SPRINT CORP
Form S-8
June 13, 2003

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form S-8
REGISTRATION STATEMENT
Under
THE SECURITIES ACT OF 1933

SPRINT CORPORATION
(Exact name of registrant as specified in its charter)

Kansas	48-0457967
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

Post Office Box 11315, Kansas City, Missouri 64112
(Address of principal executive offices)

SPRINT
RETIREMENT SAVINGS PLAN
and
SPRINT RETIREMENT SAVINGS PLAN
FOR BARGAINING UNIT EMPLOYEES
(Full title of the Plans)

CLAUDIA S. TOUSSAINT
Vice President, Corporate Governance and Corporate Secretary
P.O. Box 11315
Kansas City, Missouri 64112
(Name and address of agent for service)

Telephone number, including area code, of agent for service:
(913) 794-1513

CALCULATION OF REGISTRATION FEE

Title of securities To be registered	Amount to be registered	Proposed Maximum Offering price Per unit	Proposed Maximum Aggregate offering price	Amount of Registration Fee
Shares of FON Common Stock ($2.00 par value) . .	15,000,000	$13.755(1)	$206,325,000(1)	$16,691.70(2)
Shares of PCS Common Stock ($1.00 par value) . .	17,000,000	$5.175(3)	$87,975,000(3)	$7,117.18

In addition, pursuant to Rule 416(c) under the Securities Act of 1933, this Registration Statement also covers an indeterminate amount of interests to be offered or sold pursuant to the employee benefit plans described herein.

The provisions of Rule 416 under the Securities Act of 1933 shall apply to this Registration Statement and the number of shares registered on this Registration Statement automatically shall increase or decrease as a result of stock splits, stock dividends or similar transactions.
Pursuant to Rule 429 under the Securities Act of 1933, the Prospectus relating to this Registration Statement meets the requirements for use in connection with the shares of common stock registered under the following Registration Statements on Form S-8: No. 33-38761 and No. 333-86458 pertaining to the Sprint Retirement Savings Plan and the Sprint Retirement Savings Plan for Bargaining Unit Employees (formerly called the United System Savings Plan).

PART II. INFORMATION REQUIRED IN THE REGISTRATION STATEMENT

Item 3. Incorporation of Documents by Reference

The following documents filed by Sprint Corporation ("Sprint") (File No. 1-04721), by the Sprint Retirement Savings Plan or by the Sprint Retirement Savings Plan for Bargaining Unit Employees with the Securities and Exchange Commission are incorporated in this Registration Statement by reference:

- o Sprint's Annual Report on Form 10-K for the year ended December 31, 2002.
- o Sprint Retirement Savings Plan Annual Report on Form 11-K for the year ended December 31, 2001.
- o Sprint Retirement Savings Plan for Barganing Unit Employees Annual Report on Form 11-K for the year ended December 31, 2001.
- o Sprint's Quarterly Report on Form 10-Q for the quarter ended March 31, 2003.
- o Sprint's Current Report on Form 8-K dated January 3, 2003, and filed January 8, 2003.
- o Sprint's Current Report on Form 8-K dated February 5, 2003, and filed February 6, 2003.
- o Sprint's Current Report on Form 8-K dated March 18, 2003, and filed March 19, 2003.
- o Sprint's Current Report on Form 8-K dated March 19, 2003, and filed March 19, 2003.
- o Sprint's Current Report on Form 8-K dated June 10, 2003, and filed June 11, 2003.
- o Description of FON Common Stock contained in Amendment No. 5 to

Sprint's Registration Statement on Form 8-A relating to Sprint's FON Common Stock, filed May 22, 2003.

- Description of FON Group Rights contained in Amendment No. 4 to Sprint's Registration Statement on Form 8-A relating to Sprint's FON Group Rights, filed April 2, 2003.

- Description of PCS Common Stock contained in Amendment No. 5 to Sprint's Registration Statement on Form 8-A relating to Sprint's PCS Common Stock, filed May 23, 2003.

- Description of PCS Group Rights contained in Amendment No. 3 to Sprint's Registration Statement on Form 8-A relating to Sprint's PCS Group Rights, filed April 2, 2003.

All documents subsequently filed by Sprint, the Sprint Retirement Savings Plan or the Sprint Retirement Savings Plan for Bargaining Unit Employees pursuant to Section 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934, before the filing of a post-effective amendment which indicates that all securities offered have been sold or which deregisters all securities then remaining unsold, shall be deemed to be incorporated by reference in this Registration Statement and to be part of this Registration Statement from the date of the filing of such documents. Sprint expressly excludes from such incorporation information furnished pursuant to Item 9 or Item 12 of any Current Report on Form 8-K, and the Audit Committee Report, the Report of the Compensation Committee, and the Performance Graph contained in any proxy statement filed by Sprint pursuant to Section 14 of the Securities Exchange Act of 1934 subsequent to the date of filing of this Registration Statement and before the termination of the offering of the securities covered by this Registration Statement.

Item 4. Description of Securities

See Incorporation of Documents by Reference.

Item 5. Interests of Named Experts and Counsel

The validity of the authorized and unissued shares of FON Common Stock and PCS Common Stock to be issued to the Trustee for the Sprint Retirement Savings Plan and the Trustee for the Sprint Retirement Savings Plan for Bargaining Unit Employees was passed upon by Michael T. Hyde, Assistant Secretary of Sprint.

Item 6. Indemnification of Directors and Officers

Consistent with Section 17-6305 of the Kansas Statutes Annotated, Article IV, Section 9 of the Bylaws of Sprint provides that Sprint will indemnify directors and officers of the corporation against expenses, judgments, fines and amounts paid in settlement in connection with any action, suit or proceeding if the director or officer acted in good faith and in a manner reasonably believed to be in or not opposed to the best interests of Sprint. With respect to a criminal action or proceeding, the director or officer must also have had no reasonable cause to believe his conduct was unlawful.

Under Section 9, Sprint may purchase and maintain insurance on behalf of any person who is or was a director, officer, employee or agent of Sprint, or who is or was serving at the request of Sprint as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other

enterprise, against any liability arising out of his status as such, whether or not Sprint would have the power to

indemnify such persons against such liability. Sprint carries standard directors and officers liability coverage for its directors and officers. Subject to certain limitations and exclusions, the policies reimburse Sprint for liabilities indemnified under Section 9 and indemnify directors and officers of Sprint against additional liabilities not indemnified under Section 9.

Sprint has entered into indemnification agreements with its directors and officers. These agreements provide for the indemnification, to the full extent permitted by law, of expenses, judgments, fines, penalties and amounts paid in settlement incurred by the director or officer in connection with any threatened, pending or completed action, suit or proceeding on account of service as a director, officer or agent of Sprint.

Item 8. Exhibits

Exhibit
Number Exhibits

4-A. The rights of Sprint's equity security holders are defined in Article Fifth, Article Sixth, Article Seventh and Article Eighth of the Articles of Incorporation of Sprint Corporation. The Articles, as amended, are filed as Exhibit 3.1 to Amendment No. 5 to Sprint Corporation's Registration Statement on Form 8-A relating to Sprint's Series 1 FON Common Stock, filed May 22, 2003, and incorporated herein by reference.

4-B. Amended and Restated Rights Agreement dated as of November 23, 1998, between Sprint Corporation and UMB Bank, n.a. (filed as Exhibit 4.1 to Amendment No. 1 to Sprint Corporation's Registration Statement on Form 8-A relating to Sprint's PCS Group Rights, filed November 25, 1998, and incorporated herein by reference).

4-C. Amendment dated March 28, 2003, to Amended and Restated Rights Agreement between Sprint Corporation and UMB, n.a., as Rights Agent (filed as Exhibit 4.2 to Amendment No. 3 to Sprint Corporation's Registration Statement on Form 8-A relating to Sprint's PCS Group Rights, filed April 2, 2003 and incorporated herein by reference).

4-D. Provisions regarding Stockholders' Meetings are set forth in Article III of the Bylaws. Provisions regarding the Capital Stock Committee are set forth in Article IV, Section 12 of the Bylaws. The Bylaws are filed as Exhibit 3.2 to Amendment No. 4 to Sprint Corporation's Registration Statement on Form 8-A relating to Sprint's Series 1 PCS Common Stock, filed April 17, 2002, and incorporated herein by reference.

4-E. Tracking Stock Policies of Sprint Corporation (filed as Exhibit 4(c) to Sprint Corporation's Annual Report on Form 10-K/A for the year ended December 31, 2001, and incorporated herein by reference).

4-F. Amended and Restated Standstill Agreement dated as of November 23, 1998, by and among Sprint Corporation, France Telecom and Deutsche Telekom AG (filed as Exhibit 4E to Post-Effective Amendment No. 2 to Sprint Corporation's

Registration Statement on Form S-3 (No. 33-58488) and incorporated herein by reference), as amended by the Master Transfer Agreement dated January 21, 2000 between and among France Telecom, Deutsche Telekom AG, NAB Nordamerika Beteiligungs Holding GmbH, Atlas Telecommunications, S.A., Sprint Corporation, Sprint Global Venture, Inc. and the JV Entities set forth in Schedule II thereto (filed as Exhibit 2 to Sprint Corporation's Current Report on Form 8-K dated January 26, 2000 and incorporated herein by reference).

5. Opinion and consent of Michael T. Hyde, Esq.

23-A Consent of Ernst & Young LLP.

23-B Consent of Michael T. Hyde, Esq. is contained in his opinion filed as Exhibit 5.

24. Power of Attorney is contained on page II-6 of this Registration Statement.

Sprint has submitted in a timely manner the Sprint Retirement Savings Plan and the Sprint Retirement Savings Plan for Bargaining Unit Employees and any amendment thereto to the Internal Revenue Service ("IRS") for a determination letter that each of those Plans is qualified under Section 401 of the Internal Revenue Code and will make all changes required by the IRS in order to qualify the Plans.

Item 9. Undertakings.

The undersigned registrant hereby undertakes:

(1) To file, during any period in which offers or sales of the securities being registered are being made, a post-effective amendment to this Registration Statement:

(i) To include any prospectus required by Section 10(a)(3) of the Securities Act of 1933, unless such information is contained in a periodic report filed by the registrant pursuant to Section 13 or Section 15(d) of the Securities Exchange Act of 1934 and incorporated herein by reference;

(ii) To reflect in the prospectus any facts or events arising after the effective date of the Registration Statement (or the most recent post-effective amendment thereof) which, individually or in the aggregate, represent a fundamental change in the information set forth in the Registration Statement, unless such information is contained in a periodic report filed by the registrant pursuant to Section 13 or Section 15(d) of the Securities Exchange Act of 1934 and incorporated herein by reference; and

(iii) To include any material information with respect to the plan of distribution not previously disclosed in the Registration Statement or any material change to such information in the Registration Statement.

(2) That, for the purpose of determining any liability under the Securities Act of 1933, each such post-effective amendment shall be deemed to be a new Registration Statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

(3) To remove from registration by means of a post- effective amendment any of the securities being registered which remain unsold at the termination of the offering.

(4) That, for purposes of determining any liability under the Securities Act of 1933, each filing of the registrant's annual report pursuant to Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934 (and, where applicable, each filing of an employee benefit plan's annual report pursuant to Section 15(d) of the Securities Exchange Act of 1934) that is incorporated by reference in the Registration Statement shall be deemed to be a new Registration Statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers and controlling persons of the registrant pursuant to the foregoing provisions described under Item 6 above, or otherwise, the registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Act and will be governed by the final adjudication of such issue.

SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, the registrant certifies that it has reasonable grounds to believe that it meets all of the requirements for filing on Form S-8 and has duly caused this Registration Statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Overland Park, State of Kansas, on the 12th day of June, 2003.

SPRINT CORPORATION

By: /s/ Robert J. Dellinger
(R. J. Dellinger, Executive Vice President)

POWER OF ATTORNEY

We, the undersigned officers and directors of Sprint Corporation, hereby severally constitute G. D. Forsee, R. J. Dellinger, T. A. Gerke, and C. S. Toussaint and each of them singly, our true and lawful attorneys with full power to them, and each of them singly, to sign for us and in our names in the capacities indicated below the Registration Statement filed herewith and any and all amendments to said Registration Statement, and generally to do all such things in our name and behalf in our capacities as officers and directors to enable Sprint Corporation to comply with the provisions of the Securities Act of 1933, as amended, and all requirements of the Securities and Exchange

Commission, hereby ratifying and confirming our signatures as they may be signed by our said attorneys, or any of them, to said Registration Statement and any and all amendments thereto.

Pursuant to the requirements of the Securities Act of 1933, this Registration Statement and Power of Attorney have been signed by the following persons in the capacities and on the date indicated.

Name	Title	Date
/s/ Gary D. Forsee (G. D. Forsee)	Chairman of the Board and Chief Executive Officer (Principal Executive Officer)	
/s/ Robert J. Dellinger (R. J. Dellinger)	Executive Vice President and Chief Financial Officer (Principal Financial Officer)	June 12, 2003
/s/ J. P. Meyer (J. P. Meyer)	Senior Vice President and Controller (Principal Accounting Officer)	

Name	Title	Date
/s/ DuBose Ausley (DuBose Ausley)	Director	
/s/ I. O. Hockaday, Jr. (I. O. Hockaday, Jr.)	Director	
/s/ L. K. Lorimer (L. K. Lorimer)	Director	
(C. E. Rice)	Director	June 12, 2003
(Michael M. Sears)	Director	
/s/ Louis W. Smith (Louis W. Smith)	Director	
/s/ Stewart Turley (Stewart Turley)	Director	

SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, the Savings Plan Committee has duly caused this Registration Statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Overland Park, State of Kansas, on the 12th day of June, 2003.

SPRINT RETIREMENT SAVINGS PLAN

By: /s/ Robert J. Dellinger
Robert J. Dellinger
Savings Plan Committee Member

SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, the Savings Plan Committee has duly caused this Registration Statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Overland Park, State of Kansas, on the 12th day of June, 2003.

SPRINT RETIREMENT SAVINGS PLAN
FOR BARGAINING UNIT EMPLOYEES

By: /s/ Robert J. Dellinger
Robert J. Dellinger
Savings Plan Committee Member

EXHIBIT INDEX

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eft:15px; text-indent:-15px">Federal		
Deferred	$1,522	$807
Current		
Sub-total	1,522	807
State		
Deferred		
Current	243	659
Sub-total	243	659
Total	$1,765	$1,466

At March 31, 2009, the deferred tax asset was attributable to temporary differences, that upon reversal, could be utilized to offset income from operations, a federal net operating loss carryforward and alternative minimum tax credits. The effective federal tax rate in both periods was 34%, while state taxes were determined based upon taxable income apportioned to those states in which the Company does business at their respective tax rates.

Investments in Hallwood Energy

At March 31, 2009 and December 31, 2008, the Company had invested $61,481,000 in Hallwood Energy, which represented approximately 22% of the blended Class A and Class C limited partner interests (18% after consideration of profit interests). In addition, the Company loaned Hallwood Energy $13,920,000 in the form of convertible notes issued by Hallwood Energy. The Company accounts for the investment in Hallwood Energy using the equity method of accounting and records its pro rata share of Hallwood Energy s net income (loss) and partners capital transactions, as appropriate.

On March 1, 2009, Hallwood Energy, HEM (the general partner of Hallwood Energy) and Hallwood Energy s subsidiaries, filed petitions for relief under Chapter 11 of the United States Bankruptcy Code. The cases are being jointly administered and pending in the United States Bankruptcy Court for the Northern District of Texas, Dallas Division, in *In re Hallwood Energy, L.P., et al Case No. 09-31253*. The Company is only an investor in and creditor of Hallwood Energy. The bankruptcy filing does not include the Company or any other of its assets.

As a result of the bankruptcy filing by Hallwood Energy, the extent or value of the Company s continuing interest in Hallwood Energy, if any, is uncertain. For a further discussion of the bankruptcy case, refer to the section below entitled *Bankruptcy Filing by Hallwood Energy* .

Hallwood Energy s management has classified its energy investments into two identifiable geographical areas:

Central and Eastern Arkansas primary targets are the Fayetteville Shale and Penn Sands formations.

West Texas the Barnett Shale and Woodford Shale formations,

Page 26

Table of Contents

THE HALLWOOD GROUP INCORPORATED AND SUBSIDIARIES

Item 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Certain of the Company s officers and directors are investors in Hallwood Energy. In addition, as a member of management of Hallwood Energy, one officer of the Company holds a profit interest in Hallwood Energy.

Equity Losses. The general rule for recording equity losses ordinarily indicates that the investor shall discontinue applying the equity method when the investment has been reduced to zero and shall not provide for additional losses unless the investor provides or commits to provide additional funds in the investee, has guaranteed obligations of the investee, or is otherwise committed to provide further financial support to the investee.

In connection with the then ongoing efforts to complete the Talisman Energy Transaction (discussed below), the Company loaned Hallwood Energy $2,961,000 in May 2008. Concurrent with the completion of the Talisman Energy Transaction in June 2008, the Company entered into an Equity Support Agreement (the Equity Support Agreement) with Hallwood Energy under which the Company committed under certain conditions to contribute equity or debt capital to Hallwood Energy to maintain a reasonable liquidity position for Hallwood Energy or prevent or cure any default under Hallwood Energy s credit facilities with respect to interest payments, up to a maximum amount of $12,500,000. The Company contributed $2,039,000 at the completion date (for a total amount of $5,000,000) to Hallwood Energy and committed to provide an additional amount of up to $7,500,000 in certain circumstances, all of which were issued under the terms of the Second Convertible Note (discussed below). Due to the uncertainties in May 2008 related to the completion of the Talisman Energy Transaction and the Company s additional investments, if any, the Company recorded an equity loss for the 2008 first quarter to the extent of the $2,961,000 loan.

An obligation and related additional equity loss was recorded in the 2008 second quarter to the extent of the Company s commitment to provide additional financial support to Hallwood Energy pursuant to the Equity Support Agreement, in accordance with generally accepted accounting principles. The Company s carrying value of its Hallwood Energy investment, which was zero at December 31, 2008 and 2007, remained at zero as of March 31, 2009.

The Company s proportionate share of Hallwood Energy s accumulated losses that have not been recognized as of March 31, 2009 is approximately $12,892,000, based upon its 25% Class A limited partner ownership percentage.

In addition to the description of Hallwood Energy s activities provided in the Company s 2008 Form 10-K, further information regarding Hallwood Energy is provided below.

Loan Facilities and Convertible Notes. At March 31, 2009, Hallwood Energy has two loan facilities and two convertible note issues:

Senior Secured Credit Facility and Junior Credit Facility. In April 2007, Hallwood Energy entered into a $100,000,000 loan facility (the Senior Secured Credit Facility) with a lender (Hallwood Energy s Lender), who is an affiliate of one of Hallwood Energy s investors. With an initial draw of $65,000,000 in April 2007, most of which was used to repay a former credit facility, and subsequent draws, the Senior Secured Credit Facility was fully funded in October 2007. The outstanding principal balance was $100,000,000 at March 31, 2009 and December 31, 2008.

The Senior Secured Credit Facility, including its amendments, contains various financial covenants, including maximum general and administrative expenses and current and proved collateral coverage ratios and non-financial covenants that restrict Hallwood Energy s activities The Senior Secured Credit Facility contains a make-whole provision whereby Hallwood Energy is required to pay Hallwood Energy s Lender the amount by which the present value of interest and principal from the date of prepayment through January 31, 2010, exceeds the principal amount on the prepayment date.

In January 2008, Hallwood Energy entered into a $15,000,000 loan facility (the Junior Credit Facility) with Hallwood Energy s Lender and drew the full $15,000,000 available. Borrowings under the Senior Secured Credit Facility and Junior Credit Facility (collectively referred to as the Secured Credit Facilities) are both secured by Hallwood Energy s oil and gas leases and mature on February 1, 2010. The Junior Credit Facility contains various financial covenants and a make-whole provision, materially consistent with the Senior

Secured Credit Facility.

Hallwood Energy was not in compliance with the general and administrative expense covenant at March 31, 2008 and the current ratio covenant as of April 30, 2008 required by the Secured Credit Facilities. Hallwood Energy entered into an amendment of the facilities with Hallwood Energy s Lender in June 2008 to waive the defaults and amend various covenants.

Table of Contents

THE HALLWOOD GROUP INCORPORATED AND SUBSIDIARIES

Item 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

At September 30, 2008 and December 31, 2008, Hallwood Energy was not in compliance with the proved collateral coverage ratio under the Secured Credit Facilities. Accordingly, the interest rate under those facilities is now the defined LIBOR rate plus 12.75% per annum. However, pursuant to a forbearance agreement related to the Talisman Energy Transaction, Hallwood Energy s Lender agreed not to exercise its other remedies under the facilities until at least 91 days after the termination of the farmout agreement.

To the extent Hallwood Energy was not in default by virtue of pre-March 1, 2009 events, the bankruptcy filing on March 1, 2009 constituted a default under the terms of the Secured Credit Facilities and the forbearance agreement was terminated by its terms upon the bankruptcy filing. However, under the automatic stay provisions of the Bankruptcy Code, Hallwood Energy s Lender has not been able to foreclose on its collateral. Hallwood Energy s obligations under the Secured Credit Facilities are the subject of litigation commenced by Hallwood Energy against Hallwood Energy s Lender, as more fully described in the section below entitled *Litigation* .

First Convertible Note. In January 2008, Hallwood Energy entered into a $30,000,000 convertible subordinated note agreement (the First Convertible Note). Borrowings bear interest at an annual rate of 16%, payable on a quarterly basis after the completion of a defined equity offering and subject to the prior full payment of borrowings and accrued interest under the Secured Credit Facilities. The First Convertible Note and accrued interest may be converted into Class C interests, or comparable securities, on a dollar for dollar basis. As of March 31, 2009, $28,839,000 principal amount of the First Convertible Notes were outstanding, of which the Company held $5,000,000.

Second Convertible Note. In May 2008, Hallwood Energy entered into a $12,500,000 convertible subordinated note agreement (the Second Convertible Note), which was underwritten by the Company. The Second Convertible Note was issued in connection with the completion of the Talisman Energy Transaction and the related Equity Support Agreement. The Second Convertible Note contains terms comparable to the First Convertible Note. During June and July 2008, the Company sold $380,000 of the Second Convertible Note to other investors in Hallwood Energy. As of March 31, 2009, $9,300,000 principal amount of the Second Convertible Notes were outstanding, of which $8,920,000 was held by the Company and $380,000 was held by other Hallwood Energy investors.

Limited Partnership Interests. There are currently three classes of limited partnership interests held in Hallwood Energy:

Class C interests bear a 16% priority return which compounds monthly. The priority return will be accrued and become payable when, as and if declared by the general partner of Hallwood Energy. The Class C interests receive priority on any distributions of cash or sales proceeds from a terminating capital transaction, as defined. The Class C capital contributions and unpaid priority returns totaled approximately $84,422,000 and $25,707,000, respectively, at March 31, 2009.

Class A interests have certain voting rights and with the general partner would receive 100% of the distributions of available cash and net proceeds from a terminating capital transaction, as defined, subsequent to the payment of all unpaid Class C priority return and of all Class C capital contributions until the unrecovered capital accounts of each Class A partner interest is reduced to zero, and thereafter share in all future distributions of available cash and net proceeds from terminating capital transactions with the holders of the Class B interests.

Class B interests represent vested net profit interests awarded to key individuals by Hallwood Energy. At March 31, 2009 and December 31, 2008, outstanding Class B interests had rights to receive 20.0% of distributions of defined available cash and net proceeds from a terminating capital transaction after the unpaid Class C priority return and capital contributions and the unreturned Class A and general partner capital contributions have been reduced to zero.

Talisman Energy Transaction. In June 2008, Hallwood Energy raised additional capital by entering into an agreement for the sale and farmout to FEI Shale, L.P. (FEI), a subsidiary of Talisman Energy, Inc., of an undivided interest in up to 33.33% of Hallwood Energy s interest in substantially all its assets for a series of payments of up to $125,000,000 (an initial payment of $60,000,000 and the option to pay up to the additional $65,000,000), and entered into an agreement to provide consulting services to the purchaser for one year (the Talisman Energy Transaction). FEI prepaid the consulting services agreement which requires two man-weeks per month of service from two senior executives. The revenues from this agreement will be recognized as earned over the course of the twelve month period. In October 2008, FEI elected to make a second payment of $30,000,000 to Hallwood Energy. In February 2009, FEI elected to make a partial funding in the amount of $15,000,000 related to its third payment.

Table of Contents

THE HALLWOOD GROUP INCORPORATED AND SUBSIDIARIES

Item 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

In connection with the Talisman Energy Transaction, the Company loaned $2,961,000 to Hallwood Energy in May 2008. Contemporaneously with the signing of the sale and farmout agreement, the Company entered into the Equity Support Agreement with Hallwood Energy. The loan of $2,961,000 in May 2008 and an additional loan to Hallwood Energy in June 2008 of $2,039,000 (for a total of $5,000,000) were treated as contributions toward the maximum amount. In September 2008, the Company loaned an additional $4,300,000 to Hallwood Energy under the Equity Support Agreement. Funds advanced to Hallwood Energy pursuant to the Equity Support Agreement are issued under terms of the Second Convertible Note. Subject to certain defenses raised by the Company, the remaining commitment amount under the Equity Support Agreement was $3,200,000 at March 31, 2009.

Bankruptcy filing by Hallwood Energy. On March 1, 2009, Hallwood Energy, HEM (the general partner of Hallwood Energy), and Hallwood Energy s subsidiaries, filed petitions for relief under Chapter 11 of the United States Bankruptcy Code. The cases are being jointly administered and are pending in the United States Bankruptcy Court for the Northern District of Texas, Dallas Division, in *In re Hallwood Energy, L.P., et al*, Case No. 09-31253. In addition, as described in below, Hallwood Energy has filed a lawsuit against the Company seeking that the Company contribute to Hallwood Energy an additional $3,200,000 pursuant to the Equity Support Agreement.

The bankruptcy court has granted Hallwood Energy authority to use its existing cash collateral for operating needs through May 2009. On April 8, 2009, Hallwood Energy s Lender filed a motion of relief from the automatic stay seeking authority to foreclose on real and personal property owned by Hallwood Energy. On April 13, 2009 FEI filed a motion seeking, *inter alia*, bankruptcy court determination that the automatic stay was not applicable to its terminating the Farmout Agreement, or in the alternative, for relief from the stay so that it could terminate the Farmout Agreement. Hallwood Energy is seeking to develop a plan of reorganization with the goal of enabling it to continue operations. However, Hallwood Energy has not yet proposed a plan and there is no assurance that a plan will be developed, approved or successfully implemented or that the existing investors in Hallwood Energy will have any continuing interest in the reorganized entity. Accordingly, the extent or value of the Company s continuing interest in Hallwood Energy, if any, is uncertain. Furthermore, the Company is currently unable to determine the additional impact that the Hallwood Energy bankruptcy may have on the Company s results of operations or financial position, although the carrying value of its investment in Hallwood Energy had been reduced to zero at December 31, 2007 and remained at zero at December 31, 2008 and March 31, 2009.

Litigation. As of February 25, 2009, the Company had contributed $9,300,000 to Hallwood Energy pursuant to the Equity Support Agreement discussed above. On that date, Hallwood Energy requested that the Company fund the additional $3,200,000, which the Company has not done. As previously discussed, on March 1, 2009, Hallwood Energy and its subsidiaries filed petitions for relief under Chapter 11 of the United States Bankruptcy Code. On March 30, 2009, Hallwood Energy filed an adversary proceeding against the Company requesting that the Company fund the additional $3,200,000. The case is *Hallwood Energy, L.P. v. The Hallwood Group Incorporated,* Adversary No. 09-03082, in the United States Bankruptcy Court for the Northern District of Texas, Dallas Division. On April 29, 2009, the Company filed an answer to Hallwood Energy s lawsuit and denied liability under the Equity Support Agreement. The Company intends to defend the matter vigorously.

In the lawsuit, Hallwood Energy s Lender and FEI have filed motions seeking permission to intervene as plaintiffs and the Bankruptcy Court will consider these requests at a hearing scheduled for June 8, 2009. Among the arguments advanced in support of the motions to intervene is the contention by both proposed interveners that the Company s failure to fund $3,200,000 under the Equity Support Agreement damaged Hallwood Energy in an amount in excess of $3,200,000. In its motion to intervene, Hallwood Energy s Lender contends that the additional damage is at least $20,000,000 because it alleges that the failure of the Company to fund the $3,200,000 caused FEI to not fund $20,000,000 due under the Farmout Agreement between Hallwood Energy and FEI. Hallwood Energy s Lender also asserts that the Company is liable for exemplary damages of $100,000,000 on account of its failure to fund the last $3,200,000 under the Equity Support Agreement. The Company intends to contest the motions and the allegations vigorously.

On May 7, 2009, Hallwood Energy and its debtor affiliates filed an adversary proceeding against Hallwood Energy s Lender and two of its officers to (i) equitably subordinate claims, (ii) recharacterize claims as being equity, (iii) breach of fiduciary duties, (iv) object to claims, and (v) seek declaratory relief.

The Bankruptcy Court has ordered the parties to participate during June 2009 in nonbinding mediation of the various issues raised.

On October 27, 2008, Cimarex Energy Co. filed *Cimarex Energy Co. v. Hallwood Energy, L.P.* in the 298th Judicial District Court in Dallas County, Texas. Cimarex contends that Hallwood Energy has failed to pay approximately $3,700,000 purportedly

THE HALLWOOD GROUP INCORPORATED AND SUBSIDIARIES

Item 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

due under a Participation Agreement between parties related to the Boudreaux #1 Well in Lafayette Parish, Louisiana. Hallwood Energy intends to vigorously defend the claim, which is scheduled for trial on September 28, 2009. The Cimarex action has been stayed by the filing of the Hallwood Energy Chapter 11 proceeding. The Cimarex action has been stayed by the filing of the Hallwood Energy Chapter 11 proceeding.

In 2006, Hallwood Energy and its subsidiary Hallwood Petroleum, LLC (collectively referred to herein as the Hallwood Energy Companies) entered into two, two-year contracts with Eagle Drilling, LLC (Eagle Drilling), under which the contractor was to provide drilling rigs and crews to drill wells in Arkansas. On or about August 14, 2006, one of the masts on the rigs provided under the contracts collapsed. Eagle Drilling subsequently assigned the contracts to Eagle Domestic Drilling Operations, L.L.C. (Eagle Domestic).

The Hallwood Energy Companies filed suit against Eagle Drilling and Eagle Domestic to recover $1,688,000 in funds previously deposited with the contractor under the contracts. Eagle Domestic and its parent and, separately, Eagle Drilling subsequently filed for Chapter 11 bankruptcy protection.

Eagle Domestic filed an adversary action against the Hallwood Energy Companies in the bankruptcy proceeding in *Eagle Domestic Drilling Operations, LLC v. Hallwood Energy, LP and Hallwood Petroleum, LLC*; Adversary No. 07-03282 (the Eagle Domestic Action) to recover unspecified damages. Hallwood Energy and Eagle Domestic completed a settlement of this action on February 11, 2009 and mutually released any claims the parties and their affiliates may have against each other. The parties also agreed to file a joint motion requesting dismissal of the Eagle Domestic Action, but they have not yet submitted this motion.

The Hallwood Energy Companies and Eagle Drilling s claims are pending in the Oklahoma Bankruptcy Court in *Eagle Domestic Drilling Operations, LLC and Eagle Drilling, LLC v. Hallwood Petroleum, LLC and Hallwood Energy, LP*, Adversary No. 07-01209 NLJ, and *Hallwood Petroleum, LLC and Hallwood Energy, LP v. Eagle Domestic Drilling Operations, LLC and Eagle Drilling, LLC*, Adversary No. 08-01007 NLJ.

The Hallwood Energy Companies and Eagle Drilling announced a settlement to the Court on December 4, 2008, wherein Eagle Drilling and the Hallwood Energy Companies, together with their affiliates, principals and numerous related parties, mutually released all claims they had against each other and agreed to dismiss the pending actions in the Oklahoma Bankruptcy Court. Eagle Drilling also agreed to dismiss its appeal of the Texas Bankruptcy Court order. The parties attempted to memorialize the settlement in a written agreement, but the terms announced to the Court are binding on the parties. Due in part to the inability to reach an agreement with Eagle Drilling on a written document, the Hallwood Energy Companies filed a motion for an order approving compromise of the controversy pursuant to Bankruptcy Rule 9019 and enforcing settlement. No hearing on the Hallwood Energy Companies motion has been scheduled.

The Hallwood Energy Companies are currently unable to determine the impact that the above-referenced bankruptcy cases and associated litigation may have on its results of operations or its financial position.

Operations. A description of Hallwood Energy s activities in each geographical area is provided below as of May 1, 2009. Forward looking information is from current estimates by the management of Hallwood Energy, based on existing and anticipated conditions and assumes that Hallwood Energy is successful in reorganizing in a Chapter 11 reorganization plan and securing additional capital as discussed below.

Central and Eastern Arkansas

The principal focus of Hallwood Energy s operations in Central and Eastern Arkansas, which encompass 186,000 net acres, are the Fayetteville Shale and Penn Sands formations. Hallwood Energy is the operator on certain wells, while third parties operate the majority of wells in Arkansas. Hallwood Energy is reviewing its properties in Arkansas in light of the results to date and current economic conditions, including prices received. Although a majority of the gross number of wells in which Hallwood Energy participated in Arkansas have been productive, these productive wells are generally those that have been operated by third parties in which Hallwood Energy has a minority interest. The Hallwood Energy operated wells in the Fayetteville Shale are not currently economic. The Penn Sand wells drilled to date have been successful, with one well still being evaluated, and Hallwood Energy is assessing/identifying

additional locations.

THE HALLWOOD GROUP INCORPORATED AND SUBSIDIARIES

Item 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

West Texas

The principal focus of Hallwood Energy s operations in West Texas, which encompass 13,300 net acres, are the Barnett Shale and Woodford Shale formations. Hallwood Energy is the operator and owns an approximate 66% working interest in certain wells operated/drilled by Hallwood Energy, and owns an approximate 32% working interest in the properties owned and operated by Chesapeake Energy. A total of nine wells have been drilled, two of which are operated by Hallwood Energy. Five of these wells are currently producing and selling gas and two wells are waiting on completion or pipeline. One of the Chesapeake operated wells is in the process of being converted into a saltwater disposal well.

Critical Accounting Policies

There have been no changes to the critical accounting policies identified and set forth in the Company s Form 10-K for the year ended December 31, 2008.

Related Party Transactions

Hallwood Investments Limited. The Company has entered into a financial consulting contract with Hallwood Investments Limited (HIL), a corporation affiliated with Mr. Anthony J. Gumbiner, the Company s chairman and principal stockholder. The contract provides for HIL to furnish and perform international consulting and advisory services to the Company and its subsidiaries, including strategic planning and merger activities, for annual compensation of $996,000. The annual amount is payable in monthly installments. The contract automatically renews for one-year periods if not terminated by the parties beforehand. Additionally, HIL and Mr. Gumbiner are also eligible for bonuses from the Company or its subsidiaries, subject to approval by the Company s or its subsidiaries board of directors. The Company also reimburses HIL for reasonable expenses in providing office space and administrative services and for travel and related expenses to and from the Company s corporate office and Brookwood s facilities.

A summary of the fees and expenses related to HIL and Mr. Gumbiner are detailed below (in thousands):

	Three Months Ended March 31,	
	2009	**2008**
Consulting fees	$ 249	$ 249
Office space and administrative services	57	93
Travel and related expenses	28	3
Total	$ 334	$ 345

In addition, HIL and Mr. Gumbiner perform services for certain affiliated entities that are not subsidiaries of the Company, for which they receive consulting fees, bonuses, stock options, profit interests or other forms of compensation and expenses. The Company recognizes a proportionate share of such compensation and expenses, based upon its ownership percentage in the affiliated entities, through the utilization of the equity method of accounting.

HIL shares common offices, facilities and certain staff in its Dallas office with the Company. The Company pays certain common general and administrative expenses and charges HIL an overhead reimbursement fee for its allocable share of the expenses. For the three months ended March 31, 2009 and 2008, HIL reimbursed the Company $17,000 and $40,000, respectively, for such expenses.

In January 2008, HIL loaned $5,000,000 to Hallwood Energy in connection with Hallwood Energy s $30,000,000 First Convertible Note. Terms of the First Convertible Note agreement are discussed in the section entitled *Investments in Hallwood Energy* . As of May 1, 2009, HIL and one of its affiliated entities have invested $19,156,000 in Hallwood Energy, of which $14,156,000 was in the form of Class C limited partnership interest and $5,000,000 of

its First Convertible Note.

THE HALLWOOD GROUP INCORPORATED AND SUBSIDIARIES

Item 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Hallwood Financial Limited. As further discussed in the section below entitled Offer to Acquire All Outstanding Publicly Held Common Shares of Company by Chairman and Principal Stockholder , Hallwood Financial Limited, a corporation affiliated with Mr. Anthony J. Gumbiner, a director, Chairman of the Board of Directors and Chief Executive Officer of the Company, announced on April 20, 2009 that it had advised the Board of Directors that it intends to make an offer to acquire all of the outstanding common stock of the Company not already beneficially owned by Hallwood Financial Limited.

Hallwood Energy. Hallwood Energy shares common offices, facilities and certain staff in its Dallas office with the Company and Hallwood Energy is obligated to reimburse the Company for its allocable share of the expenses and certain direct expenses. For the three months ended March 31, 2009 and 2008, Hallwood Energy reimbursed the Company $53,000 and $86,000 for such expenses, respectively. As a result of its bankruptcy filing on March 1, 2009, Hallwood Energy s continuing obligation and ability to pay its share of these lease and other costs is uncertain.

Contractual Obligations and Commercial Commitments

The Company and its subsidiaries have entered into various contractual obligations and commercial commitments in the ordinary course of conducting its business operations, which are provided below as of March 31, 2009 (in thousands):

	Payments Due During the Year Ending December 31,						
	2009*	**2010**	**2011**	**2012**	**2013**	**Thereafter**	**Total**
Contractual Obligations							
Long term debt	$ 7	$ 10,500	$	$	$	$	$ 10,507
Redeemable preferred stock		1,000					1,000
Operating leases	785	736	449	396	364	940	3,670
Total	$ 792	$ 12,236	$ 449	$ 396	$ 364	$ 940	$ 15,177

* For the nine months ending December 31, 2009.

Interest costs associated with the Company s debt, which bears interest at variable rates, are not a material component of the Company s expenses. Estimated interest payments, based on the current principal balances and weighted averages interest rates, assuming the contractual repayment of the term loan debt at its maturity date and a renewal of the revolving credit facilities at their loan balances as of March 31, 2009, are $159,000 for the nine months ending December 31, 2009 and $212,000, for each of the years ending December 31, 2010 through December 31, 2013, respectively.

Employment Contracts. The Company and its Brookwood subsidiary have compensation agreements with various personnel and consultants. Generally, the agreements extend for one-year terms and are renewable annually.

2005 Long-Term Incentive Plan for Brookwood. In December 2005, the Company adopted The Hallwood Group Incorporated 2005 Long-Term Incentive Plan for Brookwood Companies Incorporated (2005 Long-Term Incentive Plan for Brookwood) to encourage employees of Brookwood to increase the value of Brookwood and to continue to be employed by Brookwood. The terms of the incentive plan provide for a total award amount to participants equal to 15% of the fair market value of consideration received by the Company in a change of control transaction, as defined,

in excess of the sum of the liquidation preference plus accrued unpaid dividends on the Brookwood preferred stock (approximately $13,500,000 at March 31, 2009). The base amount will fluctuate in accordance with a formula that increases by the amount of the annual dividend on the preferred stock of $1,823,000, and decreases by the amount of actual preferred dividends paid by Brookwood to the Company. However, if the Company s board of directors determines that certain specified Brookwood officers, or other persons performing similar functions do not have, prior to the change of control transaction, in the aggregate an equity or debt interest of at lease two percent in the entity with whom the change of control transaction is completed, then the minimum amount to be awarded under the plan shall be $2,000,000. In addition, the Company agreed that, if members of Brookwood s senior management do not have, prior to a change of control transaction, in the aggregate an equity or debt interest of at least two percent in the entity with whom the change of control transaction is completed (exclusive of any such interest any such individual receives with respect to his or her employment following the change of control transaction), then the Company will be obligated to pay an additional $2,600,000.

Table of Contents

THE HALLWOOD GROUP INCORPORATED AND SUBSIDIARIES

Item 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Financial Covenants

Brookwood. The principal ratios, required to be maintained under Brookwood s Working Capital Revolving Credit Facility for the last four quarters are provided below:

		Quarters Ended			
Description	**Requirement**	**March 31, 2009**	**December 31, 2008**	**September 30, 2008**	**June 30, 2008**
Total debt to tangible net worth	must be less than 1.50	0.86	0.87	1.00	1.13
Net income	must exceed $1	Yes	Yes	Yes	Yes

Brookwood was in compliance with its principal loan covenants under the Working Capital Revolving Credit Facility for the first quarter in 2009 and for all interim periods in 2008, although an amendment to the Working Capital Revolving Credit Facility was entered into in June 2008 to allow a $4,800,000 dividend payment in June 2008, which restricted calendar 2008 total dividends from Brookwood to the Company to $9,300,000.

Cash dividends and tax sharing payments by Brookwood to the Company are contingent upon compliance with the loan covenants in the Working Capital Revolving Credit Facility. This limitation on the transferability of assets constitutes a restriction of Brookwood s net assets, which were $34,842,000 and $32,754,000 as of March 31, 2009 and December 31, 2008, respectively.

Hallwood Energy. Hallwood Energy was not in compliance with various covenants under its Secured Credit Facilities during 2008 and in June 2008 the Secured Credit Facilities were amended to waive the defaults and amend various covenants.

At September 30, 2008 and December 31, 2008, Hallwood Energy was not in compliance with additional covenants under the Secured Credit Facilities. Accordingly, the interest rate under those facilities is now the defined LIBOR rate plus 12.75% per annum. However, pursuant to a forbearance agreement related to the Talisman Energy Transaction, Hallwood Energy s Lender agreed not to exercise its other remedies under the facilities until at least 91 days after the termination of the farmout agreement.

To the extent Hallwood Energy was not in default by virtue of pre-March 1, 2009 events, the bankruptcy filing on March 1, 2009 constituted a default under the terms of the Secured Credit Facilities and the forbearance agreement was terminated by its terms upon the bankruptcy filing. However, under the automatic stay provisions of the Bankruptcy Code, Hallwood Energy s Lender has not been able to foreclose on its collateral.

Offer to Acquire All Outstanding Publicly Held Common Shares of Company by Chairman and Principal Stockholder

On April 20, 2009, Hallwood Financial Limited (Hallwood Financial), a corporation affiliated with Mr. Anthony J. Gumbiner, a director, Chairman of the Board of Directors and Chief Executive Officer of the Company, which currently owns 65.7% of the outstanding common stock of the Company, announced that it had advised the Board of Directors of the Company that it intends to make an offer to acquire all of the outstanding shares of common stock of the Company not already beneficially owned by Hallwood Financial (approximately 523,591 shares). In its announcement, Hallwood Financial has indicated that it intends to offer $12.00 per share in cash for each share of common stock not already owned by Hallwood Financial.

In response to Hallwood Financial s announcement, the Company has appointed a Special Committee of two independent directors, Charles A. Crocco, Jr. and M. Garrett Smith, to evaluate Hallwood Financial s proposal and make recommendations to the Board. The Special Committee has been authorized to retain independent legal counsel and financial advisors to assist in evaluating Hallwood Financial s proposal.

The offer proposed by Hallwood Financial has not yet commenced.

THE HALLWOOD GROUP INCORPORATED AND SUBSIDIARIES

Item 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Liquidity and Capital Resources

General. The Company principally operates in the textile products and energy business segments. The Company s cash position increased by $2,728,000 during the 2009 first quarter to $8,744,000 as of March 31, 2009. The principal sources of cash in the 2009 first quarter were $3,088,000 provided by operations and $69,000 from net bank borrowings. The primary uses of cash were $429,000 for property, plant and equipment, principally at Brookwood.

Textiles. The Company s textile products segment generates funds from the dyeing, laminating and finishing of fabrics and their sale to customers in the military, consumer, industrial and medical markets. Brookwood maintains a $25,000,000 working capital revolving credit facility and a $3,000,000 equipment facility with Key Bank. The facilities have a maturity date of January 2010. At March 31, 2009, Brookwood had approximately $14,379,000 of unused borrowing capacity on its working capital revolving line of credit facility and $2,993,000 on its equipment facility. Key Bank has indicated that it is interested in the potential renewal of the Working Capital Revolving Credit Facility with Brookwood. Brookwood anticipates that the discussion will commence in the 2009 third quarter.

Brookwood maintains factoring agreements which provide that receivables resulting from credit sales to customers, excluding the U.S. Government, may be sold to the factor, subject to a commission and the factor s prior approval. Brookwood continues to monitor its factors and the effect the current economic crisis may have upon Brookwood s factors that cannot be determined at this time. As of May 1, 2009, all of Brookwood s factors were complying with payment terms in accordance with factor agreements.

Brookwood paid cash dividends to the Company of $1,500,000 in the 2009 first quarter and $9,300,000 for all of 2008. In addition, Brookwood made a tax sharing payment to the Company of $1,702,000 in the 2009 first quarter and $7,342,000 for all of 2008 under its tax sharing agreement. Future cash dividends and tax sharing payments are contingent upon Brookwood s continued profitability and compliance with its loan covenants contained in the Working Capital Revolving Credit Facility. Brookwood s total debt to total tangible net worth ratio of 0.86 at March 31, 2009 was reduced slightly from 0.87 at December 31, 2008, principally due to its profitable operations during the 2009 first quarter, and was substantially below the maximum allowable ratio of 1.50. There were no significant additional capital requirements as of March 31, 2009.

Energy. During 2008, 2007 and 2006, the Company invested $13,920,000, $11,093,000, $9,427,000 (including a non-cash contribution of $452,000), respectively, in Hallwood Energy, as part of a total investment in Hallwood Energy of $75,401,000. No additional investment was made by the Company in 2009.

Hallwood Energy was not in compliance with the required current and proved collateral coverage ratios as of and subsequent to December 31, 2008. To the extent Hallwood Energy was not in default by virtue of pre-March 1, 2009 events, the bankruptcy filing on March 1, 2009 constituted a default under the terms of the Secured Credit Facilities and the forbearance agreement was terminated by its terms upon the bankruptcy filing. However, under the automatic stay provisions of the Bankruptcy Code, Hallwood Energy s Lender has not been able to foreclose on its collateral.

Hallwood Energy Bankruptcy Filing. On March 1, 2009, Hallwood Energy, HEM (the general partner of Hallwood Energy) and Hallwood Energy s subsidiaries, filed petitions for relief under Chapter 11 of the United States Bankruptcy Code. The cases are pending in the United States Bankruptcy Court for the Northern District of Texas, Dallas Division, in *In re Hallwood Energy, L.P., etal Case No. 09-31253*. The Company is only an investor in and creditor of Hallwood Energy. The bankruptcy filing does not include the Company or any other of its assets.

Hallwood Energy is seeking to develop a plan of reorganization under Chapter 11 of the Bankruptcy Code. However, Hallwood Energy has not yet proposed a plan and there is no assurance that a plan will be developed, approved or successfully implemented or that existing investors in Hallwood Energy will have any continuing interest in the reorganized entity. Accordingly, the extent or value of the Company s continuing interest in Hallwood Energy, if any, is uncertain.

Company s Future Liquidity. The Company s ability to generate cash flow from operations will depend on its future performance and its ability to successfully implement business and growth strategies. The Company s performance will also be affected by prevailing economic conditions. Many of these factors are beyond the Company s

control. Considering its current cash position and its anticipated cash flow from continuing operations, the Company believes it has sufficient funds to meet its liquidity needs.

Table of Contents

THE HALLWOOD GROUP INCORPORATED AND SUBSIDIARIES

Item 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Forward-Looking Statements

In the interest of providing stockholders with certain information regarding the Company s future plans and operations, certain statements set forth in this Form 10-Q relate to management s future plans, objectives and expectations. Such statements are forward-looking statements. Although any forward-looking statement expressed by or on behalf of the Company is, to the knowledge and in the judgment of the officers and directors, expected to prove true and come to pass, management is not able to predict the future with absolute certainty. Forward-looking statements involve known and unknown risks and uncertainties, which may cause the Company s actual performance and financial results in future periods to differ materially from any projection, estimate or forecasted result. Among others, these risks and uncertainties include those described in the Company s Form 10-K for the year ended December 31, 2008 in Item 1A. - Risk Factors. These risks and uncertainties are difficult or impossible to predict accurately and many are beyond the control of the Company. Other risks and uncertainties may be described, from time to time, in the Company s periodic reports and filings with the Securities and Exchange Commission.

Table of Contents

THE HALLWOOD GROUP INCORPORATED AND SUBSIDIARIES

Item 4T. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures. It is the conclusion of the Company s principal executive officer and principal financial officer that the Company s disclosure controls and procedures (as defined in Exchange Act rules 13a-15(e) and 15d-15(e)), based on their evaluation of these controls and procedures as of the end of the period covered by this Form 10-Q, are effective at the reasonable assurance level in ensuring that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission s rules and forms, and that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the Company s management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure. Management necessarily applied its judgment in assessing the costs and benefits of such controls and procedures which, by their nature, can provide only reasonable assurance regarding management s control objectives. The design of any system of controls and procedures is based in part upon certain assumptions about the likelihood of future events. There can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions, regardless of how remote.

Changes in Internal Control over Financial Reporting. There were no changes in the Company s internal controls over financial reporting that occurred during the last fiscal quarter that have materially affected, or are reasonably likely to materially affect, these controls.

Table of Contents

THE HALLWOOD GROUP INCORPORATED AND SUBSIDIARIES
PART II OTHER INFORMATION

Item

1 Legal Proceedings

Reference is made to Note 11 to the Company s condensed consolidated financial statements included within this Form 10-Q.

1A Risk Factors N/A

2 Unregistered Sales of Equity Securities and Use of Proceeds None

3 Defaults upon Senior Securities None

4 Submission of Matters to a Vote of Security Holders

At the Company s annual meeting of stockholders held on May 13, 2009, stockholders voted on two proposals. The voting results are provided below:

a) To elect one director to hold office for three years and to elect one director to hold office for one year:

Nominee Director	Term To Hold Office	Voted For	Withheld
Anthony J. Gumbiner	Three Years	1,209,385	264,207
M. Garrett Smith	One Year	1,470,372	3,220

The name of the other director whose term of office as a director continued after the annual meeting is as follows: Charles A. Crocco

b) To amend the Second Restated Certificate of Incorporation to decrease the minimum number of directors constituting the board from five to three:

For	Against	Abstain	No Vote
1,452,296	20,336	960	

5 Other Information None

At the 2009 annual meeting, the stockholders of the Company approved an amendment to the Second Restated Certificate of Incorporation of the Company, as described in the Company s Proxy Statement dated April 24, 2009 relating to the 2009 annual meeting. This amendment provides for the reduction in the minimum number of directors from five to three.

6 Exhibits

3.1 Certificate of Amendment to the Second Restated Certificate of Incorporation of The Hallwood Group Incorporated

31.1 Certification of the Chief Executive Officer, pursuant to Section 302 of Sarbanes-Oxley Act of 2002.

31.2 Certification of the Chief Financial Officer, pursuant to Section 302 of Sarbanes-Oxley Act of 2002.

32.1 Certification of Chief Executive Officer and Chief Financial Officer, pursuant to Section 906 of Sarbanes-Oxley Act of 2002.

Table of Contents

THE HALLWOOD GROUP INCORPORATED AND SUBSIDIARIES

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

	THE HALLWOOD GROUP INCORPORATED
Dated: May 15, 2009	By: /s/ Richard Kelley
	Richard Kelley, Vice President (Duly Authorized Officer and Principal Financial and Accounting Officer)

Page 38

Table of Contents

THE HALLWOOD GROUP INCORPORATED AND SUBSIDIARIES
INDEX TO EXHIBITS

Exhibit Number	Description
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31.2	Certification of the Chief Financial Officer, pursuant to Section 302 of Sarbanes-Oxley Act of 2002.
32.1	Certification of Chief Executive Officer and Chief Financial Officer, pursuant to Section 906 of Sarbanes-Oxley Act of 2002.