

# 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, 2005

Dallas, Texas, April 13, 2006 — The Hallwood Group Incorporated (AMEX-HWG) today reported results for the fourth quarter and year ended December 31, 2005.

**Continuing Operations.** For the quarter, income from continuing operations was \$818,000, or \$0.54 per share (assuming dilution), compared to income of \$37.9 million, or \$25.18 per share, in 2004, on revenue of \$31.2 million and \$39.2 million, respectively. In 2004, income from continuing operations included a gain from sale of the Company's minority investment in affiliated Hallwood Energy Corporation in the amount of \$62.3 million.

For the year, income from continuing operations was \$26.3 million, or \$17.47 per share, compared to income of \$54.7 million, or \$36.79 per share, in 2004, on revenue of \$134.6 million and \$137.3 million, respectively. In 2005, income from continuing operations included a gain from sale of the Company's minority investment in Hallwood Energy III, L.P. in the amount of \$52.4 million.

**Discontinued Operations.** For the 2004 quarter, income from discontinued operations was \$604,000, or \$0.40 per share, which included a gain from termination of a hotel lease in the amount of \$1.6 million.

For the 2004 year, income from discontinued operations was \$39.8 million, or \$26.76 per share, which included a gain from sale of investments in Hallwood Realty Partners, L.P. in the amount of \$46.1 million.

**Net Income.** For the quarter, net income was \$818,000, or \$0.54 per share, compared to \$38.5 million, or \$25.58 per share, in 2004.

For the year, net income was \$26.3 million, or \$17.47 per share, compared to \$94.5 million or \$63.55 per share, in 2004.

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**Following is a comparison of results for the fourth quarters and years ended December 31, 2005 and 2004:**

**Textile Products.** For the quarter textile products segment reported income before tax of \$2.1 million, on revenue of \$31.2 million, compared to income before tax of \$4.4 million, on revenue of \$38.2 million in 2004.

For the year, the textile products segment reported income before tax of \$11.1 million in 2005, on revenue of \$133.1 million, compared to income before tax of \$18.1 million, on revenue of \$136.3 million in 2004.

**Other Income (Loss).** Other income (loss) consisted principally of the gains on disposition of the Company's investment in Hallwood Energy III, L.P. in July 2005 and Hallwood Energy Corporation in December 2004, equity income (loss) from investments in energy affiliates and interest income and expense.

For the quarter, other income was \$454,000, compared to \$52.5 million in 2004.

For the year, other income was \$44.8 million, compared to \$54.1 million for 2004.

**Income Taxes.** For the quarter, income tax expense attributable to continuing operations was \$683,000 and included a current federal tax benefit of \$1.9 million, a non-cash deferred federal tax expense of \$3.0 million and state tax benefit of \$471,000. For the 2004 quarter, income tax expense was \$16.6 million and included a current federal tax expense of \$10.0 million, a non-cash deferred federal tax expense of \$6.6 million and state tax expense of \$68,000.

For the 2005 year, income tax expense attributable to continuing operations was \$18.5 million, which included a current federal tax expense of \$13.7 million, a non-cash deferred federal tax expense of \$3.9 million and state tax expense of \$889,000. For the 2004 year, income tax expense attributable to continuing operations was \$11.1 million, which included a current federal tax expense of \$10.4 million, a non-cash deferred federal tax benefit of \$900,000 and state taxes of \$1.6 million.

**Energy Consolidation.** Effective December 31, 2005, Hallwood Energy II, L.P., and Hallwood Exploration were consolidated into Hallwood Energy 4, L.P., which was renamed Hallwood Energy, L.P. The Company owns approximately 26% (22% after consideration of profits interests) of Hallwood Energy, L.P. During 2005, the Company invested approximately \$40.5 million in its energy affiliates, including approximately \$22.2 million in the fourth quarter.

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The following table sets forth selected financial information for the quarters and years ended December 31, 2005 and 2004, respectively.

THE HALLWOOD GROUP INCORPORATED

(In thousands, except per share amounts)

	Quarter Ended December 31,		Year Ended December 31,	
	2005	2004	2005	2004
Revenue.....	\$ <u>31,185</u>	\$ <u>39,209</u>	\$ <u>134,607</u>	\$ <u>137,280</u>
Operating income.....	\$ <u>1,047</u>	\$ <u>2,061</u>	\$ <u>53</u>	\$ <u>11,671</u>
Other income.....	\$ <u>454</u>	\$ <u>52,455</u>	\$ <u>44,799</u>	\$ <u>54,108</u>
Income from continuing operations before income taxes.....	\$ 1,501	\$54,516	\$ 44,852	\$ 65,779
Income tax expense.....	<u>683</u>	<u>16,597</u>	<u>18,510</u>	<u>11,079</u>
Income from continuing operations.....	818	37,919	26,342	54,700
Income from discontinued operations.....	<u>--</u>	<u>604</u>	<u>--</u>	<u>39,785</u>
Net income.....	\$ <u>818</u>	\$ <u>38,523</u>	\$ <u>26,342</u>	\$ <u>94,485</u>
PER COMMON SHARE:				
BASIC				
Income from continuing operations.....	\$0.54	\$28.60	\$18.22	\$41.24
Income from discontinued operations.....	<u>--</u>	<u>0.45</u>	<u>--</u>	<u>30.00</u>
Net income .....	\$ <u>0.54</u>	\$ <u>29.05</u>	\$ <u>18.22</u>	\$ <u>71.24</u>
Weighted average shares outstanding .....	1,511	1,326	1,446	1,326
ASSUMING DILUTION				
Income from continuing operations.....	\$0.54	\$25.18	\$17.47	\$36.79
Income from discontinued operations.....	<u>--</u>	<u>0.40</u>	<u>--</u>	<u>26.76</u>
Net income .....	\$ <u>0.54</u>	\$ <u>25.58</u>	\$ <u>17.47</u>	\$ <u>63.55</u>
Weighted average shares outstanding.....	1,526	1,506	1,508	1,487

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. These risks and uncertainties are described in greater detail in the Company's periodic filings with the SEC.

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