

Hallwood Group Inc
Form 10-Q
August 17, 2011

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q**

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934**

For the quarterly period ended June 30, 2011

OR

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934**

For the transition period from _____ to _____

Commission file number: 1-8303

The Hallwood Group Incorporated

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

51-0261339

(I.R.S. Employer
Identification No.)

3710 Rawlins, Suite 1500, Dallas, Texas

(Address of principal executive offices)

75219

(Zip Code)

214-528-5588

(Registrant's telephone number, including area code)

Not Applicable

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class

Outstanding at July 31, 2011

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Common Stock, \$0.10 par value per share

1,525,166 shares

**THE HALLWOOD GROUP INCORPORATED AND SUBSIDIARIES
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THE HALLWOOD GROUP INCORPORATED AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

(dollars in thousands)

(unaudited)

	June 30, 2011	December 31, 2010
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 9,930	\$ 11,159
Marketable securities short-term investments	10	7,490
Accounts receivable, net		
Factors	16,929	14,043
Trade and other	8,568	8,916
Related parties	35	12
Inventories, net	27,478	19,136
Deferred income tax, net	4,222	1,597
Prepays, deposits and other assets	972	700
Prepaid income taxes	916	1,093
	69,060	64,146
Noncurrent Assets		
Property, plant and equipment, net	20,259	20,984
Other assets	165	147
Investments in Hallwood Energy, net		
	20,424	21,131
Total Assets	\$ 89,484	\$ 85,277
LIABILITIES AND STOCKHOLDERS EQUITY		
Current Liabilities		
Accounts payable	\$ 8,984	\$ 7,996
Accrued expenses and other current liabilities	5,276	6,016
Payable Hallwood Energy matters		
Litigation reserve	7,500	
Contingent additional investment in Hallwood Energy	3,201	3,201
Income taxes payable	9	27
	24,970	17,240
Noncurrent Liabilities		
Long term portion of loans payable	3,000	2,000
Deferred income tax	566	566

	3,566	2,566
Total Liabilities	28,536	19,806
Contingencies and Commitments (Note 14)		
Stockholders Equity		
Common stock, issued 2,396,105 shares for both periods outstanding 1,525,166 shares for both periods	240	240
Additional paid-in capital	51,700	51,700
Retained earnings	22,412	26,935
Treasury stock, 870,939 shares for both periods; at cost	(13,404)	(13,404)
Total Stockholders Equity	60,948	65,471
Total Liabilities and Stockholders Equity	\$ 89,484	\$ 85,277

See accompanying notes to condensed consolidated financial statements.

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THE HALLWOOD GROUP INCORPORATED AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except per share amounts)
(unaudited)

	Six Months Ended June 30,	
	2011	2010
Revenues		
Textile products sales	\$ 63,468	\$ 95,077
Expenses		
Textile products cost of sales	52,310	66,866
Administrative and selling expenses	10,477	12,453
Litigation reserve Hallwood Energy matters	7,500	
	70,287	79,319
Operating income (loss)	(6,819)	15,758
Other Income (Loss)		
Interest expense	(49)	(118)
Interest and other income	30	6
	(19)	(112)
Income (loss) before income taxes	(6,838)	15,646
Income tax expense (benefit)	(2,315)	5,600
Net Income (Loss)	\$ (4,523)	\$ 10,046
Net Income (Loss) Per Common Share		
Basic	\$ (2.97)	\$ 6.59
Diluted	\$ (2.97)	\$ 6.59
Weighted Average Shares Outstanding		
Basic	1,525	1,525
Diluted	1,525	1,525

See accompanying notes to condensed consolidated financial statements.

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THE HALLWOOD GROUP INCORPORATED AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except per share amounts)
(unaudited)

	Three Months Ended June 30,	
	2011	2010
Revenues		
Textile products sales	\$ 36,699	\$ 47,927
Expenses		
Textile products cost of sales	29,116	34,193
Administrative and selling expenses	5,331	6,157
Litigation reserve Hallwood Energy matters	7,500	
	41,947	40,350
Operating income (loss)	(5,248)	7,577
Other Income (Loss)		
Interest expense	(23)	(57)
Interest and other income	13	5
	(10)	(52)
Income (loss) before income taxes	(5,258)	7,525
Income tax expense (benefit)	(1,731)	2,729
Net Income (Loss)	\$ (3,527)	\$ 4,796
Net Income (Loss) Per Common Share		
Basic	\$ (2.31)	\$ 3.14
Diluted	\$ (2.31)	\$ 3.14
Weighted Average Shares Outstanding		
Basic	1,525	1,525
Diluted	1,525	1,525

See accompanying notes to condensed consolidated financial statements.

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THE HALLWOOD GROUP INCORPORATED AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(in thousands)
(unaudited)

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2011	2010	2011	2010
Net Income (Loss)	\$ (3,257)	\$ 4,796	\$ (4,523)	\$ 10,046
Other Comprehensive Income (Loss)				
None				
Comprehensive Income (Loss)	\$ (3,257)	\$ 4,796	\$ (4,523)	\$ 10,046

See accompanying notes to condensed consolidated financial statements.

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THE HALLWOOD GROUP INCORPORATED AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY
(in thousands)
(unaudited)

	Common Stock	Additional	Retained	Treasury Stock	Total		
	Shares	Paid-In	Earnings	Shares	Cost	Stockholders'	
	Par	Capital	Earnings			Equity	
	Value	Capital	Earnings		Cost	Equity	
Balance, January 1, 2011	2,396	\$ 240	\$ 51,700	\$ 26,935	871	\$ (13,404)	\$ 65,471
Net loss			(4,523)				(4,523)
Balance, June 30, 2011	2,396	\$ 240	\$ 51,700	\$ 22,412	871	\$ (13,404)	\$ 60,948

See accompanying notes to condensed consolidated financial statements.

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THE HALLWOOD GROUP INCORPORATED AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)
(unaudited)

	Six Months Ended	
	June 30,	
	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss)	\$ (4,523)	\$ 10,046
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Litigation reserve – Hallwood Energy matters	7,500	
Deferred tax expense (benefit)	(2,625)	
Depreciation, amortization and impairment	1,282	1,172
Provision for obsolete inventory	57	268
Provision for doubtful accounts and factor dilution	(85)	
Changes in assets and liabilities:		
(Increase) decrease in inventories	(8,399)	485
(Increase) decrease in accounts receivable	(2,476)	271
Increase (decrease) in accounts payable	1,513	(611)
Increase (decrease) in accrued expenses and other current liabilities	(740)	(1,581)
Net change in other assets and liabilities	(290)	88
Net change in income taxes receivable/payable	159	1,014
Net cash provided by (used in) operating activities	(8,627)	11,152
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from redemption of short-term investments	7,480	
Investments in property, plant and equipment, net	(1,082)	(5,144)
Net cash provided by (used in) investing activities	6,398	(5,144)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from revolving credit facility	1,000	11,605
Repayments of revolving credit facility		(15,055)
Net cash provided by (used in) financing activities	1,000	(3,450)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(1,229)	2,558
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	11,159	7,838
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 9,930	\$ 10,396

See accompanying notes to condensed consolidated financial statements.

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THE HALLWOOD GROUP INCORPORATED AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
Six Months Ended June 30, 2011 and 2010
(unaudited)

Note 1 Organization, Interim Condensed Consolidated Financial Statements and New Accounting Pronouncements

Organization. The Hallwood Group Incorporated (the Company) (NYSE Amex: HWG) was incorporated in Delaware in 1981. The Company operates as a holding company. The Company operates its principal business in the textile products industry through its wholly owned subsidiary, Brookwood Companies Incorporated (Brookwood).

Interim Condensed Consolidated Financial Statements. The interim condensed consolidated financial statements of the Company and its subsidiaries (collectively, the Hallwood Group) have been prepared in accordance with the instructions to Form 10-Q and do not include all of the information and disclosures required by accounting principles generally accepted in the United States of America. Although condensed, in the opinion of management, all adjustments considered necessary for a fair presentation have been included. These condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and related disclosures thereto included in the Company's annual report on Form 10-K for the year ended December 31, 2010.

Textile Products. Textile products operations are conducted through Brookwood. Brookwood is an integrated textile firm that develops and produces innovative fabrics and related products through specialized finishing, treating and coating processes. Brookwood has two principal subsidiaries at June 30, 2011:

Kenyon Industries, Inc. (Kenyon). Kenyon, located in Rhode Island, uses the latest technologies and processes in dyeing, finishing, coating and printing of woven synthetic products. Kenyon provides quality finishing services for fabrics used in a variety of markets, such as military, luggage and knapsacks, flag and banner, apparel, industrial and sailcloth.

Brookwood Laminating Inc. (Brookwood Laminating). Brookwood Laminating, located in Connecticut, uses the latest in processing technology to provide quality laminating services for fabrics used in military clothing and equipment, sailcloth, medical equipment, industrial applications and consumer apparel. Up to five layers of textile materials can be processed using both wet and dry lamination techniques.

Textile products accounts for all of Hallwood Group's operating revenues. See Note 4 for additional information on Brookwood.

Investments in Financial Instruments. In the 2011 first quarter, the Company opened an investment account with UBS AG, a global financial services firm, and intended to transfer a significant portion of the cash it holds from time to time to the UBS account to invest. As of August 15, 2011, no funds have been transferred into the UBS account. In connection with the Hallwood Energy litigation matters discussed in Note 14, on July 25, 2011, the Court issued Proposed Findings of Fact, Conclusions of Law and Judgment Awarding Various Monetary Damages (the Proposed Findings) in the Adversary proceedings. The Court proposed damage awards plus interest and attorney fees. The Company intends to object to the Proposed Findings and will vigorously defend against the entry of any final judgment. Until this matter is concluded, the Company does not intend to pursue its previously announced intention to transfer funds into the UBS account.

Energy. Prior to October 2009, the Company held an investment in Hallwood Energy, L.P. (Hallwood Energy). Hallwood Energy was a privately held independent oil and gas limited partnership and operated as an upstream energy company engaged in the acquisition, development, exploration, production, and sale of hydrocarbons, with a primary focus on natural gas assets. The Company accounted for the investment in Hallwood Energy using the equity method of accounting, recording its pro rata share of Hallwood Energy's net income (loss), partners' capital transactions and comprehensive income (loss). As further discussed in Note 5, Hallwood Energy filed for bankruptcy in March 2009. In connection with the confirmation of Hallwood Energy's bankruptcy in October 2009, the Company's ownership interest in Hallwood Energy was extinguished and the Company no longer accounts for the investment in Hallwood Energy using the equity method of accounting.

Consolidation Policy. The Company's Brookwood subsidiary operates on a 5-4-4 accounting cycle with its months always ending on a Saturday for accounting purposes, while the Company operates on a traditional fiscal month accounting cycle. For purposes of the year-end financial statements the Brookwood cycle always ends on December 31, however, quarterly interim financial statements may not correspond to the fiscal quarter-end. Hallwood Group's condensed consolidated financial statements as of June 30, 2011 and 2010 include Brookwood's operations through July 2, 2011 and June 26, 2010, respectively. Estimated operating results of Brookwood for the intervening periods to June 30, 2011 and 2010, respectively, are provided below (in thousands):

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THE HALLWOOD GROUP INCORPORATED AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
Six Months Ended June 30, 2011 and 2010
(unaudited)

	Amounts in Intervening Periods	
	Six Months Ended June 30, 2011	2010
	(one business day)	(three business days)
Textile products sales	\$ 211	\$ 137
Textile products costs of sales	175	112
Administrative and selling expenses	131	297

New Accounting Pronouncements. In June 2011, the Financial Accounting Standards Board issued Accounting Standards Update No. 2011-05 (ASU 2011-05), *Presentation of Comprehensive Income*. This standard eliminates the current option to present other comprehensive income and its components in the statement of changes in equity. It will require companies to report the total of comprehensive income including the components of net income and the components of other comprehensive income in either a single continuous statement of comprehensive income or in two separate but consecutive statements. Hallwood Group will adopt ASU 2011-05 in its annual financial statements for the year ended December 31, 2011. The adoption of ASU 2011-05 will not affect Hallwood Group's financial position, results of operations or cash flows.

Note 2 Cash, Cash Equivalents and Marketable Securities

The following tables summarize the estimated fair value of Hallwood Group's cash, cash equivalents and marketable securities and the gross unrealized holding gains and losses (in thousands):

	June 30, 2011			Fair Value
	Cost	Gross Unrealized Losses	Gross Unrealized Gains	
Cash and Cash Equivalents				
Cash	\$ 4,403	\$	\$	\$ 4,403
Available for-sale-securities:				
Money market funds	5,527			5,527
Total cash and cash equivalents	\$ 9,930	\$	\$	\$ 9,930
Marketable Securities				
Short-term investments				
Variable-rate demand notes	\$ 10	\$	\$	\$ 10

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**THE HALLWOOD GROUP INCORPORATED AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
Six Months Ended June 30, 2011 and 2010
(unaudited)**

December 31, 2010			
Gross	Gross		
Unrealized	Unrealized		Fair