

HALLWOOD GROUP INC

Form PRE 14A

March 25, 2009

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
SCHEDULE 14A
(Rule 14a-101)
INFORMATION REQUIRED IN PROXY STATEMENT
SCHEDULE 14A INFORMATION**

Proxy Statement Pursuant to Section 14(a) of the Securities Exchange Act of 1934

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

Preliminary Proxy Statement

Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))

Definitive Proxy Statement

Definitive Additional Materials

Soliciting Material Pursuant to §240.14a-12

The Hallwood Group Incorporated

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

No fee required.

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1) Title of each class of securities to which transaction applies:

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THE HALLWOOD GROUP INCORPORATED

NOTICE OF ANNUAL MEETING

Dear Hallwood Group Stockholder:

On behalf of the board of directors, you are cordially invited to attend the Annual Meeting of Stockholders of The Hallwood Group Incorporated (the Company). The annual meeting will be held on Wednesday, May 13, 2009, at 3:30 p.m. eastern time, at the offices of Hunton & Williams LLP, located at 200 Park Avenue, 52nd Floor, New York, New York 10166. If you plan to attend the meeting, please contact Mr. Richard Kelley, Vice President, Chief Financial Officer and Secretary at 800.225.0135 no later than Friday, May 8, 2009, and notify him that you or your authorized representative plan to attend the meeting, providing the name of the person(s) planning to attend on your behalf.

At the annual meeting we will:

1. Elect one director to hold office for three years and one director to hold office for one year;
2. Vote on a proposal to amend the Company's Second Restated Certificate of Incorporation to reduce the minimum number of directors to three; and
3. Transact any other business properly presented at the meeting.

Only stockholders of record at the close of business on Friday, March 27, 2009, are entitled to notice of and to vote at the annual meeting.

By order of the Board of Directors

RICHARD KELLEY
Secretary

April 17, 2009

Only stockholders and their properly authorized representatives will be able to attend the 2009 Annual Meeting of Stockholders.

Your board of directors urges you to vote upon the matters presented. If you are unable to attend the meeting, please complete, sign, date and promptly return the enclosed proxy in the envelope provided. It is important for you to be represented at the meeting. Executing your proxy will not affect your right to vote in person if you are present at the annual meeting.

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THE HALLWOOD GROUP INCORPORATED
3710 Rawlins, Suite 1500
Dallas, Texas 75219

PROXY STATEMENT
FOR
ANNUAL MEETING OF STOCKHOLDERS
TO BE HELD ON WEDNESDAY, MAY 13, 2009

This proxy statement and the accompanying proxy are first being mailed on or about April 17, 2009. The accompanying proxy is solicited by the board of directors of the Company.

QUESTIONS AND ANSWERS ABOUT THE ANNUAL MEETING

- 1. Q: Who is entitled to vote?**
A: Stockholders of record at the close of business on Friday, March 27, 2009, the record date, are entitled to vote at the annual meeting.
 - 2. Q: What may I vote on?**
A: You may vote on:
(1) the election of one nominee to serve on the board of directors for three years and one nominee to serve on the board of directors for one year;
(2) a proposal to amend the Company's Second Restated Certificate of Incorporation to reduce the minimum number of directors to three; and
(3) any other business properly presented at the meeting.
 - 3. Q: How do I vote?**
A: Sign and date each proxy card you receive and return it in the prepaid envelope. If you return your signed proxy card but do not mark the boxes showing how you wish to vote, your shares will be voted **FOR** the election of the nominees for director, **FOR** the approval of the amendment to the Company's Second Restated Certificate of Incorporation and in the proxies' discretion with respect to any other matter properly presented at the meeting. Abstentions, broker non-votes and proxies directing that the shares are not to be voted will not be counted as a vote in favor of the nominees or of the proposed amendment.
 - 4. Q: How can I revoke my proxy?**
A: You have the right to revoke your proxy at any time by:
(1) notifying our corporate secretary in writing before the meeting;
(2) voting in person; or
(3) returning a later-dated proxy card before the meeting.
Attending the meeting is not sufficient to revoke your proxy unless you also take one of the actions above.
 - 5. Q: How does the board of directors recommend I vote on the proposal to elect the nominees for director?**
A: Your board of directors recommends that you vote **FOR** both nominees for director.
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6. **Q: Why does the Company want to amend its Second Restated Certificate of Incorporation?**
A: The Fifth article of the Company's Second Restated Certificate of Incorporation requires that the number of directors constituting the board shall be a number not less than five nor more than fourteen. Two of the Company's directors resigned effective as of November 13, 2008, leaving only three directors. Therefore, it is necessary to amend the Company's Second Restated Certificate of Incorporation to decrease the minimum number of directors constituting the board from five to three.
7. **Q: How does the board of directors recommend I vote on the proposal to amend the Company's Second Restated Certificate of Incorporation?**
A: Your board of directors recommends that you vote **FOR** the proposal to amend the Company's Second Restated Certificate of Incorporation.
8. **Q: How many shares can vote at the annual meeting?**
A: As of the record date, there were 1,525,166 shares of common stock outstanding and entitled to vote at the annual meeting. You are entitled to one vote for each share of common stock you hold.
9. **Q: What is a quorum?**
A: A quorum is a majority of the outstanding shares. A quorum may be present at the meeting or represented by proxy. There must be a quorum for the meeting to be valid. If you submit a properly executed proxy card, even if you abstain from voting, you will be considered part of the quorum. In addition, broker non-votes will be counted toward determining the presence of a quorum.
10. **Q: What vote is required to elect the directors and approve the amendment?**
A: A plurality of the votes of the shares present in person or represented by proxy at the meeting and entitled to vote on the election of directors is necessary to elect the nominees for director. The affirmative vote of the holders of a majority of the Company's common stock is necessary to approve the proposal to amend the Company's Second Restated Certificate of Incorporation. Abstentions and shares held by brokers that have been designated as not voted will be counted for purposes of determining a quorum, but will not be counted as votes cast in favor of the election of directors or the proposal. Mr. Gumbiner, the chairman of the board of directors, beneficially owns approximately 65.7% of the outstanding shares and, therefore, will determine the outcome of the election and the proposal to amend the Company's Second Restated Certificate of Incorporation. He has indicated that he intends to vote his shares in favor of the nominees and approve the proposed amendment.
11. **Q: Who may attend the annual meeting?**
A: Only those stockholders who contact Mr. Richard Kelley at 800.225.0135 no later than Friday, May 8, 2009, and notify him that you or your authorized representatives plan to attend the meeting, providing the name of the person(s) planning to attend on your behalf, may attend the annual meeting.

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SOLICITATION OF PROXIES

The cost of preparing, assembling, printing and mailing this proxy statement and the enclosed proxy form and the cost of soliciting proxies related to the annual meeting will be borne by the Company. The Company will request banks and brokers to solicit their customers who are beneficial owners of shares of common stock listed of record in names of nominees, and will reimburse those banks and brokers for the reasonable out-of-pocket expenses of the solicitation. The original solicitation of proxies by mail may be supplemented by telephone, telegram and personal solicitation by officers and other regular employees of the Company and its subsidiaries, but no additional compensation will be paid to those individuals on account of their activities. In addition, the Company has retained Morrow & Co., Inc. to assist in the solicitation of proxies, for which it will be paid a fee of \$2,500 plus reimbursement of reasonable out-of-pocket expenses. We estimate that Morrow & Co.'s total fees and expenses will be approximately \$6,000.

PROPOSAL NO. 1

ELECTION OF DIRECTORS

The Company's board of directors is divided into three classes serving staggered terms. Because the Board is divided into three classes, directors are generally elected to serve three year terms. As a result of the retirement of two of the Company's directors during 2008, however, the two directors to be elected at this meeting are currently serving the same term. Therefore, at the annual meeting, you will elect one director to serve for three years and one director to serve one year.

The individuals named on the enclosed proxy card intend to vote for the election of the nominees listed below, unless you direct them to withhold your vote. Each of the nominees have indicated that he is able and willing to serve as a director. However, if for some reason either of the nominees is unable to stand for election or becomes unwilling to serve for good cause, the individuals named as proxies may vote for a substitute nominee(s). The nominees for director must be elected by a plurality of the votes of the shares present in person or represented by proxy at the meeting and entitled to vote on the election of directors.

Below are the names and ages of the nominees and of the director whose term of office will continue after the annual meeting, the year in which each director was first elected as a director of the Company, their principal occupations or employment for at least the past five years and other directorships they hold.

Nominee for Election for a Three-Year Term Ending with the 2012 Annual Meeting

Anthony J. Gumbiner

Mr. Gumbiner, age 64, has served as a director and Chairman of the Board since 1981, and Chief Executive Officer of the Company since 1984. He also served as President and Chief Operating Officer from December 1999 to March 2005. He also serves as a director and Chairman of the board of directors of Hallwood Energy Management, LLC, the general partner of Hallwood Energy, L.P. (Hallwood Energy). He served as a director of Hallwood Realty, LLC, the general partner of Hallwood Realty Partners, L.P. (HRP) and its predecessor until HRP was sold in July 2004. Mr. Gumbiner was a director and officer of Hallwood Energy Corporation (HEC) until its sale in December 2004 and of Hallwood Energy III, L.P. (HE III) until its sale in July 2005. He has served as a non-executive chairman of The Local Radio Company PLC since November 2008. Mr. Gumbiner is also a solicitor of the Supreme Court of Judicature of

England.

Nominee for Election for a One-Year Term Ending with the 2010 Annual Meeting

M. Garrett Smith

Mr. Smith, age 47, has served as a director since November 2004. He has been a general partner in Spinnerhawk Companies, a private investment fund, since February 2005. From December 2000 to February 2005, he was a Principal with BP Capital, LLC, a Dallas,

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Texas-based investment firm specializing in the oil and gas industry, and as a General Partner and Portfolio Manager of BP Capital Energy Equity Fund, an energy hedge fund.

Director Continuing in Office Until the 2011 Annual Meeting

Charles A. Crocco, Jr.

Mr. Crocco, age 70, has served as a director since 1981. He is an attorney, who was Counsel to Crocco & De Maio, P.C. through March 2003. He is a Securities Arbitrator in proceedings brought under the auspices of the Financial Industry Regulatory Authority (formerly National Association of Securities Dealers). He also served as a director of First Banks America, Inc., a bank holding company, from 1989 until December 2002.

Except as indicated above, neither the nominees nor the continuing director hold a directorship in any company with a class of securities registered under Section 12 of the Securities Exchange Act of 1934, or subject to the requirements of Section 15(d) of the Securities Exchange Act or any company registered as an investment company under the Investment Company Act of 1940. Each of Messrs. Crocco and Smith are independent directors under the standards of the NYSE Amex, upon which the Company's Common Stock is listed for trading. In determining the independence of Mr. Crocco, the Board considered that he has invested in Hallwood Energy on the same terms as other investors.

No family relationships exist between the nominees, the directors and the executive officers.

The board of directors unanimously recommends a vote FOR the election of the nominated individuals.

**APPROVAL OF THE PROPOSAL TO AMEND THE
SECOND RESTATED CERTIFICATE OF INCORPORATION**

The Fifth article of the Company's Second Restated Certificate of Incorporation requires that the number of directors constituting the board shall be a number not less than five nor more than fourteen. Two of the Company's directors resigned effective as of November 13, 2008, leaving only three directors. Therefore, it is necessary to amend the Company's Second Restated Certificate of Incorporation to decrease the minimum number of directors constituting the board from five to three.

The amendment to the Second Restated Certificate of Incorporation would delete the Fifth article and substitute in lieu of such article a new article that would decrease the minimum number of directors. A copy of the proposed amendment is attached to this proxy statement as Annex A.

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.

The board of directors unanimously recommends a vote FOR the approval of the amendment to the Company's Second Restated Certificate of Incorporation.

Committees and Meetings of the Board of Directors

Messrs. Crocco (Chairman) and Smith currently serve as members of the Company's audit committee. The audit committee met six times during 2008 and was charged with the responsibility of reviewing the annual audit report and

the Company's accounting practices and procedures, and recommending to the board of directors the independent registered public accounting firm to be engaged for the following year.

The board of directors does not have a standing nominating or compensation committee. Because Mr. Gumbiner owns more than 50% of the Company's voting power, it is a controlled company under the

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rules of the NYSE Amex and is not required, nor does the Board believe it is necessary, to have separate nominating and compensation committees.

During the year ended December 31, 2008, the board of directors held eight meetings. Each director attended at least 75% of (1) the total number of meetings held by the board of directors, and (2) the total number of meetings held by all committees of the board of directors on which he served.

While the Company does not have a formal policy requiring them to do so, the Company encourages our directors to attend the annual meeting of stockholders and expects that they will. Last year all members of the board of directors attended the annual meeting. Each member of the board of directors has indicated his intent to attend the 2009 Annual Meeting.

Communication With Directors

The board of directors does not provide a formal process by which stockholders may send communications to the board of directors. The Company is a controlled company under the rules of the NYSE Amex and 65.7% of its voting securities are owned by a single stockholder. Consequently, the board of directors does not believe it is necessary to formalize such a communication process. However, stockholders may communicate with the Company or request information at any time by contacting Mr. Richard Kelley, Vice President, Chief Financial Officer and Secretary at 800.225.0135.

Code of Business Conduct and Ethics

The board of directors has adopted a Code of Business Conduct and Ethics that applies to all employees, including those officers responsible for financial matters. The Code of Business Conduct and Ethics may be accessed through the Company's website at www.hallwood.com. Any amendments to or waivers of the Code of Business Conduct and Ethics will be promptly disclosed on the Company's website. Any stockholder may request a printed copy of the Code of Business Conduct and Ethics by contacting Mr. Richard Kelley, Vice President, Chief Financial Officer and Secretary at 800.225.0135.

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The following table sets forth information as to the beneficial ownership of shares of the Company's common stock as of the close of business on the record date (1) for any person or group, as that term is used in Section 13(d)(3) of the Securities Exchange Act, who, or which the Company knows, owns beneficially more than 5% of the outstanding shares of the Company's common stock; (2) for the continuing directors and the nominees for director; and (3) for all directors and executive officers as a group. Unless otherwise noted, the address of each person listed below is 3710 Rawlins, Suite 1500, Dallas, Texas 75219.

Name and Address of Beneficial Owner	Amount and Nature of Beneficial Ownership(1)	Percentage of Class(1)
Anthony J. Gumbiner	1,001,575(2)	65.7%
Advisory Research, Inc.	227,804(3)	14.9
Charles A. Crocco, Jr.	14,846(4)	1.0
M. Garrett Smith	(5)	
William L. Guzzetti	(6)	
Amber M. Brookman	(7)	
Richard Kelley	(5)	
All directors and executive officers as a group (6 persons)	1,016,421	66.6%

- (1) Assumes, for each person or group listed, the exercise of all stock options or other rights held by that person or group that are exercisable within 60 days, according to Rule 13d-3(d)(1)(i) of the Securities Exchange Act, but the exercise of none of the derivative securities owned by any other holder of options.
- (2) Shares held indirectly through Hallwood Financial Limited, a corporation controlled by Mr. Gumbiner and members of his family. Mr. Gumbiner is an investor through Hallwood Family (BVI) L.P., a company controlled by Mr. Gumbiner, and holds a 4.26% profit interest in Hallwood Energy.
- (3) This information is derived from a Schedule 13G filed by Advisory Research, Inc. on February 13, 2009. Advisory Research Inc.'s reported address is 180 North Stetson St., Suite 5500, Chicago, Illinois 60601.
- (4) Mr. Crocco is an investor in Hallwood Energy.
- (5) Messrs. Smith and Kelley do not own any shares or hold any options to purchase shares of the Company.
- (6) Mr. Guzzetti does not own any shares or hold any options to purchase shares of the Company. He is an investor and holds a 4.26% profit interest in Hallwood Energy.
- (7) Ms. Brookman does not own any shares or hold any options to purchase shares of the Company. She is an investor in Hallwood Energy.

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The following tables reflect compensation paid to the Company's Chief Executive Officer, Chief Financial Officer and each of the other executive officers of the Company.

SUMMARY COMPENSATION TABLE FOR 2008

Name and Principal Position	Year	Salary (\$)	Bonus (\$)	Stock Awards (\$)	Option Awards (\$)	Change in Pension Value and Nonqualified Non-Equity Incentive Compensation		All Other Compensation (\$)	Total (\$)
						Planned	Earnings		
Anthony J. Gumbiner, Chairman, Chairman and Chief Executive Officer	2008	996,000(1)	0	0	0	0	0	6,200(2)	1,002,200
	2007	996,000(1)	0	0	0	0	0	6,200(3)	1,002,200
William L. Guzzetti President and Chief Operating Officer	2008	312,500(4)	9,660(5)	0	0	0	0	3,483	325,643
	2007	312,500(4)	9,450(5)	0	0	0	0	2,376	324,326
Amber M. Brookman President and Chief Executive Officer of Brookwood	2008	317,538(6)	1,040,412(7)	0	0	0	0	10,794(8)	1,368,744
	2007	317,538(6)	578,629(7)	0	0	0	0	10,623(9)	906,790
Melvin J. Melle,(10) Former Vice President, Chief Financial Officer and Secretary	2008	223,717(11)	9,660(5)	0	111,105	0	0	273,993(12)	618,475
	2007	208,333	0	0	561,945	0	0	12,466(13)	782,744
Richard Kelley Vice President, Chief Financial Officer and Secretary	2008	116,955	0	0	0	0	0	3,918(14)	120,873

(1) Consists of consulting fees paid by the Company to Hallwood Investments Limited (HIL), an entity associated with Mr. Gumbiner. In addition, Mr. Gumbiner received a consulting fee of \$150,000 in 2008 and \$200,000 in 2007 from Hallwood Energy. None of the amounts paid to Mr. Gumbiner were for his service as a director of the Company.

- (2) The amount shown in the table is for Mr. Gumbiner's life insurance premiums. In addition to the amounts shown in the table, during 2008, the Company reimbursed HIL \$301,405 for business expenses in providing office space and administrative services, \$109,849 for travel to and from the Company's United States office, and certain other matters.
- (3) The amount shown in the table is for Mr. Gumbiner's life insurance premiums. In addition to the amounts shown in the table, during 2007, the Company reimbursed HIL \$182,745 for business expenses in providing office space and administrative services, \$70,514 for travel to and from the Company's United States office, and certain other matters.
- (4) In addition, Mr. Guzzetti received a salary of \$208,333 from Hallwood Energy.
- (5) Consists of a special cash bonus in lieu of a matching contribution under the Company's 401(k) Tax Favored Savings Plan.
- (6) Salary includes a \$6,000 car allowance and \$11,538 for unused vacation time.
- (7) Consists of annual bonus under compensation letter.
- (8) Includes \$6,900 as matching contribution under Brookwood's 401(k) Tax Favored Savings Plan.
- (9) Includes \$6,750 as matching contribution under Brookwood's 401(k) Tax Favored Savings Plan.
- (10) Effective as of December 15, 2008, Melvin J. Melle was no longer Vice President, Chief Financial Officer and Secretary or an employee of the Company.

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- (11) Includes \$15,384 for unused vacation time.
- (12) Includes \$268,277 as payment provided by separation agreement dated December 15, 2008.
- (13) Includes \$6,750 as matching contribution under the Company's 401(k) Tax Favored Savings Plan.
- (14) Includes \$3,509 as matching contribution under the Company's 401(k) Tax Favored Savings Plan.

OPTION EXERCISES AND STOCK VESTED FOR 2008

Name	Option Awards	
	Number of Shares Acquired on Exercise (#)	Value Realized on Exercise (\$)
Melvin J. Melle	4,500	\$ 111,105

POTENTIAL PAYMENTS UPON TERMINATION OR CHANGE-IN-CONTROL

The only incremental payments to which named executive officers are entitled upon severance or change in control of the Company are provided under employment or consulting agreements.

Ms. Brookman participates in The Hallwood Group Incorporated 2005 Long-Term Incentive Plan For Brookwood Companies Incorporated. Under the plan, upon a change of control transaction, each participant is entitled to receive a cash payment equal to the sum calculated by (i) dividing the number of units held by that participant by the 10,000 total units authorized under the plan, and (ii) multiplying the result by 15% of the amount by which (a) the net fair market value of all consideration received by the Company or its stockholders as a result of the transaction exceeds (b) the sum of the liquidation preference plus accrued but unpaid dividends on the Series A Preferred Stock of Brookwood at the time of the transaction. At December 31, 2008, the sum of the liquidation preference plus accrued but unpaid dividends on the Series A Preferred Stock of Brookwood was \$13,500,000. If the Board determines that certain specified 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 least 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 pay Ms. Brookman an additional \$2,600,000.

The Company is a party to a financial consulting agreement with HIL under which Mr. Gumbiner provides international consulting and advisory services to the Company and its affiliates. If the agreement is terminated for certain acts of dishonesty, fraud, willful misconduct, willful breach or repeated, habitual neglect, the agreement will terminate immediately. If the agreement is terminated by the Company for any other reason, then it must continue to pay the consulting fee to Mr. Gumbiner in effect at the time for the remainder of the term of the agreement. The agreement does not provide for any other severance or termination benefits.

The Company had an employment agreement with Mr. Melle. Mr. Melle's employment agreement provided that the board of directors could terminate the agreement at any time for cause (defined as persistent incompetence or insubordination, willful misconduct, dishonesty or conviction of a felony), in which event the agreement and all rights to compensation would terminate immediately. Mr. Melle's employment agreement provided that if the Company terminated the agreement for any other reason, then it must continue to pay the aggregate base salary in effect at the time for the remainder of the term of the agreement. Mr. Melle's employment with the company was terminated effective as of December 15, 2008. In connection with Mr. Melle's departure from the Company, Mr. Melle and the Company entered into a separation agreement dated December 15, 2008, pursuant to which Mr. Melle was entitled to receive a lump-sum payment in the amount of \$268,277.

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The following table sets forth the amounts paid to the Company's outside directors for their service as directors of the Company. Information concerning amounts paid to Mr. Gumbiner, the Company's Chairman and Chief Executive Officer, is included in the preceding tables.

DIRECTOR COMPENSATION FOR 2008

Name	Fees Earned	Non-Equity Nonqualified Incentive					Total
	or Paid in Cash (\$)	Stock Awards (\$)	Option Awards (\$)	Plan Compensation (\$)	Deferred Compensation Earnings	All Other Compensation (\$)	
Charles A. Crocco, Jr.	63,000	0	0	0	0	0	63,000
A. Peter Landolfo	63,000	0	0	0	0	0	63,000
M. Garrett Smith	63,000	0	0	0	0	1,500	64,500
J. Thomas Talbot	63,000	0	0	0	0		