

**Report of Organizational Actions
 Affecting Basis of Securities**

▶ See separate instructions.

Part I Reporting Issuer

1 Issuer's name THE HALLWOOD GROUP INCORPORATED		2 Issuer's employer identification number (EIN) 51-0261339	
3 Name of contact for additional information RICHARD KELLEY	4 Telephone No. of contact 214-523-1282	5 Email address of contact INVESTOR-SERVICES@HALLWOOD.COM	
6 Number and street (or P.O. box if mail is not delivered to street address) of contact 3710 RAWLINS STREET, SUITE 1500		7 City, town, or post office, state, and Zip code of contact DALLAS, TX 75219	
8 Date of action MAY 16, 2014		9 Classification and description STOCK - COMMON	
10 CUSIP number 406364406	11 Serial number(s)	12 Ticker symbol HWG	13 Account number(s)

Part II Organizational Action Attach additional statements if needed. See back of form for additional questions.

14 Describe the organizational action and, if applicable, the date of the action or the date against which shareholders' ownership is measured for the action ▶ ON MAY 16, 2014, THE HALLWOOD GROUP INCORPORATED ("HWG") WAS THE SURVIVING ENTITY IN A MERGER (THE "MERGER"), PURSUANT TO WHICH 523,591 SHARES OF COMMON STOCK HELD BY PUBLIC SHAREHOLDERS (THE "PUBLIC SHARES") WERE REDEEMED AT \$12.39 PER SHARE (OR ELECTED FOR ALTERNATIVE APPRAISAL AS DETERMINED BY DELAWARE COURT OF CHANCERY) REPRESENTING TOTAL CONSIDERATION OF \$6,487,292 (THE "REDEMPTION").

ON MAY 16, 2014 AND IMMEDIATELY FOLLOWING THE REDEMPTION, HWG AMENDED AND RESTATED ITS CERTIFICATE OF INCORPORATION AND UNDERTOOK A REVERSE STOCK SPLIT BY ISSUING 1 SHARE OF COMMON STOCK ("NEW COMMON SHARES") IN EXCHANGE FOR 1,001,575 OUTSTANDING SHARES OF COMMON STOCK ("OLD COMMON SHARES") (COLLECTIVELY, THE "RECAPITALIZATION"), RESULTING IN HWG HAVING A TOTAL OF 1,000 NEW COMMON SHARES OUTSTANDING IMMEDIATELY AFTER THE RECAPITALIZATION.

15 Describe the quantitative effect of the organizational action on the basis of the security in the hands of a U.S. taxpayer as an adjustment per share or as a percentage of old basis ▶ THE REDEMPTION IS TREATED AS A SALE OF THE PUBLIC SHARES FOR U.S. FEDERAL INCOME TAX PURPOSES AND ALL OF A PUBLIC SHAREHOLDER'S BASIS WOULD BE RECOVERED AND USED IN DETERMINING THE AMOUNT OF GAIN OR LOSS RESULTING FROM SUCH SALE. NO PUBLIC SHAREHOLDERS HOLD SHARES OF HWG AFTER THE REDEMPTION.

THE RECAPITALIZATION IS A REVERSE STOCK SPLIT OF HWG'S OLD COMMON SHARES WHICH WILL BE TREATED AS A TAX FREE REORGANIZATION UNDER IRC SECTION 368(a)(1)(E). UNDER IRC SECTION 358(a), THE SHAREHOLDER'S AGGREGATE TAX BASIS IN THE NEW COMMON SHARES RECEIVED PURSUANT TO THE RECAPITALIZATION WILL EQUAL THE AGGREGATE TAX BASIS IN THE OLD COMMON SHARES SURRENDERED IN THE TRANSACTION.

16 Describe the calculation of the change in basis and the data that supports the calculation, such as the market values of securities and the valuation dates ▶ AFTER THE REDEMPTION, A PUBLIC SHAREHOLDER'S TAX BASIS WILL BE ZERO AS THE PUBLIC SHARES WERE REDEEMED AND CANCELLED. THE AMOUNT RECEIVED BY THE PUBLIC SHAREHOLDERS IS BASED UPON THE SHARE VALUE AGREED UPON IN THE MERGER AGREEMENT OF \$12.39 PER SHARE (OR ELECTED FOR ALTERNATIVE APPRAISAL AS DETERMINED BY DELAWARE COURT OF CHANCERY).

WITH RESPECT TO THE RECAPITALIZATION, THE SHAREHOLDER'S TAX BASIS IN THE OLD COMMON SHARES MUST BE ALLOCATED TO THE NEW COMMON SHARES (OR ALLOCABLE PORTIONS THEREOF) RECEIVED IN A MANNER THAT REFLECTS, TO THE GREATEST EXTENT POSSIBLE, THE BASIS IN OLD COMMON SHARES THAT WERE ACQUIRED ON THE SAME DATE AND AT THE SAME PRICE. TO THE EXTENT IT IS NOT POSSIBLE TO ALLOCATE THE TAX BASIS IN THIS MANNER, THE AGGREGATE TAX BASIS IN THE OLD COMMON SHARES SURRENDERED MUST BE ALLOCATED TO THE NEW COMMON SHARES (OR ALLOCABLE PORTIONS THEREOF) RECEIVED IN A MANNER THAT MINIMIZES THE DISPARITY IN THE HOLDING PERIODS OF THE OLD COMMON SHARES WHOSE BASIS IS ALLOCATED TO ANY PARTICULAR NEW COMMON SHARES.

For Paperwork Reduction Act Notice, see the separate Instructions.

Part II Organizational Action (continued)

17 List the applicable Internal Revenue Code section(s) and subsection(s) upon which the tax treatment is based ▶

IRC SECTIONS 302(b)(3), 368(a), 354(a) AND 358(a)

18 Can any resulting loss be recognized? ▶ PUBLIC SHAREHOLDERS WILL CALCULATE TAX GAIN OR LOSS ON THE REDEMPTION OF THEIR PUBLIC SHARES BASED UPON CASH REALIZED AND THEIR RESPECTIVE TAX BASIS IN THE SHARES REDEEMED. LOSSES MAY BE RECOGNIZED IF TAX BASIS IS GREATER THAN THE AMOUNT REALIZED.

AS THE RECAPITALIZATION QUALIFIES AS A TAX FREE REORGANIZATION, NO LOSS MAY BE RECOGNIZED BY THE SURVIVING SHAREHOLDER.

19 Provide any other information necessary to implement the adjustment, such as the reportable tax year ▶ THE REPORTABLE TAX YEAR FOR THE REDEMPTION AND RECAPITALIZATION IS THE TAX YEAR DURING WHICH THE MERGER OCCURRED (I.E., 2014 FOR CALENDAR YEAR TAXPAYERS).

Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete. Declaration of preparer (other than officer) is based on all information of which preparer has any knowledge.

Sign Here

Signature ▶ *Richard Kelley* Date ▶ 5/14/14

Print your name ▶ RICHARD KELLEY Title ▶ VICE PRESIDENT

Paid Preparer Use Only

Print/Type preparer's name	Preparer's signature	Date	Check <input type="checkbox"/> if self-employed	PTIN
GAVIN T. ROY	<i>G. T. Roy</i>	5/12/2014		P01058138
Firm's name ▶ DELOITTE TAX LLP	Firm's EIN ▶ 86-1065772		Phone no. 214-840-7000	
Firm's address ▶ 2200 ROSS AVENUE, SUITE 1600, DALLAS, TX 75201				