

HALLWOOD GROUP INCORPORATED

WHISTLE BLOWER POLICY

Introduction

As you are probably aware, there has recently been a great deal of emphasis on the conduct of employees of public companies such as Hallwood Group. One aspect of this emphasis has been a number of new federal laws and regulations that apply to our company and each of our employees. The Audit Committee of our Board of Directors has adopted the following policies and procedures to notify you of (1) certain specific actions that are explicitly prohibited and (2) the procedures that you and others may follow if there is reason to believe that any laws are being violated.

Prohibited Actions

Commission of any of the following acts will be considered just cause for immediate dismissal and may subject you to criminal liability:

1. Destroying, altering, mutilating, concealing, covering up, falsifying, or making a false entry in any records that may be connected to a matter within the jurisdiction of a federal agency or bankruptcy proceeding, in violation of federal or state law or regulations.
2. Altering, destroying or concealing a document, or attempting to do so, with the intent to impair the document's availability for use in an official proceeding or otherwise obstructing, influencing or impeding any official proceeding, in violation of federal or state law or regulations.
3. Fraudulently influencing, coercing, manipulating, or misleading any independent public accountant engaged in the performance of an audit of the financial statements of the Company for the purpose of rendering such financial statements materially misleading, in violation of federal or state law or regulations.
4. Discharging, demoting, suspending, threatening, harassing or discriminating in any manner against any employee, in violation of federal or state law or regulations, because of any lawful act by the employee in providing information to or assisting in any investigation by a supervisory employee, Congress or any federal agency; filing or assisting in any action alleging a violation of federal or state law or regulations; or knowingly taking any action harmful to any person for providing truthful information to a law enforcement officer relating to the possible commission of a federal offense.

Reporting of Concerns or Complaints

Taking action to prevent problems is part of the Company's culture. If you observe possible unethical or illegal conduct, you are encouraged to report your concerns. Employees and others involved with the Company are urged to come forward with any such information, without regard to the identity or position of the suspected offender.

Employees and others may communicate suspected violations of law, policy, or other wrongdoing, as well as any concerns regarding questionable accounting or auditing matters (including deficiencies in internal controls) by contacting Mr. Mel Melle by telephone at (214) 528-5588, by e-mail at melmelle@hallwood.com or by mail at 3710 Rawlins, Suite 1500, Dallas, Texas, 75219. If, for any reason, you would prefer to contact someone else, you may call Mr. Bill Guzzetti at (214) 528-5588. You may also call our toll-free telephone number that we have set up for this purpose. That telephone number is 800-225-0135. In order to be better able to respond to any information, we would prefer that you identify yourself and give us your telephone number and other contact information when you make the report. You can be assured that any information will be treated with utmost confidence, as detailed below. However, if you wish to remain anonymous, it is not necessary that you give your name and position in any notification and caller ID will be deactivated on the telephone lines above.

Confidentiality

The Company will treat all communications under this Policy in a confidential manner, except to the extent necessary (1) to conduct a complete and fair investigation, or (2) for review of Company operations by the Company's Board of Directors, its Audit Committee and the Company's independent public accountants.

Retaliation

Any individual who in good faith reports a possible violation of the Company's Code of Business Conduct and Ethics, or of law, or reports any concerns regarding questionable accounting or auditing matters, even if the report is mistaken, or who assists in the investigation of a reported violation, will be protected by the Company. Retaliation in any form against these individuals will not be tolerated. Any act of retaliation should be reported immediately and will be disciplined appropriately.

Questions

If you have any questions regarding this information, please feel free to contact us as indicated above.

*Adopted by the Audit Committee and Resolution of
the Board of Directors on March 10, 2004*