Dallas, Texas, August 14, 2002** – The Hallwood Group Incorporated (**AMEX-HWG**) today reported results for the second quarter and six months ended June 30, 2002.

For the quarter, net income was \$3.4 million, or \$2.46 per share, compared to net income of \$3.6 million, or \$2.48 per share, in 2001. The 2002 quarter included \$2.3 million of income from discontinued operations. The 2001 quarter included income of \$5.8 million from discontinued operations, litigation expense of \$2.3 million and an \$801,000 extraordinary loss from early extinguishment of debt.

Income from continuing operations was \$1.1 million, or \$0.80 per share after the preferred dividend, compared to a loss of \$1.4 million, or \$1.02 per share in 2001, on revenue of \$25.8 million and \$21.2 million, respectively.

For the six months, net income was \$6.8 million, or \$4.58 per share, compared to \$8.8 million, or \$6.17 per share, in 2001. The 2002 amount included income of \$568,000 and the 2001 amount included a loss of \$40,000 from cumulative effects of changes in accounting principles.

Income from continuing operations was \$2.5 million, or \$1.66 per share, compared to a loss of \$1.1 million, or \$0.78 per share, in 2001, on revenue of \$50.2 million and \$42.1 million, respectively.

**Following is a comparison of results for the business segments included in continuing operations:**

**Real Estate.** In the 2002 quarter, the real estate segment earned \$1.3 million on revenue of \$1.7 million, compared to a loss of \$533,000, which included \$2.3 million of litigation expense, on revenue of \$2.4 million in 2001. For the six months, the real estate segment earned \$2.5 million on revenue of \$3.4 million, compared to income of \$1.4 million on revenue of \$5.1 million in 2001.

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**Textile products.** Textile products reported income of \$776,000 in the 2002 quarter on revenue of \$23.1 million, compared to income of \$377,000 on revenue of \$18.0 million in 2001. For the six months, the textile products segment reported income of \$1.3 million on revenue of \$44.5 million, compared to income of \$27,000 on revenue of \$35.8 million in 2001.

**Other,** consisting of interest and administrative expenses less fee and miscellaneous income, reported losses of \$280,000 and \$867,000 for the 2002 and 2001 quarters, respectively. For the six months, this segment reported a gain of \$3,000, compared to a \$1.9 million loss in 2001. The improvements in the 2002 periods were attributable to amortization of deferred income from a noncompete agreement, lower interest expense and a gain from sale of miscellaneous securities.

**Income taxes** - The 2002 quarter income tax expense from continuing operations of \$616,000, included a non-cash, deferred federal tax charge of \$520,000, a current federal tax charge of \$11,000 and state tax expense of \$85,000. The 2001 quarter expense of \$383,000 included a deferred tax charge of \$334,000, a current federal tax benefit of \$33,000 and \$82,000 of state tax expense.

For the 2002 six months, income taxes from continuing operations were \$1,354,000, including a deferred federal tax charge of \$1,086,000, a current federal tax charge of \$23,000 and state tax expense of \$245,000. For the 2001 six months, income taxes from continuing operations were \$655,000, including a deferred federal tax charge of \$534,000 current federal tax benefit of \$12,000 and state taxes of \$133,000.

**Discontinued operations include the former hotels and energy business segments:**

Discontinued operations for the 2002 quarter included a gain of \$2.3 million from completion of a hotel foreclosure, after a deferred tax charge of \$925,000. The loss from the hotels segment in the 2001 quarter was \$11,000.

Discontinued operations for the 2001 quarter included income of \$5.8 million from the sale of the energy segment, after a deferred tax charge of \$2.9 million.

For the six months the gain from the hotels segment was \$3.7 million in 2002, compared to gains from the energy segment of \$10.7 million and \$10,000 from hotels in 2001.

**Extraordinary loss from early extinguishment of debt:**

The extraordinary loss of \$801,000 from early extinguishment of debt in the 2001 second quarter resulted from the write off of deferred costs associated with the former Senior Secured Term Loan repaid in May 2001.

For the six months, the \$810,000 extraordinary loss, in addition to the above, also included the Company's pro rata share of a similar transaction from its Hallwood Realty Partners, L.P. affiliate in the amount of \$9,000.

The following table sets forth selected financial information for the three and six months ended June 30, 2002 and 2001.

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

	<u>Three Months Ended</u> <u>June 30,</u>		<u>Six Months Ended</u> <u>June 30,</u>	
	<u>2002</u>	<u>2001</u>	<u>2002</u>	<u>2001</u>
Revenue from continuing operations . . . . .	\$ <u>25,833</u>	\$ <u>21,175</u>	\$ <u>50,187</u>	\$ <u>42,054</u>
Income (loss) from continuing operations				
before income tax . . . . .	\$1,758	\$(1,023)	\$3,812	\$ (400)
Income taxes . . . . .	<u>(616)</u>	<u>(383)</u>	<u>(1,354)</u>	<u>(655)</u>
Income (loss) from continuing operations . . . . .	1,142	(1,406)	2,458	(1,055)
Income from discontinued operations . . . . .	<u>2,258</u>	<u>5,795</u>	<u>3,734</u>	<u>10,744</u>
Income before extraordinary loss and cumulative effect of changes				
in accounting principles . . . . .	3,400	4,389	6,192	9,689
Extraordinary loss . . . . .	<u>--</u>	<u>(801)</u>	<u>--</u>	<u>(810)</u>
Income before cumulative effect of changes in accounting principles . . . . .	3,400	3,588	6,192	8,879
Income (loss) from cumulative effect of changes in accounting principles . . . . .	<u>--</u>	<u>--</u>	<u>568</u>	<u>(40)</u>
Net income . . . . .	3,400	3,588	6,760	8,839
Preferred stock dividend . . . . .	<u>(50)</u>	<u>(50)</u>	<u>(50)</u>	<u>(50)</u>
Net income available to common stockholders . . . . .	\$ <u>3,350</u>	\$ <u>3,538</u>	\$ <u>6,710</u>	\$ <u>8,789</u>
 PER COMMON SHARE:				
BASIC				
Income (loss) from continuing operations . . . . .	\$0.80	\$(1.02)	\$1.77	\$(0.78)
Income from discontinued operations . . . . .	1.66	4.06	2.74	7.54
Extraordinary loss . . . . .	--	(0.56)	--	(0.56)
Income (loss) from cumulative effect of changes in accounting principles . . . . .	<u>--</u>	<u>--</u>	<u>0.42</u>	<u>(0.03)</u>
Net income . . . . .	\$ <u>2.46</u>	\$ <u>2.48</u>	\$ <u>4.93</u>	\$ <u>6.17</u>
Weighted average shares outstanding . . . . .	1,361	1,425	1,361	1,425
 ASSUMING DILUTION:				
Income (loss) from continuing operations . . . . .	\$0.80	\$(1.02)	\$1.66	\$( 0.78)
Income from discontinued operations . . . . .	1.66	4.06	2.54	7.54
Extraordinary loss . . . . .	--	(0.56)	--	(0.56)
Income (loss) from cumulative effect of changes in accounting principles . . . . .	<u>--</u>	<u>--</u>	<u>0.38</u>	<u>(0.03)</u>
Net income . . . . .	\$ <u>2.46</u>	\$ <u>2.48</u>	\$ <u>4.58</u>	\$ <u>6.17</u>
Weighted average shares outstanding . . . . .	1,361	1,425	1,470	1,425

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.