GIBBONS THOMAS P
Form 4
March 01, 2007

FORM 4

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

OMB APPROVAL	
OMB Number:	3235-0287
Expires:	January 31, 2005
Estimated average burden hours per response...	0.5

Check this box if no longer subject to Section 16. Form 4 or Form 5 obligations may continue. *See* Instruction 1(b).

STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

(Print or Type Responses)

1. Name and Address of Reporting Person *
GIBBONS THOMAS P

(Last) (First) (Middle)

ONE WALL STREET

(Street)

NEW YORK, NY 10286

(City) (State) (Zip)

2. Issuer Name **and** Ticker or Trading Symbol
BANK OF NEW YORK CO INC [BK]

3. Date of Earliest Transaction (Month/Day/Year)
01/03/2007

4. If Amendment, Date Original Filed(Month/Day/Year)

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

_____ Director _____ 10% Owner
__X__ Officer (give title below) _____ Other (specify below)
SEVP and CFO

6. Individual or Joint/Group Filing(Check Applicable Line)
_X_ Form filed by One Reporting Person
___ Form filed by More than One Reporting Person

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1.Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)		4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)			5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)
			Code	V	Amount	(A) or (D)	Price			
Common Stock (Par Value $7.50)	01/03/2007		L		10.8455	A	$ 36.8814	142,115.9833	D	
Common Stock (Par Value $7.50)	01/03/2007		L		34.3523	A	$ 39.16	142,150.3356	D	
Common Stock	02/02/2007		L		18.1432	A	$ 38.6713	142,168.4788	D	

(Par Value $7.50)								
Common Stock (Par Value $7.50)	02/02/2007		L	24.4011	A	$ 40.6498	142,192.8799	D
Common Stock (Par Value $7.50)	02/28/2007		F	16,065	D	$ 40.63	126,127.8799	D

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

Persons who respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB control number.

SEC 1474 (9-02)

Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned
(*e.g.*, puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of Derivative Security	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)		5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)		6. Date Exercisable and Expiration Date (Month/Day/Year)		7. Title and Amount of Underlying Securities (Instr. 3 and 4)		8. Price of Derivative Security (Instr. 5)	9. Nu Deriv Secur Bene Owne Follo Repo Trans (Instr
				Code	V	(A)	(D)	Date Exercisable	Expiration Date	Title	Amount or Number of Shares		

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
GIBBONS THOMAS P ONE WALL STREET NEW YORK, NY 10286			SEVP and CFO	

Signatures

Thomas P. Gibbons	03/01/2007
**Signature of Reporting Person	Date

Explanation of Responses:

* If the form is filed by more than one reporting person, *see* Instruction 4(b)(v).

** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *see* Instruction 6 for procedure.
Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB number. in 2003, 2002 and 2001, respectively, for payment of Special Bonus Plan in lieu of contribution to a Tax Favored Savings Plan. (11) Consists of $5,680 premium payment for term life insurance premiums for 2003, 2002 and 2001, respectively, and $7,700, $7,700 and $7,643 in 2003, 2002 and 2001, respectively, for payment of Special Bonus Plan in lieu of contribution to a Tax Favored Savings Plan.

OPTIONS/ SAR GRANTS IN LAST FISCAL YEAR

No options to purchase shares of the Company s or any of its affiliated entities common stock were granted to Named Executive Officers during 2003.

AGGREGATED OPTION/SAR EXERCISES

AND OPTION/SAR VALUES AT DECEMBER 31, 2003

The following table discloses for each of the Named Executive Officers who have been granted options to purchase securities of the Company or its subsidiaries, the number of options held by each of the Named Executive Officers and the potential realizable values for their options at December 31, 2003. None of the Named Executive Officers exercised any options during the year ended December 31, 2003, and the Company has not granted SARs.

Name	Entity	Securities Underlying Exercised Options/SARS(#)	Value Realized($)	Securities Underlying Unexercised Options/SARs at December 31, 2003(#) Exercisable/Unexercisable	Value of Unexercised In-the-Money Options/SARs at December 31, 2003($) Exercisable/Unexercisable
Anthony J. Gumbiner	HWG	0	0	150,000/0	1,212,048/0
	HRP	0	0	25,800/0	2,789,625/0
William L. Guzzetti	HRP	0	0	15,000/0	1,621,875/0
Melvin J. Melle	HWG	0	0	13,500/0	89,970/0

COMPENSATION OF DIRECTORS

For the year ended December 31, 2003, Messrs. Crocco and Talbot received director fees of $36,875 and are entitled to receive $500 for each day spent on business of the Company, other than attendance at board meetings. Messrs. Crocco and Talbot received $2,000 and $1,000, respectively, for time spent as directors on Company business other than attendance at board meetings. Each director is also reimbursed for expenses reasonably incurred in connection with the performance of his duties. Additional information regarding consulting agreements with, or services provided by, Mr. Gumbiner through HSC Financial is included in Certain Relationships and Related Transactions and Compensation Committee Interlocks and Insider Participation, below.

EMPLOYMENT AGREEMENTS

During the year ended December 31, 2003, the Company had an employment agreement with Mr. Melle. Mr. Melle s employment agreement provides for payment of a salary of $200,000 per year plus an annual bonus in an amount as may be determined by the board of directors. In addition, the employment agreement provides that the Company will maintain $500,000 of life insurance benefits on behalf of Mr. Melle and, for the year ended December 31, 2003, the Company paid premiums in the amount of $5,680 for this life insurance. Mr. Melle s employment agreement continued under the same terms and conditions until December 31, 2003, at which time it was automatically extended for one year and will be automatically extended annually unless terminated by either party. In addition, Mr. Melle receives an annual Christmas bonus of $8,333.

COMPENSATION COMMITTEE INTERLOCKS

AND INSIDER PARTICIPATION

Since November 1997, the board of directors as a whole has performed the functions of the compensation committee. References to the Company s compensation committee in this proxy statement refer to the board of directors, acting in its capacity as the compensation committee.

During 2003, Messrs. Gumbiner and Guzzetti served on the board of directors of Hallwood Realty, LLC, the general partner of HRP and on the board of directors of New HEC. For HRP, the audit committee of the board of directors served as the compensation committee, Mr. Gumbiner was the Chief Executive Officer and Mr. Guzzetti was the Chief Operating Officer of HRP.

As general partner of HRP, Hallwood Realty, LLC earned an asset management fee and certain related fees from HRP, which amounted to $605,000 for the year ended December 31, 2003. In addition, HRP reimbursed Hallwood Realty, LLC for $3,908,000 of costs incurred by Hallwood Realty, LLC on behalf of HRP during the year ended December 31, 2003. As property manager for HRP, the Company s HCRE subsidiary received management fees, leasing commissions and other fees from HRP and related parties of $4,233,000 during the year ended December 31, 2003. In addition, HRP reimbursed HCRE for $3,932,000 of costs incurred by HCRE on behalf of HRP during the year ended December 31, 2003.

Since December 31, 1996, the Company has been a party to an agreement with HSC Financial under which HSC Financial provides international consulting and advisory services to the Company and its affiliates. The agreement currently provides for an annual fee of $795,000. According to this agreement, the Company reimburses HSC Financial for reasonable and necessary expenses in providing office space and administrative services used by Mr. Gumbiner. For the year ended December 31, 2003, HSC Financial was reimbursed in the amount of $416,000. Of the amounts paid in 2003, $104,000 was paid by the Company and $312,000 was paid by Hallwood Realty, LLC, as the general partner of HRP, for services rendered to HRP.

Mr. Crocco, a director of the Company, was of counsel to the law firm Crocco & De Maio, P.C. The firm occasionally provided legal services to the Company. In 2003, the total of such fees was $462.

COMPENSATION COMMITTEE

REPORTS ON EXECUTIVE COMPENSATION

General

The Company is a holding company with several subsidiaries and affiliated companies. Of the Named Executive Officers, Mr. Gumbiner was involved in the activities of all of the subsidiaries and affiliated companies, but received no cash compensation directly from the Company. HSC Financial, with which Mr. Gumbiner is associated, received consulting fees from the Company. The Company s board of directors, acting in its capacity as the compensation committee, approved the payments by the Company to HSC Financial. HSC Financial was also involved in the activities of Hallwood Realty, LLC and HCRE during 2003. Any bonuses paid to HSC Financial with respect to Hallwood Realty, LLC or HRP are determined by the board of directors of Hallwood Realty, LLC. The fees for services with respect to HCRE are determined by the board of HCRE, subject to the approval of Company s board of directors, acting in its capacity as the compensation committee.

Mr. Guzzetti was involved in the activities of Hallwood Realty, LLC and HCRE during 2003. The compensation of Mr. Guzzetti with respect to his services to Hallwood Realty, LLC is determined by the board of directors of Hallwood Realty, LLC. The compensation for his services with respect to HCRE is determined by the by the board of HCRE, subject to the approval of Company s board of directors, acting in its capacity as the compensation committee.

Mr. Melle is involved in the activities of the Company and of certain subsidiaries and affiliated companies, but for 2003 received compensation only from the Company. Accordingly, the compensation of Mr. Melle is determined solely by the Company s board of directors, acting in its capacity as the compensation committee.

Ms. Brookman is involved in and receives compensation only from Brookwood. The compensation for her services is determined by the board of directors of Brookwood. In 2003 and 2004, the Company invested an additional $2,563,000 to maintain its 28% interest in New HEC, a private company, with other affiliated and unaffiliated investors. Messrs. Gumbiner and Guzzetti are directors and officers of New HEC and, in that capacity receive compensation from New HEC, as determined from time to time by the board of directors of New HEC. Messrs. Gumbiner and Guzzetti each also hold options to purchase up to 4% of the outstanding shares of New HEC, on a fully diluted basis, at the same price paid by the initial investors in New HEC, including the Company. In 2004 the Company invested $659,000 for a 20% interest in Hallwood Exploration with other affiliated and unaffiliated investors. Messrs. Gumbiner and Guzzetti are directors and officers of Hallwood Exploration and, in that capacity, may receive compensation from Hallwood Exploration as determined from time to time by the board of directors of Hallwood Exploration. Messrs. Gumbiner and Guzzetti each also hold a 4% profits interest in Hallwood Exploration.

Compensation by the Company

The Company s board of directors, acting in its capacity as the compensation committee, annually determines the compensation of the Company s executive officers and bases the amount of compensation on the board of directors determination of the reasonable compensation for that officer. The members of the board of directors, through their business experience, are generally aware of prevailing compensation practices and regularly review and remain informed about the recent financial and operating experience of the Company. Based on this experience and review, the board of directors establishes compensation that it believes to be appropriate for each officer. Substantially all of the executive officers compensation is paid as salary, although from time to time the Company has awarded substantial bonuses upon completion of significant transactions that provide material benefits to the Company.

Hallwood Realty, LLC has contracted with HCRE to manage the properties controlled by Hallwood Realty, LLC. Mr. Guzzetti is the president and is primarily responsible for the operations of HCRE. HCRE s Executive Incentive Plan authorizes HCRE to pay annual cash bonuses in an amount up to 10% of HCRE s net operating income for the prior year. The actual amount to be paid and the allocation of the total amount to individual employees is recommended by Mr. Gumbiner, the chief executive officer of HCRE, and is approved by the board of directors of HCRE, which consists of Messrs. Gumbiner and Guzzetti. Any amount to be paid to an executive officer of the Company is subject to the approval of the board of directors. For 2003, the board of directors of the Company approved the payment of bonuses under the HCRE Executive Incentive Plan to HSC Financial of $33,000 and to Mr. Guzzetti of $145,000.

2003 Members of the Board of Directors

Charles A. Crocco, Jr.
Anthony J. Gumbiner
J. Thomas Talbot

Compensation by Hallwood Realty, LLC

The compensation paid by Hallwood Realty, LLC to HSC Financial and Mr. Guzzetti is authorized by the entire board of directors of Hallwood Realty, LLC with the approval of the audit committee of the board of directors. The compensation paid by Hallwood Realty, LLC consists of a salary for Mr. Guzzetti, and to the extent that Hallwood Realty, LLC s board of directors determines it to be appropriate, bonuses to Mr. Guzzetti and HSC Financial based on their determination that Hallwood Realty, LLC or HRP have experienced favorable operating results or completed transactions that benefit Hallwood Realty, LLC or HRP. For 2003, the board of directors did not consider any changes in Mr. Guzzetti s salary. In recognition of the benefits provided to HRP through their efforts during the year, Hallwood Realty, LLC s board of directors determined that it was appropriate to award a bonus of $150,000 to HSC Financial and a bonus of $24,000 to Mr. Guzzetti.

2003 Members of the Hallwood Realty, LLC Board of Directors

Anthony J. Gumbiner	Alan G. Crisp
William L. Guzzetti	William F. Forsyth
Edward T. Story	Hamilton P. Schrauff

Report of the Audit Committee

The audit committee is composed of three directors and operates under an Amended and Restated Audit Committee Charter, adopted by the board of directors according to the rules and regulations of the SEC and the American Stock Exchange, a copy of which is attached to this Proxy Statement as Annex A. The audit committee members are J. Thomas Talbot, chairman of the audit committee, Charles A. Crocco, Jr. and Anthony J. Gumbiner. The board of directors has determined that Messrs. Talbot and Crocco are independent, as defined by the American Stock Exchange s Listed Company Guide. The board of directors has determined that Mr. Talbot is an audit committee financial expert, as defined by the SEC. Mr. Gumbiner, although not independent for purposes of the rules and regulations of the American Stock Exchange, possesses certain experience and qualifications appropriate for service on the audit committee and, by virtue of his personal interest in the success of the Company, is considered to be a valuable member of the audit committee and provides an objective review of the functions and reports of the Company s independent auditors.

Management is responsible for the Company s internal controls and the financial reporting process. Deloitte & Touche LLP (D&T), the Company s independent auditor, is responsible for performing an independent audit of the Company s consolidated financial statements with auditing standards generally accepted in the United States of America. The audit committee s responsibility is to monitor and oversee these processes. The audit committee also recommends to the board of directors the selection of the Company s independent auditors.

In this context, the audit committee reviewed and discussed the audited financial statements with both management and D&T. Specifically, the audit committee has discussed with D&T matters required to be discussed by Statement on Auditing Standards No. 61.

The audit committee received from D&T the written disclosures and the letter required by Independence Standards Board Standard No. 1 (Independence Discussions with Audit Committee), and has discussed with D&T the issue of its independence from the Company.

Management is responsible for the Company s financial reporting process, including its system of internal controls, and for the preparation of consolidated financial statements in accordance with generally accepted accounting principles. The Company s independent auditors are responsible for auditing those financial statements. The audit committee s responsibility is to monitor and review these processes. It is not the audit committee s duty or its responsibility to conduct auditing or accounting reviews or procedures. Therefore, the audit committee has relied, without independent verification, on management s representation that the financial statements have been prepared with integrity and objectivity and in conformity with accounting principles generally accepted in the United States of America and on the representations of the independent auditors included in their report on the Company s financial statements. The audit committee s oversight does not provide it with an independent basis to determine that management has maintained appropriate accounting and financial reporting principles or policies, or appropriate internal controls and procedures designed to assure compliance with accounting standards and applicable laws and regulations. Furthermore, the audit committee s considerations and discussions with management and the independent auditors do not assure that the Company s financial statements are presented in accordance with generally accepted accounting principles, that the audit of the Company s financial statements has been carried out in accordance with generally accepted auditing standards or that the Company s independent accountants are in fact independent.

Based on the audit committee s review of the audited financial statements and its discussions with management and D&T noted above and the report of the independent auditors to the audit committee, the audit committee recommended to the board of directors that the audited consolidated financial statements be included in the Company s Annual Report on Form 10-K for the year ended December 31, 2003.

2003 Members of the Audit Committee of The Hallwood Group Incorporated

J. Thomas Talbot
Charles A. Crocco, Jr.
Anthony J. Gumbiner

PROCEDURES FOR DIRECTOR NOMINATIONS

The members of the Board of Directors have each served in that capacity for 23 years. No replacement of these directors is contemplated. As discussed above, as a controlled company under the rules of the American Stock Exchange, the Company is not required to have a standing nominating committee or a written charter governing the nomination process. If the need arises, the full board of directors, of which two members are independent, would serve that function.

The Company s bylaws provide that a stockholder may nominate a person for election as a director at an annual meeting if written notice of the stockholder s intent to make the nomination has been given to the Secretary of the Company at least 90 days in advance of the meeting or, if later, the tenth day following the first public announcement of the date of the meeting. Such notices must comply with the provisions of the bylaws.

In the event that a stockholder meeting the requirements and following the procedures of the bylaws were to propose a nominee, or if a vacancy occurs as a result of an increase in the number of directors, the board of directors will identify candidates with superior qualifications and personally interview them, and if, appropriate, arrange to have members of management interview such candidates. Preferred candidates would display the highest personal and professional character and integrity and have outstanding records of accomplishment in diverse fields of endeavor. Candidates should have demonstrated exceptional ability and judgment and have substantial expertise in their particular fields. Candidates with experience relevant to the Company s business would be preferred. The board of directors, upon evaluation and review of the candidates, would determine who to recommend to the stockholders for approval or to fill any vacancy. The board of directors would use the same criteria for evaluating nominees recommended by stockholders as for those referred by management or any director. The Company does not pay and does not anticipate paying any fees to third parties for identifying or evaluating candidates for director.

PERFORMANCE GRAPH

The following performance graph compares the 5-year cumulative total return of the Company s common stock with that of the Russell 2000 Index and a peer group of issuers. The issuers included in the peer group are all publicly traded companies included in Standard Industrial Classification Code 6512 Operators of Nonresidential Buildings, which consist of HRP, AmeriVest Properties, Inc. and Maxus Realty Trust, Inc.

COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN*

AMONG THE HALLWOOD GROUP INCORPORATED, THE RUSSELL 2000 INDEX, AND A PEER GROUP

	12/98	12/99	12/00	12/01	12/02	12/03
The Hallwood Group Incorporated	100	97	31	46	52	156
RUSSELL 2000	100	121	118	121	96	141
PEER GROUP	100	89	82	128	143	208

* $100 invested on 12/31/98 in stock or index including reinvestment of dividends. Fiscal year ending December 31.

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Effective January 1997, the Company entered into an agreement with HSC Financial under which HSC Financial agreed to provide international consulting and advisory services to the Company and its affiliates for an annual fee of $825,000 and reimbursement for out-of-pocket and other reasonable expenses of HSC Financial. The agreement was amended to change the annual fee to $795,000 in May 2001, and to $954,000 in March 2004.

Mr. Crocco, a director of the Company, was of counsel to the law firm Crocco & De Maio, P.C. The firm occasionally provided legal services to the Company. In 2003, the total of such fees was $462.

AUDITORS

D&T served as the Company s independent auditors for the years ended December 31, 2003, 2002 and 2001 and has been selected to serve in that capacity again for the year ending December 31, 2004. A representative of D&T will be available at the annual meeting to respond to appropriate questions and will be given an opportunity to make a statement if desired.

AUDIT FEES

All services rendered by D&T are pre-approved by the audit committee. D&T has or is expected to provide services to the Company in the following categories and amounts:

	Calendar Years	
	2003	**2002**
Audit fees(1)	$326,255	$251,800
Audit related fees(2)	$ 10,638	$ 8,543
Tax fees(3)	$ 80,423	$ 73,123
All other fees(4)	$	$

(1) Audit Fees These are fees for professional services performed by D&T for the audit of the Company s annual financial statements and review of financial statements included in the Company s 10-Q filings, and services that are normally provided in connection with statutory regulatory filings or engagements.

(2) Audit Related Fees These are fees for assurance and related services performed by D&T that are reasonably related to the performance of the audit or review of the Company s financial statements. This includes: employee benefit and compensation plan audits; attestations by D&T that are not required by statute and consulting on financial accounting/reporting standards.

(3) Tax Fees These are fees for professional services performed by D&T with respect to tax compliance, tax advice and tax planning. This includes preparation of original and amended tax returns for the Company and its consolidated subsidiaries; refund claims; payment planning; tax audit assistance; and tax work stemming from Audit-Related items.

(4) All Other Fees These are fees for other permissible work performed by D&T that does not meet the above category descriptions.

Pre-Approval Policy

The audit committee s pre-approval guidelines with respect to pre-approval of audit and non-audit services are summarized below.

General

The audit committee is required to pre-approve the audit and non-audit services performed by the independent auditor in order to assure that the provision of such services does not impair the auditor s independence. Unless a type of service to be provided by the independent auditor has received general pre-

14

approval, it will require specific pre-approval by the audit committee. Any proposed services exceeding pre-approved cost levels requires specific pre-approval by the audit committee.

The audit committee may delegate pre-approval authority to one or more of its members. The member or members to whom such authority is delegated must report any pre-approval decisions to the audit committee at its next scheduled meeting. The audit committee may delegate its responsibilities to pre-approve services performed by the independent auditor to management.

Audit Services

The annual audit services engagement terms and fees are subject to the specific pre-approval of the audit committee. The audit committee approves, if necessary, any changes in terms, conditions and fees resulting from changes in audit scope, company structure or other matters. In addition to the annual audit services engagement specifically approved by the audit committee, the audit committee may grant general pre-approval for other audit services, which are those services that only the independent auditor reasonably can provide.

Audit-related Services

Audit-related services are assurance and related services that are reasonably related to the performance of the audit or review of the Company s financial statements and that are traditionally performed by the independent auditor. The audit committee believes that the provision of audit-related services does not impair the independence of the auditor.

Tax Services

The audit committee believes that the independent auditor can provide tax services to the Company, such as tax compliance, tax planning and tax advice without impairing the auditor s independence. However, the audit committee will not permit the retention of the independent auditor in connection with a transaction initially recommended by the independent auditor, the purpose of which may be tax avoidance and the tax treatment of which may not be supported in the Internal Revenue Code and related regulations.

All Other Services

The audit committee may grant pre-approval to those permissible non-audit services classified as all other services that it believes are routine and recurring services, and would not impair the independence of the auditor.

Pre-Approval Fee Levels

Pre-approval fee levels for all services to be provided by the independent auditor are established periodically by the audit committee. Any proposed services exceeding these levels requires specific pre-approval by the audit committee.

PROPOSAL NO. 2

APPROVAL OF THE PROPOSAL TO AMEND THE

SECOND RESTATED CERTIFICATE OF INCORPORATION

The Company s Second Restated Certificate of Incorporation contains a provision that limits the amount of stock that may be held by a stockholder, without the approval of the board of directors, to 4.75% of the Company s outstanding common stock. The purpose of the limitation was to protect the Company s unutilized federal income tax loss carryovers. The provision reduces the risk of an ownership change, within the meaning of the Internal Revenue Code and its regulations, that would result in a disallowance or limitation of the Company s use of the carryforwards and the associated tax advantages. The board of directors has determined that such a limitation is no longer necessary for these tax reasons and because the restrictions could limit the Company s flexibility in entering into significant corporate transactions.

The amendment to the Second Restated Certificate of Incorporation would delete this provision. A copy of the proposed amendment is attached to this proxy statement as Annex B.

The affirmative vote of the holders of a majority of the Company s common stock is required to approve the amendment. If approved at the annual meeting, the amendment will be effective upon the filing of the amendment with the Secretary of State of Delaware.

STOCKHOLDER PROPOSALS

If a stockholder intends to present a proposal for action at the 2005 annual meeting and wishes to have the proposal considered for inclusion in the Company s proxy materials in reliance on Rule 14a-8 under the Securities Exchange Act, the proposal must be submitted in writing to the Secretary of The Hallwood Group Incorporated, at 3710 Rawlins, Suite 1500, Dallas, Texas 75219 by December 24, 2004. Such proposals must also meet the other requirements of the rules of the SEC relating to stockholder proposals.

The Company s bylaws establish an advance notice procedure with regard to certain matters, including stockholder proposals and nominations of individuals for election to the board of directors. In general, notice of a stockholder proposal or a director nomination for an annual meeting must be received by the Company ninety (90) days or more before the date of the annual meeting and must contain specified information and conform to certain requirements, as set forth in the bylaws.

If you wish to submit a proposal at the annual meeting, other than through inclusion in the proxy statement, you must notify the Company no later than February 12, 2005. If you do not notify the Company of your proposal by that date, the Company will exercise its discretionary voting power on that proposal.

In addition, if you submit a proposal outside of Rule 14a-8 of the Securities Exchange Act for the 2005 annual meeting, and the proposal fails to comply with the advance notice procedure prescribed by the bylaws, then the Company s proxy or proxies may confer discretionary authority on the persons being appointed as proxies on behalf of management to vote on the proposal.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act requires the Company s officers and directors, and persons who own more than 10% of a registered class of the Company s securities, to file reports of ownership and changes of ownership with the SEC and the American Stock Exchange. Officers, directors and 10% stockholders of the Company are required by SEC regulation to furnish the Company with copies of all Section 16(a) forms filed by them.

Based solely on review of copies of the forms received, the Company believes that, during the last fiscal year, all filing requirements under Section 16(a) applicable to its officers, directors and 10% stockholders were timely.

OTHER BUSINESS

The Company is not aware of any other business to be presented at the annual meeting. All shares represented by proxies will be voted in favor of the nominee for director set forth in this proxy statement and for the proposal to amend the Second Restated Certificate of Incorporation, unless otherwise indicated on the form of proxy. If any other matters properly come before the meeting, the Company s proxy holders will vote on those matters according to their best judgment.

Please note, however, that if your shares of common stock are voted against the nominee for director or against the proposal to amend the Second Restated Certificate of Incorporation, the proxy holders will not use their discretion to vote your shares in favor of any adjournment or postponement of the annual meeting.

By order of the Board of Directors

MELVIN J. MELLE
Secretary

April 12, 2004

ANNEX A

THE HALLWOOD GROUP INCORPORATED

AMENDED AND RESTATED AUDIT COMMITTEE CHARTER

General

The role of the Audit Committee is to assist the Board of Directors (the Board) in fulfilling its oversight responsibilities by:

Serving as an independent and objective party to monitor the Corporation s accounting and financial reporting processes, internal control system and audits.

Reviewing and appraising the audit efforts of the Corporation s independent accountants.

Providing an open avenue of communication among the independent accountants, financial and senior management and the Board.

Composition

The Audit Committee shall consist of three or more directors as determined by the Board, each of whom shall be independent directors; provided, however, that until May 12, 2004 one member of the Audit Committee need not be independent if the Board, under exceptional and limited circumstances, determines that membership on the committee by such individual is required by the best interests of the Corporation and its shareholders; provided further, however, that after May 12, 2004, such individual is not a current officer or employee or an immediate family member of such officer or employee. Such individuals may not serve on the Audit Committee for more than two years or chair the Audit Committee. Independence shall be determined pursuant to the standards set by the Securities and Exchange Commission (the Commission) and the requirements of the American Stock Exchange.

Independence

Directors who are affiliates of the Corporation, or officers or employees of the Corporation or of its subsidiaries who have been employed by the Corporation or subsidiaries within the past three years, will not be considered independent. No member of the Audit Committee may receive direct or indirect (as defined by the Commission) compensation of any kind (including consulting and advisory fees) from the Corporation, other than for services rendered as a member of the Board and as a member of committees of the Board.

In addition, Directors falling within any of the categories listed below will not be considered independent:

A Director who is, or during the past three years was, employed by the Corporation or by any parent or subsidiary of the Corporation, other than prior employment as an interim Chairman or CEO.

A Director who accepts (or whose immediate family member accepts) any payment from the Corporation (or any parent or subsidiary of the Corporation) in excess of $60,000 during the current or any of the past three previous fiscal years, other than compensation specifically excluded under Section 121(b) of the American Stock Exchange Company Guide.

A Director who is a partner or has an immediate family who is a controlling shareholder or executive officer of any organization to which or from which the Corporation made or received payments that exceed 5% of the recipient s consolidated gross revenues, or $200,000 (whichever is more) in any of the most recent three fiscal years; provided, however, that until December 4, 2004, such payments may not have been received in the last fiscal year.

A Director who is or has an immediate family member of an individual who is or has been employed by the Corporation (or any parent or subsidiary of the Corporation) as an executive officer during any of the past three years.

A Director who is or was or has an immediate family member who is or was an executive officer of another entity where at any time during the most recent three fiscal years any of the Corporation s executive officers serve on the compensation committee of that entity.

A Director who is or was or has an immediate family member who is or was a partner or employee of the Corporation s outside auditor and worked on the audit engagement during any of the past three years.

Financial Expertise

All members of the Audit Committee must be able to read and understand fundamental financial statements, including the Corporation s balance sheet, income statement, and cash flow statement.

In addition, at least one member of the Audit Committee must be financially sophisticated pursuant to American Stock Exchange rules and be a financial expert, as such term is defined by the Commission. Qualifications for such financial expert would include, among other things, whether a member has:

an understanding of generally accepted accounting principles and financial statements;

experience applying generally accepted accounting principles in connection with accounting for estimates, accruals and reserves that are generally comparable to those used in the Corporation s financial statements;

experience preparing or auditing financial statements that present accounting issues that are generally comparable to those raised by the Corporation s financial statements;

experience with internal controls and procedures for financial reporting;

an understanding of audit committee functions;

past employment experience in finance or accounting; and

professional certification in accounting.

The Board shall make all determinations as to whether a Director is a financial expert, as defined by rules of the Commission.

The members of the Audit Committee are to be elected by the Board, which shall make all decisions with respect to whether an Audit Committee member is independent and/or a financial expert and shall serve until their successors are duly elected and qualified. Unless the Chair is elected by the full Board, the members of the Audit Committee may designate a Chair by majority vote of the full Audit Committee membership, which Chair shall be a financial expert.

Meetings

The Audit Committee shall meet no less than once per quarter. As part of its job to foster open communication, the Audit Committee should regularly with management and the independent accountants in separate executive sessions to discuss any matters that the Audit Committee or either of these groups believe should be discussed privately. In addition, the Audit Committee or its Chair should meet with the independent accountants and management quarterly to review the Corporation s financial statements.

Relationship with Independent Accountants

The Corporation s independent accountants are to be ultimately accountable to, and will report directly to, the Audit Committee, and the Audit Committee shall have the authority and responsibility to select, evaluate determine the compensation of, and, where appropriate, replace the independent accountants. The Audit Committee will be responsible for resolving any disputes between the independent accountants and the Corporation s management.

Responsibilities and Duties

To fulfill its responsibilities and duties the Audit Committee shall:

A. Documents/Reports Review

1. Review this Charter at least annually and update it as conditions dictate.

2. Review the Corporation s annual financial statements and any reports or other financial information submitted to the Commission or the public, including any certification, report, opinion or review rendered by the independent accountants.

3. Review with financial management and the independent accountants the Corporation s filings with the Commission prior to their filing or prior to the release of earnings reports. The Chair of the Audit Committee may represent the entire Audit Committee for purposes of this review.

B. Independent Accountants

1. Select the independent accountants, considering independence and effectiveness, and pre-approve the fees and other compensation to be paid to the independent accountants.

2. On no less than an annual basis, obtain from the independent accountants, and review and discuss with the independent accountants, a formal written statement delineating all relationships the independent accountants have with the Corporation and actively engage in a dialogue with the independent accountants with respect to any disclosed relationships or services that may impact the objectivity and independence of the independent accountants.

3. Recommend to the Board any appropriate action to ensure the independence of the independent accountants.

4. Review the performance of the independent accountants and approve any proposed discharge of the independent accountants when circumstances warrant.

5. Periodically consult with the independent accountants out of the presence of management about internal controls and the fullness and accuracy of the Corporation s financial statements.

6. Review and pre-approve any and all audit and non-audit related services provided to the Corporation by the independent accountants and their affiliates.

C. Financial Reporting Processes

1. In consultation with the independent accountants, review the integrity of the organization s financial reporting processes, both internal and external.

2. Consider the independent accountant s judgments about the quality and appropriateness of the Corporation s accounting principles as applied in its financial reporting.

3. Consider and approve, if appropriate, major changes to the Corporation s auditing and accounting principles and practices as suggested by the independent accountants or management.

4. Establish regular and separate reporting to the Audit Committee by each of management and the independent accountants regarding any significant judgments made in management s preparation of the financial statements and the view of each as to appropriateness of such judgments.

5. Following completion of the annual audit, review separately with each of management and the independent accountants any significant difficulties encountered during the course of the audit, including any restrictions on the scope of work or access to required information.

6. Review any significant disagreement among management and the independent accountants in connection with the preparation of the financial statements.

7. Review with the independent accountants and management the extent to which changes or improvements in financial or accounting practices, as approved by the Audit Committee, have been implemented.

D. Ethical and Legal Compliance

1. Establish, review and update periodically a code of ethics that applies to the Corporation s principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions, and ensure that management has established a system to enforce the code of ethics.

2. Review and, if the Audit Committee determines it is appropriate, approve transactions proposed between the Corporation and its affiliates.

3. Review, with the Corporation s counsel, any legal matter that could have a significant impact on the Corporation s financial statements.

4. If and when appropriate, appoint independent legal counsel and other advisors to assist the audit Committee in carrying out its duties.

5. Establish procedures for the receipt, collection, retention and treatment of complaints received by the Corporation regarding accounting, internal accounting controls and auditing matters and the confidential and anonymous submission by employees of concerns regarding questionable accounting or auditing matters.

6. Perform any other activities consistent with this Charter, the Corporation s bylaws and governing law, as the Audit Committee or the Board deems necessary or appropriate.

Adopted by Resolution of the Board of Directors
March 10, 2004

ANNEX B

CERTIFICATE OF AMENDMENT

OF
SECOND RESTATED CERTIFICATE OF INCORPORATION
OF
THE HALLWOOD GROUP INCORPORATED

It is hereby certified that:

1. The name of the corporation The Hallwood Group Incorporated (the Corporation).

2. The Second Restated Certificate of Incorporation of the Corporation is hereby amended by deleting Section 1(c) of Article Fourth in its entirety.

3. The amendment of the Certificate of Incorporation is herein certified has been duly adopted in accordance with the provisions of Section 242 of the General Corporation Law of the State of Delaware.

4. The effective time of the amendment herein certified shall be the date this Certificate of Amendment is duly filed with the Secretary of State of the State of Delaware.

IN WITNESS WHEREOF, this Certificate of Amendment has been executed for The Hallwood Group Incorporated by Melvin J. Melle, its Secretary, this day of May 2004.

Melvin J. Melle,
Secretary

[HWG PS-04]

THE HALLWOOD GROUP INCORPORATED

P
R **3710 RAWLINS, SUITE 1500**
O **DALLAS, TEXAS 75219**
X
Y **This Proxy is Solicited on Behalf of the Board of Directors**

The undersigned hereby appoints Anthony J. Gumbiner and Charles A. Crocco, Jr., and each of them, as Proxies, each with the power to appoint their substitutes, and hereby authorizes them to represent and vote, as designated below, all of the shares of the common stock of The Hallwood Group Incorporated (the Company), held of record by the undersigned on March 26, 2004, at the Annual Meeting of Stockholders to be held on May 12, 2004, or any adjournment thereof.

This proxy when properly executed will be voted in the manner directed herein by the undersigned stockholder. If no direction is given, this proxy will be voted **FOR** the election of the nominee listed, **FOR** the proposal to amend the Second Restated Certificate of Incorporation and at the discretion of the Proxies with respect to any other matter that is properly brought before the meeting.

CONTINUED AND TO BE SIGNED ON REVERSE SIDE

SEE REVERSE SIDE

x **Please mark votes as in this example.**

Please mark boxes in blue or black ink.

1. Election of Director

   Nominee: J. Thomas Talbot

   For **Withheld**

   o o

2. Proposal to amend the Second Restated Certificate of Incorporation.

   For **Against** **Abstain**

   o o o

3. In their discretion, the Proxies are authorized to vote upon such other business as may properly come before the special meeting.

   For **Against** **Abstain**

   o o o

MARK HERE FOR ADDRESS CHANGE AND NOTE BELOW o

Please sign exactly as name appears at left. When shares are held by joint tenants, both should sign, or if one signs he should attach evidence of his authority. When signing as attorney, executor, administrator, agent, trustee or guardian, please give full title as such. If a corporation, please sign full corporate name by President or other authorized officer. If a partnership, please sign full partnership name by authorized person.

Signature: ____________________ Date: ____________________, 2004

Signature: ____________________ Date: ____________________, 2004

COMPLETE, SIGN and DATE the proxy card and return promptly using the enclosed envelope.