Hallwood Group Inc
Form PREM14A
November 14, 2013
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of the

Securities Exchange Act of 1934

Filed by the Registrant x Filed by a Party other than the Registrant ¨

Check the appropriate box:

x 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 under Rule 14a-12

The Hallwood Group Incorporated

(Name of the 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.

x Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

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

   The Hallwood Group Incorporated common stock, par value $0.10

2. Aggregate number of securities to which transaction applies:

   523,591 shares of common stock

Per unit price or other underlying value of transaction computed pursuant to Exchange Act

3. Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (Set forth the amount on which the filing fee is calculated and state how it was determined):

   In accordance with Exchange Act Rule 0-11(c), the filing fee of $674.39 was determined by multiplying 0.0001288 by the aggregate Merger Consideration of $5,235,910. The aggregate Merger Consideration was calculated as the product of (a) 523,591 outstanding shares of common stock as of October 31, 2013 to be acquired in the merger and (b) the per share Merger Consideration of $10.00.

4. Proposed maximum aggregate value of transaction:

   $5,235,910

5. Total fee paid:

   $674.39

¨ Fee paid previously with preliminary materials.

¨ Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

1. Amount Previously Paid:

2. Form, Schedule or Registration Statement No.:

3. Filing Party:

4. Date Filed:

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PRELIMINARY COPY SUBJECT TO COMPLETION

NOTICE OF SPECIAL MEETING

OF

STOCKHOLDERS

THE HALLWOOD GROUP INCORPORATED

3710 Rawlins, Suite 1500

Dallas, Texas 75219

Telephone: (214) 528-5588

[ ], 2013

To the Stockholders of The Hallwood Group Incorporated:

You are cordially invited to attend a special meeting of the stockholders of The Hallwood Group Incorporated, a Delaware corporation (the Company, we or us), which we will hold at 3710 Rawlins, Suite 1500, Dallas, Texas 75219 on [ ], 2013, at [ ], Central Time.

At the special meeting, holders of our common stock, par value $0.10 per share (Common Stock), will be asked to consider and vote on a proposal to adopt the Agreement and Plan of Merger, dated as of June 4, 2013, by and among the Company, Hallwood Financial Limited, a corporation organized under the laws of the British Virgin Islands (Parent), and HFL Merger Corporation, a Delaware corporation and wholly owned subsidiary of Parent (Merger Sub), as amended by that certain Amendment to Agreement and Plan of Merger, dated as of July 11, 2013 (as it may be further amended from time to time, the Merger Agreement), a copy of which is attached as Annex A to the accompanying proxy statement. Parent is controlled by Anthony J. Gumbiner, Chairman and Chief Executive Officer of the Company, and members of his family, and Parent currently owns 1,001,575 shares, or 65.7%, of the issued and outstanding shares of Common Stock.

Pursuant to the Merger Agreement, Merger Sub will merge with and into the Company, with the Company continuing as the surviving corporation and a wholly owned subsidiary of Parent (the Merger), and each share of Common Stock outstanding immediately prior to the effective time of the Merger (other than certain excluded and dissenting shares of Common Stock) will be cancelled and converted into the right to receive $10.00 in cash, without interest (the Merger Consideration). The following excluded and dissenting shares of Common Stock will not be entitled to the Merger Consideration: (i) shares held by Parent, Merger Sub, the Company or any wholly owned subsidiary of the Company or held in the Company s treasury and (ii) shares outstanding immediately prior to the effective time of the Merger held by a stockholder who has neither voted in favor of the Merger nor consented thereto in writing and who has demanded properly in writing appraisal for such shares and otherwise properly perfected and not withdrawn or lost the right to an appraisal of such dissenting shares pursuant to Section 262 of the General Corporation Law of the State of Delaware.

The board of directors of the Company (the Board) formed a special committee (the Special Committee) consisting solely of independent and disinterested directors of the Company to evaluate the Merger and other alternatives

available to the Company. The Special Committee unanimously determined that the transactions contemplated by the Merger Agreement, including the Merger, are advisable and in the best interests of the Company and its stockholders (other than the persons and entities associated with Mr. Gumbiner), and unanimously recommended that the Board approve and declare advisable the Merger Agreement and the transactions contemplated thereby, including the Merger, and that the Company s stockholders vote for the adoption of the Merger Agreement. Based in part on that recommendation, the Board unanimously (other than Mr. Gumbiner, who did not participate due to his interest in the Merger) unanimously (i) determined that the transactions contemplated by the Merger Agreement, including the Merger, are advisable and in the best interests of the Company and its stockholders (other than the persons and entities associated with Mr. Gumbiner), (ii) approved and declared advisable the execution, delivery and performance of the Merger Agreement and the consummation of the transactions contemplated thereby, including the Merger and (iii) resolved to recommend

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that the Company s stockholders vote for the adoption of the Merger Agreement. **Accordingly, the Board (without Mr. Gumbiner s participation) unanimously recommends that the stockholders of the Company vote FOR the proposal to adopt the Merger Agreement.**

As of June 4, 2013, Hallwood Trust and Mr. Gumbiner beneficially owned through Parent, in the aggregate, 1,001,575 shares of Common Stock, or approximately 65.7% of the total number of outstanding shares of Common Stock.

We urge you to read the accompanying proxy statement in its entirety, including annexes and the documents referred to in, or incorporated by reference into, the proxy statement, because it describes the Merger Agreement and the Merger and provides specific information concerning the special meeting and other important information related to the Merger. In addition, you may obtain information about us from documents filed with the U.S. Securities and Exchange Commission (SEC).

Your vote is very important, regardless of the number of shares of Common Stock you own. The closing of the Merger is subject to a non-waivable condition that the Merger Agreement be adopted by (i) the affirmative vote of the holders of a majority of the outstanding shares of Common Stock entitled to vote on the adoption of the Merger Agreement, voting together as a single class, and (ii) the affirmative vote of the holders of a majority of the outstanding shares of Common Stock, voting together as a single class, excluding all shares of Common Stock owned by Parent, Merger Sub, Mr. Gumbiner or any of their respective affiliates (other than the Company and its subsidiaries), or by any director, officer or other employee of the Company or any of its subsidiaries.

While stockholders may exercise their right to vote their shares in person, we recognize that many stockholders may not be able to, or do not desire to, attend the special meeting. Accordingly, we have enclosed a proxy that will enable your shares to be voted on the matters to be considered at the special meeting even if you are unable or do not desire to attend. If you desire your shares to be voted in accordance with the Board s recommendation, you need only sign, date and return the proxy in the enclosed postage-paid envelope. Otherwise, please mark the proxy to indicate your voting instructions; date and sign the proxy; and return it in the enclosed postage-paid envelope. You also may submit a proxy by using a toll-free telephone number or the Internet. We have provided instructions on the proxy card for using these convenient services.

Submitting a proxy will not prevent you from voting your shares in person if you subsequently choose to attend the special meeting. Even if you plan to attend the special meeting in person, we request that you complete, sign, date and return the enclosed proxy and thus ensure that your shares will be represented at the special meeting if you are unable to attend.

Sincerely,

Charles Crocco

Chairman of the Special Committee and Audit Committee

Neither the SEC nor any state securities regulatory agency has approved or disapproved the Merger, passed upon the merits or fairness of the Merger or passed upon the adequacy or accuracy of the disclosure in the accompanying proxy statement. Any representation to the contrary is a criminal offense.

This proxy statement is dated [ ], 2013 and is first being mailed to stockholders on or about [ ], 2013.

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THE HALLWOOD GROUP INCORPORATED

3710 Rawlins, Suite 1500

Dallas, Texas 75219

Telephone: (214) 528-5588

NOTICE OF SPECIAL MEETING OF STOCKHOLDERS

To the Stockholders of The Hallwood Group Incorporated:

NOTICE IS HEREBY GIVEN that a special meeting of the stockholders of The Hallwood Group Incorporated, a Delaware corporation (the Company, we or us), will be held at 3710 Rawlins, Suite 1500, Dallas, Texas 75219 on [ ], 2013, at [ ], Central Time, for the following purposes:

to consider and vote on a proposal to adopt the Agreement and Plan of Merger, dated as of June 4, 2013, by and among the Company, Hallwood Financial Limited, a corporation organized under the laws of the British Virgin Islands (Parent), and HFL Merger Corporation, a Delaware corporation and wholly owned subsidiary of Parent (Merger Sub), as amended by that certain Amendment to Agreement and Plan of Merger, dated as of July 11, 2013 (as it may be further amended from time to time, the Merger Agreement);

to approve the adjournment of the special meeting, if necessary or appropriate, to solicit additional proxies if there are insufficient votes at the time of the special meeting to approve the proposal to adopt the Merger Agreement; and

to act upon other business as may properly come before the special meeting or any adjournment or postponement thereof by or at the direction of the Board.

The holders of record of our common stock, par value $0.10 per share (Common Stock), at the close of business on [ ], 2013, are entitled to notice of and to vote at the special meeting or at any adjournment or postponement thereof. All stockholders of record are cordially invited to attend the special meeting in person.

Your vote is important, regardless of the number of shares of Common Stock you own. The closing of the Merger is subject to a non-waivable condition that the Merger Agreement be adopted by (i) the affirmative vote of the holders of a majority of the outstanding shares of Common Stock entitled to vote on the adoption of the Merger Agreement, voting together as a single class, and (ii) the affirmative vote of the holders of a majority of the outstanding shares of Common Stock, voting together as a single class, excluding all shares of Common Stock owned by Parent, Merger Sub, Mr. Gumbiner or any of their respective affiliates (other than the Company and its subsidiaries), or by any director, officer or other employee of the Company or any of its subsidiaries. Even if you plan to attend the special meeting in person, we request that you complete, sign, date and return the enclosed proxy and thus ensure that your shares will be represented at the special meeting if you are unable to attend. You also may submit your proxy by using a toll-free telephone number or the Internet. We have provided instructions on the proxy card for using these convenient services.

If you sign, date, and return your proxy card without indicating how you wish to vote, your proxy will be voted in favor of the proposal to adopt the Merger Agreement and in favor of the proposal to approve the adjournment of the special meeting, if necessary or appropriate, to solicit additional proxies. If you fail to vote or submit your proxy, the effect will be that your shares will not be counted for purposes of determining whether a quorum is present at the special meeting and will have the same effect as a vote against the proposal to adopt the Merger Agreement. Your proxy may be revoked at any time before the vote at the special meeting by following the procedures outlined in the accompanying proxy statement. If you are a stockholder of record, attend the special meeting and wish to vote in person, you may revoke your proxy and vote in person.

BY ORDER OF THE BOARD OF DIRECTORS

Richard Kelley

Corporate Secretary

Dated [ ], 2013

Dallas, Texas

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SUMMARY TERM SHEET

This summary term sheet discusses material information contained in this proxy statement, including with respect to the Merger Agreement (as defined below) and the Merger (as defined below). We encourage you to read carefully this entire proxy statement, including its annexes and the documents referred to in, or incorporated by reference into, this proxy statement, as this summary term sheet may not contain all of the information that may be important to you. The items in this summary term sheet include page references directing you to a more complete description of the applicable topic in this proxy statement.

The Parties to the Merger (page 53)

The Hallwood Group Incorporated

The Hallwood Group Incorporated (the Company, we us) is a Delaware corporation. Founded in September 1981, the Company operates its principal business in the textile products industry through its wholly owned subsidiary, Brookwood Companies Incorporated (Brookwood). Brookwood is an integrated textile firm that develops and produces innovative fabrics and related products through specialized finishing, treating and coating processes. For more information, see the sections entitled *Important Information Regarding the Company* beginning on page 71 and *The Parties to the Merger The Company* on page 53.

Additional information about the Company is contained in its public filings, which are incorporated by reference into this proxy statement. See the section entitled *Where You Can Find Additional Information* on page 85.

Parent and Merger Sub

Hallwood Financial Limited (Parent) is a corporation organized under the laws of the British Virgin Islands. HFL Merger Corporation (Merger Sub) is a Delaware corporation and wholly owned subsidiary of Parent. Parent is controlled by Anthony J. Gumbiner, Chairman and Chief Executive Officer of the Company, and members of his family, and Parent currently owns 1,001,575 shares, or 65.7%, of the issued and outstanding shares of common stock, par value $0.10 per share, of the Company (Common Stock). Merger Sub was formed solely for the purpose of engaging in the Merger (as defined below) and other related transactions. Merger Sub has not engaged in any business other than in connection with the Merger (as defined below) and other related transactions. For more information, see the section entitled *The Parties to the Merger Parent and Merger Sub* on page 54.

The Purpose of the Special Meeting (page 54)

You will be asked to consider and vote on the proposal to adopt the Agreement and Plan of Merger, dated as of June 4, 2013, by and among Parent, Merger Sub and the Company, as amended by that certain Amendment to Agreement and Plan of Merger, dated as July 11, 2013 (as it may be further amended from time to time, the Merger Agreement). The Merger Agreement provides that Merger Sub will be merged with and into the Company (the Merger), at the effective time of the Merger (the Effective Time), whereupon the separate corporate existence of Merger Sub will cease, and the Company will continue as the surviving company in the Merger (the Surviving Corporation) and a wholly owned subsidiary of Parent. At the Effective Time, each share of Common Stock outstanding immediately prior to the Effective Time (other than shares held by Parent, Merger Sub, the Company or any wholly owned subsidiary of the Company or held in the Company s treasury (such shares, Excluded Shares) and shares outstanding immediately prior to the Effective Time held by any stockholder who has neither voted in favor of the Merger nor consented thereto in writing and who has demanded properly in writing appraisal for such shares or otherwise properly perfected and not withdrawn or lost his or her rights of appraisal under the General Corporation

Law of the State of Delaware (the DGCL) (such shares, Dissenting Shares) will be converted into the right to receive $10.00 in cash, without interest (the Merger

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Consideration), whereupon all such shares will be automatically cancelled upon the conversion thereof and will cease to exist, and the holders of such shares will cease to have any rights with respect thereto other than the right to receive the Merger Consideration. Excluded Shares will not be entitled to receive the Merger Consideration. Parent will be entitled to deduct and withhold from the Merger Consideration otherwise payable any amounts that are required to be withheld or deducted under the Internal Revenue Code of 1986, as amended (the Code), or any provision of U.S., state, local or foreign tax laws. To the extent that amounts are withheld or deducted, those withheld or deducted amounts will be treated for all purposes as having been paid to the holder of the shares of Common Stock in respect of which such deduction and withholding were made.

Deregistration of the Company s Common Stock (page 39)

Following, and as a consequence of, the Merger, the Company will become a privately held company and a wholly owned subsidiary of Parent. Shares of our Common Stock will no longer be listed and publicly traded and will be deregistered under the Securities Exchange Act of 1934, as amended (the Exchange Act),

Market Price of the Company s Common Stock (page 39)

Shares of Common Stock are traded on the NYSE MKT under the ticker symbol HWG . The closing price of our Common Stock on the NYSE MKT on June 4, 2013, the last trading day prior to our public announcement of the Merger Agreement on June 5, 2013, was $8.05 per share. On November 12, 2013, the closing price of our Common Stock on the NYSE MKT was $9.95 per share. The Company has not paid any cash dividends on its Common Stock since 2008. You are encouraged to obtain current market quotations for our Common Stock.

The Special Meeting (page 54)

The special meeting of stockholders will be held at 3710 Rawlins, Suite 1500, Dallas, Texas 75219, on [ ], 2013 at [ ], Central Time.

Record Date and Quorum

The holders of record of Common Stock as of the close of business on [ ], 2013, the record date for determination of stockholders entitled to notice of and to vote at the special meeting (the Record Date), are entitled to receive notice of and to vote at the special meeting.

The presence at the special meeting, in person or by proxy, of the holders of a majority of the shares of Common Stock entitled to vote on the record date will constitute a quorum, permitting the Company to conduct its business at the special meeting.

The Proposals

At the special meeting, you will be asked to (i) consider and vote on a proposal to adopt the Merger Agreement, (ii) approve the adjournment of the special meeting, if necessary or appropriate, to solicit additional proxies if there are insufficient votes at the time of the special meeting to approve the proposal to adopt the Merger Agreement and (iii) act upon other business as may properly come before the special meeting or any adjournment or postponement thereof by or at the direction of the Board.

Required Vote

For the Company to consummate the Merger, under the DGCL, stockholders holding at least a majority of the shares of Common Stock outstanding and entitled to vote at the close of business on the record date must vote **FOR** the proposal to adopt the Merger Agreement. In addition, the Merger Agreement provides that the

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closing of the Merger (the Closing) is subject to a non-waivable condition that the Merger Agreement be adopted by (i) the affirmative vote of the holders of a majority of the outstanding shares of Common Stock entitled to vote on the adoption of the Merger Agreement, voting together as a single class, and (ii) the affirmative vote of the holders of a majority of the outstanding shares of Common Stock, voting together as a single class, excluding all shares of Common Stock owned by Parent, Merger Sub, Mr. Gumbiner or any of their respective affiliates (other than the Company and its subsidiaries), or by any director, officer or other employee of the Company or any of its subsidiaries. See *The Special Meeting Required Vote* on page 55.

Voting; Proxies; Revocation (page 46)

Attendance

All holders of shares of Common Stock as of the close of business on the Record Date including stockholders of record and beneficial owners of Common Stock registered in the street name of a bank, broker or other nominee, are invited to attend the special meeting. If you wish to attend the special meeting and are a stockholder of record, please be prepared to provide proper identification, such as a driver s license. If you hold your shares in street name, you will need to provide proof of ownership, such as a recent account statement or letter from your bank, broker or other nominee, along with proper identification.

Voting in Person

Stockholders of record will be able to vote in person at the special meeting. If you are not a stockholder of record, but instead hold your shares in street name through a bank, broker or other nominee, you must provide a proxy executed in your favor from your bank, broker or other nominee in order to be able to vote in person at the special meeting.

Providing Voting Instructions by Proxy

To ensure that your shares are represented at the special meeting, we recommend that you provide voting instructions promptly by proxy, even if you plan to attend the special meeting in person.

If you are a stockholder of record, you may provide voting instructions by proxy by completing, signing, dating and returning the enclosed proxy card. You may alternatively follow the instructions on the enclosed proxy card for Internet or telephone submissions.

For more information, see the section entitled *The Special Meeting Voting; Proxies; Revocation* beginning on page 56.

Revocation of Proxies (page 57)

Your proxy is revocable. If you are a stockholder of record, you may revoke your proxy at any time before the vote is taken at the special meeting by:

submitting a new proxy with a later date, by using the telephone or Internet proxy submission procedures described in the proxy card, or by completing, signing, dating and returning a new proxy card by mail to the Company;

attending the special meeting and voting in person; or

sending written notice of revocation to the Corporate Secretary of the Company at The Hallwood Group Incorporated, Attn: Corporate Secretary, 3710 Rawlins, Suite 1500, Dallas, Texas 75219.

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Attending the special meeting in person without taking one of the actions described above will not in itself revoke a previously submitted proxy. Please note that if you want to revoke your proxy by mailing a new proxy card to the Company or by sending a written notice of revocation to the Company, you should ensure that you send your new proxy card or written notice of revocation in sufficient time for it to be received by the Company before the day of the special meeting.

If you hold your shares in street name through a bank, broker or other nominee, you will need to follow the instructions provided to you by your bank, broker or other nominee in order to revoke your proxy or submit new voting instructions.

Abstentions (page 57)

Abstentions will be included in the calculation of the number of shares of Common Stock represented at the special meeting for purposes of determining whether a quorum has been achieved. Abstaining from voting will have the same effect as a vote **AGAINST** the proposal to adopt the Merger Agreement and **AGAINST** the proposal to approve the adjournment of the special meeting, if necessary or appropriate, to solicit additional proxies if there are insufficient votes at the time of the special meeting to approve the proposal to adopt the Merger Agreement.

Appraisal Rights (pages 57, 78, and Annex C)

Pursuant to Section 262 of the DGCL (Section 262), stockholders who do not vote in favor of the Merger and who comply with the applicable requirements of Section 262 and do not withdraw or otherwise lose the rights to an appraisal are entitled to statutory appraisal rights under Delaware law in connection with the Merger. This means that if you comply precisely with the requirements of Section 262, you are entitled to seek appraisal of the fair value of your shares of Common Stock determined by the Court of Chancery of the State of Delaware and to receive payment based on that valuation instead of receiving the Merger Consideration. If you validly exercise (and do not withdraw or lose) appraisal rights, the ultimate amount you may be entitled receive in an appraisal proceeding may be more than, the same as or less than the amount you would have received under the Merger Agreement. To exercise your appraisal rights, (i) you must submit a written demand for appraisal to us before the vote is taken on the Merger Agreement, (ii) you must NOT vote in favor of the proposal to adopt the Merger Agreement and (iii) you must otherwise comply with the requirements of Section 262. Your failure to follow precisely the procedures specified under Delaware law could result in the loss of your appraisal rights. See the section entitled *Rights of Appraisal* beginning on page 78 and the text of the Delaware appraisal rights statute, Section 262, which is reproduced in its entirety as Annex C to this proxy statement.

Adjournments and Postponements (page 58)

Although it is not currently expected, the special meeting may be adjourned or postponed for the purpose of soliciting additional proxies. In the event that there is present, in person or by proxy, sufficient favorable voting power to secure the vote of the stockholders of the Company necessary to approve the proposal to adopt the Merger Agreement, the Company does not anticipate that it will adjourn or postpone the special meeting unless it is advised by counsel that such adjournment or postponement is necessary under applicable law to allow additional time for any disclosure. Any signed proxies received by the Company in which no voting instructions are provided on such matter will be voted in favor of an adjournment in these circumstances. The time and place of the adjourned meeting will be announced at the time the adjournment is taken, and no other notice need be given, unless the adjournment is for more than 30 days. Any adjournment or postponement of the special meeting for the purpose of soliciting additional proxies will allow the Company s stockholders who have already sent in their proxies to revoke them at any time prior to their use at the special meeting as adjourned or postponed.

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Structure of the Merger (page 59)

Upon and subject to the terms of the Merger Agreement and in accordance with DGCL, at the Effective Time, Merger Sub will merge with and into the Company, whereupon the separate corporate existence of Merger Sub will cease, and the Company will continue as the Surviving Corporation in the Merger and a wholly owned subsidiary of Parent.

Merger Consideration (page 44)

As a consequence of the Merger, each share of Common Stock issued and outstanding immediately prior to the Effective Time (other than Excluded Shares and any Dissenting Shares) will be converted automatically into and will thereafter represent the right to receive the Merger Consideration. All Shares (other than Excluded Shares and any Dissenting Shares) will, upon conversion, cease to be outstanding and will automatically be cancelled and will cease to exist, and each holder of (i) a certificate that immediately prior to the Effective Time represented such shares or (ii) uncertificated shares represented by book-entry that immediately prior to the Effective Time represented such shares will cease to have any rights with respect thereto, except the right to receive the Merger Consideration, without interest, upon surrender of such certificate or book-entry shares in accordance with the Merger Agreement.

Payment Procedures and Exchange of Certificates (page 60)

At or prior to the Effective Time, Parent will deposit, or will cause to be deposited, with a U.S. bank or trust company that will be appointed by Parent (that is reasonably acceptable to the Company) to act as paying agent under the Merger Agreement (the Paying Agent), in trust for the benefit of the holders of our Common Stock, sufficient cash to pay to the holders of our Common Stock (other than the holders of the Excluded Shares and Dissenting Shares) the Merger Consideration. In the event any Dissenting Shares cease to be Dissenting Shares, Parent will deposit, or will cause to be deposited, with the Paying Agent sufficient cash to pay to the holders of such Common Stock the Merger Consideration of $10.00 per share, without interest.

As soon as reasonably practicable after the Effective Time and in any event no later than the fifth business day following the Effective Time, the Paying Agent will mail to each record holder of shares of Common Stock that were converted into the Merger Consideration a letter of transmittal and instructions for use in effecting the surrender of certificates that formerly represented shares of the Common Stock or non-certificated shares represented by book-entry in exchange for the Merger Consideration. For more information regarding the exchange of certificates, see the section entitled *The Merger Agreement Payment Procedures and Exchange of Certificates* beginning on page 60.

Conditions to the Merger (page 67)

The obligations of each of the Company, Parent and Merger Sub to consummate the Merger are subject to several conditions. For a more detailed discussion of these conditions, see the section entitled *The Merger Agreement Conditions to the Merger* beginning on page 67.

When the Merger Becomes Effective (page 60)

The Merger will become effective when the Company files a certificate of merger with the Secretary of State of the State of Delaware or at such later date or time as Parent and the Company may agree in writing and specify in the certificate of merger in accordance with the DGCL.

The Closing will take place on a date which will be no later than the fifth business day after the satisfaction or waiver (to the extent permitted by applicable law) of the closing conditions stated in the Merger Agreement (other than those conditions that by their nature are to be satisfied at the Closing, but subject to the satisfaction or waiver of such conditions) or at such other time and date as the Company and Parent may agree in writing.

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The Company currently expects the Closing to occur soon after the special meeting. The Company, however, can provide no assurance that the Closing will occur by any particular date, if at all. Because the Closing is subject to a number of conditions, the exact timing of the Closing cannot be determined at this time.

Reasons for the Merger; Fairness of the Merger; Recommendations of the Special Committee and the Board (page 25)

The Board, acting upon the unanimous recommendation of a special committee of the Board consisting solely of three independent and disinterested directors of the Company (the Special Committee), unanimously (without Mr. Gumbiner s participation) recommended that the stockholders of the Company vote **FOR** the proposal to adopt the Merger Agreement. For a description of the reasons considered by the Special Committee and the Board in deciding to recommend approval of the proposal to adopt the Merger Agreement, see the section entitled *Special Factors Background of the Merger Reasons for the Merger; Fairness of the Merger; Recommendations of the Special Committee and the Board* beginning on page 25.

Opinion of Southwest Securities (page 28 and Annex B)

The Special Committee retained Southwest Securities, Inc. (Southwest Securities) to act as its independent financial advisor in connection with the proposed Merger. At the Special Committee meeting held on June 4, 2013, Southwest Securities rendered its oral opinion, and subsequently confirmed in writing, that as of June 4, 2013, and based upon and subject to the factors and assumptions set forth therein, the consideration to be paid to the holders of Common Stock (other than Excluded Shares and Dissenting Shares) in the proposed Merger was fair, from a financial point of view, to such stockholders.

The full text of the written opinion of Southwest Securities, dated June 4, 2013, is attached to this proxy statement as Annex B and is incorporated into this proxy statement by reference. The opinion sets forth, among other things, the assumptions made, procedures followed, matters considered and limits on the review undertaken by Southwest Securities in rendering its opinion. You are urged to read the opinion carefully and in its entirety. Southwest Securities written opinion that was provided to the Special Committee and the Board, is directed only to the fairness from a financial point of view of the Merger Consideration to be paid in the proposed Merger and it does not constitute a recommendation to any stockholder of the Company as to how such stockholder should vote with respect to the Merger or any other matter, nor does Southwest Securities intend to update its opinion or further opine on any matters related hereto. For a further discussion of Southwest Securities opinion, see the section entitled *Special Factors Background of the Merger Opinion of Southwest Securities* beginning on page 28 and Annex B to this proxy statement.

Purposes and Reasons of the Company for the Merger (page 25)

The Company s purpose for engaging in the Merger is to enable its stockholders to receive the Merger Consideration, which represents a premium of approximately 78.3% above the closing price of our Common Stock on November 8, 2012, the last trading day prior to the Company s public announcement of the proposal received from Parent. For more information on the Company s purposes and reasons for engaging in the Merger, see the section entitled *Special Factors Background of the Merger Reasons for the Merger; Fairness of the Merger; Recommendations of the Special Committee and the Board* beginning on page 25.

Certain Effects of the Merger (page 39)

If the conditions to the Closing are either satisfied or, to the extent permitted, waived, Merger Sub will be merged with and into the Company with the Company surviving the Merger as a wholly owned subsidiary of Parent. Upon the Closing, shares of Common Stock (other than Excluded Shares and Dissenting Shares) will be converted into the right to receive the Merger Consideration, all such shares will be automatically cancelled upon

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the conversion thereof and will cease to exist, and the holders of such shares will cease to have any rights with respect thereto other than the right to receive the Merger Consideration. Following the Closing, Common Stock will no longer be publicly traded, and current stockholders (other than Parent and its affiliates) will cease to have any ownership interest in the Company. For more information, see the section entitled *Special Factors Certain Effects of the Merger* beginning on page 39.

Interests of the Company s Directors and Executive Officers in the Merger (page 44)

As of June 4, 2013, Hallwood Trust and Mr. Gumbiner, a director and the chief executive officer of the Company, beneficially owned through Parent 1,001,575 shares of Common Stock, in the aggregate, or approximately 65.7% of the total number of outstanding shares of Common Stock. Common Stock beneficially owned by Hallwood Trust and Mr. Gumbiner will be cancelled in the Merger without consideration, and the outstanding shares of Merger Sub will be converted into, and constitute the only outstanding shares, of the Surviving Corporation, with the result that Parent will be the sole stockholder of the Surviving Corporation after the Effective Time, as discussed in the section entitled *Special Factors Interests of the Company s Directors and Executive Officers in the Merger* beginning on page 44. The Special Committee and the Board were aware of the different or additional interests set forth herein and considered such interests along with other matters in approving the Merger Agreement and the transactions contemplated thereby, including the Merger, and recommending that the Company s stockholders vote to adopt the Merger Agreement.

Financing the Merger (page 44)

Parent will satisfy the funding required for the Merger from the working capital and personal funds of Parent and its affiliates. For more information, see the section entitled *Special Factors Financing the Merger* beginning on page 44.

Material U. S. Federal Income Tax Consequences of the Merger (page 44)

If you are a U.S. holder, the receipt of cash in exchange for shares of Common Stock pursuant to the Merger will generally be a taxable transaction for U.S. federal income tax purposes. You should consult your own tax advisors regarding the particular tax consequences to you of the exchange of shares of Common Stock for cash pursuant to the Merger in light of your particular circumstances (including the application and effect of any state, local or foreign income and other tax laws). For more information, see the section entitled *Special Factors Material U.S. Federal Income Tax Consequences of the Merger* beginning on page 44.

Regulatory Approvals (page 47)

The Company does not believe that the filing of notification and report forms under the Hart-Scott-Rodino Act will be necessary to complete the Merger. However, at any time before or after the Merger, the U.S. Department of Justice, the Federal Trade Commission, a state attorney general or a foreign competition authority could take such action under antitrust laws as it deems necessary or desirable in the public interest, including seeking to enjoin the Merger or seeking divestiture of substantial assets of the Company or Merger Sub or their respective subsidiaries. Private parties may also bring legal actions under the antitrust laws under certain circumstances. Notwithstanding the fact that no such filings are required, there can be no assurance that a challenge to the Merger on antitrust grounds will not be made or, if a challenge is made, of the result of such challenge.

Litigation (page 47)

On August 23, 2013, a complaint was filed in the Court of Chancery of the State of Delaware captioned Sample v. Gumbiner et al., Civil Action No. 8833-VCN. The action names as defendants the directors of the Company, and also named as defendants Parent and Merger Sub. Hallwood Group is also named as a defendant,

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or in the alternative, as a nominal defendant. No date has yet been set for defendants to respond to the complaint. The defendants intend to defend the action. For a more information, see the section entitled *Special Factors Litigation* beginning on page 47.

No Solicitation (page 65)

Until the Effective Time, the Company, its subsidiaries and their respective representatives are subject to customary no shop restrictions on their ability to initiate, solicit, knowingly encourage (including by providing information) or knowingly facilitate any inquiries, proposals or offers with respect to, or the making or completion of, an Alternative Proposal (as defined below). However, if following the date of the Merger Agreement and prior to the Company obtaining the required stockholder approvals, (i) the Company receives an unsolicited written Alternative Proposal, (ii) the Company has not breached the no shop provision, (iii) the Board (acting through the Special Committee, if then in existence) determines, in good faith, after consultation with its outside counsel and financial advisors, that such Alternative Proposal constitutes or is reasonably likely to result in a Superior Proposal (as defined below) and (iv) after consultation with its outside counsel, the Board of Directors (acting through the Special Committee, if then in existence) determines in good faith that failure to take such action could reasonably be expected to be inconsistent with its fiduciary duties under applicable law, then the Company may (A) furnish information with respect to the Company and its subsidiaries to the person making such Alternative Proposal and its representatives pursuant to a customary confidentiality agreement with a standstill provision and (B) participate in discussions or negotiations with such person and its representatives regarding such Alternative Proposal. As used in the Merger Agreement, Alternative Proposal means any inquiry, proposal or offer from any person or group of persons other than Parent or one of its subsidiaries (1) for a merger, reorganization, consolidation, recapitalization or other business combination, liquidation, dissolution or similar transaction involving the Company or any of its subsidiaries, (2) for the issuance by the Company of over 20% of its equity securities as consideration for the assets or securities of another person or (3) to acquire in any manner, directly or indirectly, over 20% of the equity securities or consolidated total assets of the Company and its subsidiaries, in each case, other than the Merger.

As used in the Merger Agreement, Superior Proposal means a bona fide, unsolicited, written Alternative Proposal (except that references to 20% in the definition of such term will be deemed to be references to 50%) made in writing and not solicited in violation of the no shop provision that the Board (acting through the Special Committee, if then in existence) determines in good faith, after consultation with outside legal counsel and financial advisors, (i) is reasonably likely to be consummated in accordance with its terms, taking into account all legal, financial and regulatory aspects of the proposal and the person making the proposal (including any conditions relating to financing, regulatory approvals or other events or circumstances beyond the control of the party invoking the condition), (ii) for which financing, if a cash transaction (whether in whole or in part), is then fully committed, and (iii) if consummated, would result in a transaction more favorable to the holders of Common Stock in their sole capacity as such (other than Parent and Merger Sub) from a financial point of view (including the effect of any termination fee or provision relating to the reimbursement of expenses) than the transaction contemplated by the Merger Agreement (after taking into account any revisions to the terms of the transaction contemplated by the no shop provision and the time likely to be required to consummate such Alternative Proposal).

Additionally, neither the Board nor any committee thereof may withdraw or modify in a manner adverse to Parent or Merger Sub, or publicly propose to withdraw or modify in a manner adverse to Parent or Merger Sub or fail to publicly reaffirm as promptly as practicable (but in any event within five business days after written receipt of any written request to do so from Parent), its recommendation (a Recommendation Change). Notwithstanding the foregoing, with respect to (aa) an event, fact, circumstance, development or occurrence that affects the business, assets or operations of the Company that is unknown to the Board or any committee thereof as of the date of the Merger Agreement and becomes known to the Board or any committee thereof (an Intervening Event) or (bb) an

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Alternative Proposal, the Board (acting through the Special Committee, if then in existence) may at any time prior to receipt of the required stockholder approvals, make a Recommendation Change and/or terminate the Merger Agreement if (and only if):

- in the case of an Alternative Proposal, the Alternative Proposal (that did not result from a breach of the no shop provision) is made to the Company by a third party, and such Alternative Proposal is not withdrawn, the Board (acting through the Special Committee, if then in existence) determines in good faith after consultation with its financial advisors and outside legal counsel that such Alternative Proposal constitutes a Superior Proposal and the Board (acting through the Special Committee, if then in existence) determines to terminate the Merger Agreement; and

- in the case of an Intervening Event, following consultation with outside legal counsel, the Board (acting through the Special Committee, if then in existence) determines that the failure to make a Recommendation Change could reasonably be expected to be inconsistent with the fiduciary duties of the Board (acting through the Special Committee, if then in existence) under applicable laws.

In either case, (x) the Company must provide Parent three business days prior written notice of its intention to take such action, which notice must include the information with respect to such Superior Proposal (if applicable) that is specified in the no shop provision or a description of such Intervening Event (if applicable) and must otherwise specify the basis for the Recommendation Change or proposed termination, (y) after providing such notice and prior to making such Recommendation Change in connection with an Intervening Event or a Superior Proposal, or taking any action to terminate the Merger Agreement with respect to a Superior Proposal, as applicable, the Company must negotiate in good faith with Parent during such three business day period (to the extent that Parent desires to negotiate) to make such revisions to the terms of the Merger Agreement as would permit the Board and the Special Committee not to effect a Recommendation Change in connection with an Intervening Event or a Superior Proposal or to take such action to terminate the Merger Agreement in response to a Superior Proposal, and (z) the Board and the Special Committee must have considered in good faith any changes to the Merger Agreement offered in writing by Parent and must have determined in good faith, after consultation with its outside legal counsel and financial advisors, that the event continues to constitute an Intervening Event or that the Superior Proposal would continue to constitute a Superior Proposal, in each case, if such changes offered in writing by Parent were to be given effect. However, neither the Board nor any committee thereof may effect a Recommendation Change in connection with an Intervening Event or a Superior Proposal or take any action to terminate the Merger Agreement with respect to a Superior Proposal prior to the time that is three business days after it has provided the required written notice; provided, further, that in the event that the Alternative Proposal is modified subsequently by the party making such Alternative Proposal, the Company must provide written notice of such modified Alternative Proposal and must again comply with the no shop provision.

See the section entitled *The Merger Agreement Non-Solicitation* beginning on page 65.

Termination (page 68)

The Merger Agreement may be terminated and abandoned at any time prior to the Effective Time, whether before or (subject to the terms of the Merger Agreement) after any approval of the matters presented in connection with the Merger by the stockholders of the Company:

by the mutual written consent of the Company and Parent;

by either the Company or Parent, if:

the Effective Time shall not have occurred on or before the one year anniversary of the date of the Merger Agreement (the End Date), and the party seeking to terminate the Merger Agreement shall not have breached its obligations under the Merger Agreement in any manner that shall have proximately caused the failure to consummate the Merger on or before such date;

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an injunction, other legal restraint or order shall have been entered permanently restraining, enjoining or otherwise prohibiting the consummation of the Merger and such injunction, other legal restraint or order shall have become final and nonappealable; provided, that the party seeking to terminate the Merger Agreement shall have used its commercially reasonable efforts to remove such injunction, other legal restraint or order in accordance with the Merger Agreement; or

the special meeting (including any adjournments thereof) shall have concluded and the stockholder approvals contemplated by the Merger Agreement shall not have been obtained;

by the Company:

if there shall have been a breach of any of the covenants or agreements or failure to be true of any of the representations or warranties on the part of Parent, which breach or failure to be true, either individually or in the aggregate (A) would result in a failure of a closing condition of Parent and Merger Sub set forth in the Merger Agreement and (B) cannot be cured by the End Date; provided, that the Company shall have given Parent written notice, delivered at least 30 days prior to such termination, stating the Company s intention to terminate the Merger Agreement and the basis for such termination; provided, further, that the Company shall not have the right to terminate the Merger Agreement if the Company is then in material breach of any of its representations, warranties, covenants or agreements contained in the Merger Agreement; or

prior to obtaining the required stockholder approvals, in order to enter into a definitive agreement with respect to a Superior Proposal, but only if the Company has complied in all material respects with its obligations under the no shop provisions;

by Parent:

if there shall have been a breach of any of the covenants or agreements or failure to be true of any of the representations or warranties on the part of the Company which breach or failure to be true, either individually or in the aggregate (A) would result in a failure of a closing condition of the Company set forth in the Merger Agreement and (B) which is not cured within the earlier of (I) the End Date; and (II) 30 days following written notice to the Company; provided, that Parent shall have given the Company written notice, delivered at least 30 days prior to such termination, stating Parent s intention to terminate the Merger Agreement and the basis for such termination; provided, further, that Parent shall not have the right to terminate the Merger Agreement if Parent is then in material breach of any of its representations, warranties, covenants or agreements contained in the Merger Agreement;

prior to obtaining the required stockholder approvals, if the Board or the Special Committee withdraws or modifies, in a manner adverse to Parent or Merger Sub, or publicly proposes to withdraw or modify, in a manner adverse to Parent or Merger Sub, its recommendation, fails to use commercially reasonable efforts to obtain the required stockholder approvals in accordance with the Merger

Agreement or approves or recommends, or publicly proposes to approve or recommend, any Alternative Proposal; or

prior to obtaining the required stockholder approvals, if the Company or any of its subsidiaries or representatives materially breaches its obligations under the no shop provision or its obligations under the Merger Agreement concerning filings and other actions related to this proxy statement or the Company gives Parent notification that it intends to make a Recommendation Change and/or terminate the Merger Agreement due to an Alternative Proposal or Intervening Event contemplated by the Merger Agreement.

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Fees and Expenses (pages 47, 69)

If the Merger is not consummated, all costs and expenses incurred in connection with the Merger, the Merger Agreement and the transactions contemplated thereby shall be paid by the party incurring or required to incur such expenses. If the Merger is consummated, all costs and expenses incurred by Parent or Merger Sub in connection with the Merger, the Merger Agreement and the transactions contemplated thereby shall be paid by the Surviving Corporation and/or, to the extent applicable, reimbursed to Parent by the Surviving Corporation. See the section entitled *Special Factors Fees and Expenses* beginning on page 47 and the section entitled *The Merger Agreement Fees and Expenses* beginning on page 69.

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QUESTIONS AND ANSWERS ABOUT THE SPECIAL MEETING AND THE MERGER

The following questions and answers address briefly some questions you may have regarding the special meeting of stockholders, the Merger Agreement and the Merger. These questions and answers may not address all questions that may be important to you as a stockholder of the Company. Please refer to the more detailed information contained elsewhere in this proxy statement, the annexes to this proxy statement and the documents referred to in or incorporated by reference into this proxy statement.

Q: Why am I receiving this proxy statement?

A: On June 4, 2013, we entered into the Merger Agreement providing that Merger Sub will be merged with and into the Company, whereupon the separate corporate existence of Merger Sub will cease, and the Company will continue as the Surviving Corporation and a wholly owned subsidiary of Parent. Following the Effective Time, the Company would be privately held as a wholly owned subsidiary of Parent. As our stockholders must vote on the adoption of the Merger Agreement, you are receiving this proxy statement in connection with the solicitation of proxies by the Board in favor of the proposal to adopt the Merger Agreement and the other matters to be voted on at the special meeting (if any).

Q: What matters will be voted on at the special meeting?

A: You will be asked to consider and vote on the following proposals:

- to adopt the Merger Agreement;
- to approve the adjournment of the special meeting, if necessary or appropriate, to solicit additional proxies if there are insufficient votes at the time of the special meeting to approve the proposal to adopt the Merger Agreement; and
- to act upon other business that may properly come before the special meeting or any adjournment or postponement thereof by or at the direction of the Board.

Q: Where and when is the special meeting?

A: The special meeting will be held at 3710 Rawlins, Suite 1500, Dallas, Texas 75219 on [ ], 2013, at [ ], Central Time.

Q: Who can attend and vote at the special meeting?

A: All stockholders of record as of the close of business on the Record Date are entitled to receive notice of and to attend and vote at the special meeting, or any adjournment or postponement thereof. A complete list of stockholders entitled to vote at the special meeting will be available for examination by any stockholder at 3710 Rawlins, Suite 1500, Dallas, Texas 75219, during regular business hours for a period of no less than ten days before the special meeting, and at the special meeting. We are commencing our solicitation of proxies on [ ], 2013, which is before the Record Date. We will continue to solicit proxies until the date of the special meeting. Each stockholder of record on [ ], 2013 who has not yet received a proxy statement prior to that date will receive a proxy

statement and have the opportunity to vote on the matters described in the proxy statement. Proxies delivered prior to the Record Date will be valid and effective so long as the stockholder providing the proxy is a stockholder on the Record Date. If you are not a holder of record on the Record Date, any proxy you deliver will be ineffective. If you deliver a proxy prior to the Record Date and remain a holder on the Record Date, you do not need to deliver another proxy after the Record Date. If you deliver a proxy prior to the Record Date and do not revoke that proxy, your proxy

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will be deemed to cover the number of shares you own on the Record Date even if that number is different from the number of shares you owned when you executed and delivered your proxy. Proxies received from persons who are not holders of record on the Record Date will not be effective. If you wish to attend the special meeting and are a stockholder of record on the Record Date, please be prepared to provide proper identification, such as a driver s license. If you wish to attend the special meeting and your shares of Common Stock are held in street name by your broker, bank or other nominee, you will need to provide proof of ownership, such as a recent account statement or letter from your bank, broker or other nominee, along with proper identification. Street name holders who wish to vote at the special meeting will need to obtain a proxy executed in such holder s favor from the broker, bank or other nominee that holds their shares of Common Stock. Seating will be limited at the special meeting.

Q: What is a quorum?

A: In order for any matter to be considered at the special meeting, there must be a quorum present. The presence, in person or represented by proxy, of the holders of a majority of the shares of the Common Stock entitled to vote on such matters as of the Record Date will constitute a quorum. Shares of Common Stock represented by proxies reflecting abstentions and properly executed broker non-votes (if any) will be counted as present and entitled to vote for purposes of determining a quorum. If a quorum is not present, the stockholders entitled to vote at the meeting who are present or represented by proxy may adjourn the meeting until a quorum is present. See the section entitled *The Special Meeting Record Date and Quorum* on page 55.

Q: What will I receive in the Merger?

A: If the Closing occurs, you will be entitled to receive $10.00 in cash, without interest, for each share of Common Stock you own, unless you properly exercise, and do not withdraw or lose, appraisal rights under Section 262. For example, if you own 100 shares of Common Stock, you will be entitled to receive $1,000 in cash in exchange for your shares of Common Stock, without interest. You will not be entitled to receive shares in the Surviving Corporation or in Parent. Parent will be entitled to deduct and withhold from the Merger Consideration otherwise payable, any amounts that are required to be withheld or deducted under the Code, or any provision of U.S., state, local or foreign laws. To the extent that the amounts are withheld or deducted, those withheld or deducted amounts will be treated for all purposes as having been paid to the holder of shares of Common Stock in respect of which such deduction and withholding were made.

Q: Is the Merger expected to be taxable to me?

A: If you are a U.S. holder, the receipt of cash for your shares of Common Stock as part of the Merger will generally be a taxable transaction for U.S. federal income tax purposes. If you are a non-U.S. holder, the receipt of cash for your shares of Common Stock as part of the Merger will generally not be a taxable transaction for U.S. federal income tax purposes, unless you have certain connections to the United States. See the section entitled *Special Factors Material U.S. Federal Income Tax Consequences of the Merger* beginning on page 44. You should consult your own tax advisors regarding the particular tax consequences to you of the exchange of shares of Common Stock for cash pursuant to the Merger in light of your particular circumstances (including the application and effect of any state, local, foreign and other tax laws).

Q: What vote of our stockholders is required to approve the proposal to adopt the Merger Agreement?

A: Under Delaware law, stockholders holding at least a majority of the shares of Common Stock outstanding and entitled to vote at the close of business on the Record Date must vote **FOR** the proposal to adopt the Merger Agreement. In addition, the Merger Agreement provides that the Closing is subject to a

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non-waivable condition that the Merger Agreement be adopted by (i) the affirmative vote of the holders of a majority of the outstanding shares of our Common Stock entitled to vote on the adoption of the Merger Agreement, voting together as a single class, and (ii) the affirmative vote of the holders of a majority of the outstanding shares of Common Stock, voting together as a single class, excluding all shares of Common Stock owned by Parent, Merger Sub, Mr. Gumbiner or any of their respective affiliates (other than the Company and its subsidiaries), or by any director, officer or other employee of the Company or any of its subsidiaries. A failure to vote your shares of Common Stock or an abstention from voting or broker non-vote will have the same effect as a vote against the proposal to adopt the Merger Agreement. As of October 31, 2013, there were 1,525,166 shares of Common Stock issued and outstanding, such being the only class of capital stock and representing [ ] votes in the aggregate to which such class is entitled.

Q: What will happen if I abstain from voting or fail to vote on the proposal to adopt the Merger Agreement?

A: A failure to vote your shares of Common Stock or an abstention from voting will have the same effect as a vote **AGAINST** the proposal to adopt the Merger Agreement. Abstentions will be included in the calculation of the number of shares of Common Stock represented at the special meeting for purposes of determining whether a quorum has been achieved. See the section entitled *The Special Meeting Required Vote* on page 55.

Q: What vote of our stockholders is required to approve other matters to be discussed at the special meeting?

The proposal to approve the adjournment of the special meeting, if necessary or appropriate, to solicit additional proxies if there are insufficient votes at the time of the special meeting to approve the proposal to adopt the Merger Agreement requires the affirmative vote of the holders of a majority of the shares of Common Stock present or represented by proxy and entitled to vote thereon.

Q: How does the Board recommend that I vote?

A: The Board (without Mr. Gumbiner s participation), acting on the unanimous recommendation of the Special Committee, unanimously recommends that our stockholders vote:

FOR the proposal to adopt the Merger Agreement;

FOR the proposal to approve the adjournment of the special meeting, if necessary or appropriate, to solicit additional proxies if there are insufficient votes at the time of the special meeting to approve the proposal to adopt the Merger Agreement.

You should read the section entitled *Special Factors Background of the Merger Reasons for the Merger; Fairness of the Merger; Recommendations of the Special Committee and the Board* beginning on page 25 for a discussion of the factors that the Special Committee and the Board (without Mr. Gumbiner s participation) considered in deciding to recommend the approval of the Merger Agreement and the section entitled *Special Factors Interests of the Company s Directors and Executive Officers in the Merger* beginning on page 44.

Q: How will the Company s directors and executive officers vote on the proposal to adopt the Merger Agreement?

A: Of the Company s directors and current executive officers, only Mr. Charles A. Crocco, Jr. (director) and Mr. Gumbiner, through Parent, own shares of Common Stock. Mr. Crocco has informed the Company that,

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as of the date of the filing of this proxy statement, he intends to vote in favor of the proposal to adopt the Merger Agreement. As of November 1, 2013, Mr. Crocco owned 9,996 shares of Common Stock entitled to vote at the special meeting.

Q: Am I entitled to exercise appraisal rights instead of receiving the Merger Consideration for my shares of Common Stock?

A: Pursuant to Section 262, stockholders who do not vote in favor of the Merger and who comply with the applicable requirements of Section 262 and do not withdraw or otherwise lose the right of appraisal are entitled to statutory appraisal rights under Delaware law in connection with the Merger. This means that if you comply precisely with the requirements of Section 262, you are entitled to seek appraisal of the fair value of your shares of Common Stock determined by the Court of Chancery of the State of Delaware and to receive payment based on that valuation instead of receiving the Merger Consideration. If you validly exercise (and do not withdraw or lose) appraisal rights, the ultimate amount you may be entitled receive in an appraisal proceeding may be more than, the same as or less than the amount you would have received under the Merger Agreement. To exercise your appraisal rights, (i) you must submit a written demand for appraisal to us before the vote is taken on the Merger Agreement, (ii) you must NOT vote in favor of the proposal to adopt the Merger Agreement and (iii) you must otherwise comply precisely with the requirements of Section 262. Your failure to follow precisely the procedures specified under Delaware law could result in the loss of your appraisal rights. See the section entitled *Rights of Appraisal* beginning on page 78 and the text of the Delaware appraisal rights statute, Section 262, which is reproduced in its entirety as Annex C to this proxy statement.

Q: What effects will the Merger have on the Company?

A: The Common Stock is currently registered under the Exchange Act, and is quoted on the NYSE MKT stock exchange (the NYSE MKT) under the symbol HWG. As a result of the Merger, the Company will cease to have publicly traded equity securities and will be wholly owned by Parent. Following the Closing, the registration of Common Stock and our reporting obligations under the Exchange Act with respect to such registration will be terminated upon application to the SEC. In addition, upon the Closing, our Common Stock will no longer be listed on the NYSE MKT or any other stock exchange or quoted on any quotation system.

Q: When is the Merger expected to be completed?

A: The parties to the Merger Agreement are working to complete the Merger as quickly as possible. In order to complete the Merger, the Company must obtain the stockholder approvals described in this proxy statement and the other closing conditions under the Merger Agreement must be satisfied or waived. The Company currently expects the Closing to occur soon after the special meeting. The Company, however, can provide no assurance that the Closing will occur by any particular date, if at all. Because the Closing is subject to a number of conditions, the exact timing of the Merger cannot be determined at this time. For more information, see *The Merger Agreement When the Merger Becomes Effective* beginning on page 60.

Q: What happens if the Merger is not consummated?

A: If the proposal to adopt the Merger Agreement is not approved by the Company s stockholders, or if the Merger is not consummated for any other reason, the Company s stockholders will not receive any payment for their shares in connection with the Merger. Instead, the Company will remain a public company and shares of its Common Stock will continue to be listed and traded on the NYSE MKT. For more information, see the section entitled *The Merger Agreement Termination* beginning on page 68.

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Q: What do I need to do now?

A: We urge you to read this proxy statement carefully, and in its entirety, including its annexes and the documents referred to in, or incorporated by reference into, this proxy statement, and to consider how the Merger affects you. If you are a stockholder of record, you can ensure that your shares are voted at the special meeting by submitting your proxy via:

mail, using the enclosed postage-paid envelope;

telephone, using the toll-free number listed on each proxy card; or

the Internet, at the Internet address provided on each proxy card.

If you hold your shares in street name through a broker, bank or other nominee, you should follow the directions provided by your broker, bank, or other nominee regarding how to instruct your broker, bank, or other nominee to vote your shares. Without those instructions, your shares will not be voted, which will have the same effect as voting against the proposal to adopt the Merger Agreement.

Q: Should I send in my stock certificates or other evidence of ownership now?

A: No. After the Merger is completed, you will be sent a letter of transmittal with detailed written instructions for exchanging your shares of Common Stock for the Merger Consideration. If your shares of Common Stock are held in street name by your broker, bank or other nominee, you may receive instructions from your broker, bank or other nominee as to what action, if any, you need to take to effect the surrender of your street name shares in exchange for the Merger Consideration. **Do not send in your certificates now.**

Q: What happens if I sell my shares of Common Stock after the record date but before the date of the special meeting?

A: The record date for the special meeting is earlier than the date of the special meeting and the expected date on which the Closing will occur. If you transfer your shares of Common Stock after the Record Date but before the date of the special meeting, you will retain your right to vote at the special meeting (provided such shares remain outstanding on the date of the special meeting), but you will not have the right to receive the Merger Consideration to be received by the Company s stockholders in the Merger. In order to receive the Merger Consideration, you must hold your shares of Common Stock through the Closing.

Q: Can I revoke my proxy?

A: Yes. You can revoke your proxy at any time before the vote is taken at the special meeting. If you are a stockholder of record, you may revoke your proxy by notifying the Company s Corporate Secretary in writing at The Hallwood Group Incorporated, Attn: Corporate Secretary, 3710 Rawlins, Suite 1500, Dallas, Texas 75219, or by submitting a new proxy by telephone, the Internet or mail, in each case, dated after the date of the proxy being revoked. In addition, you may revoke your proxy by attending the special meeting and voting in person, although simply attending the special meeting will not cause your proxy to be revoked. If you hold your shares in street name and you have instructed a broker, bank or other nominee to vote your shares, the options described above for revoking your proxy

do not apply, and instead you must follow the instructions received from your broker, bank or other nominee to revoke your proxy or submit new voting instructions.

Q: What does it mean if I get more than one proxy card or voting instruction card?

A: If your shares are registered differently or are held in more than one account, you will receive more than one proxy or voting instruction card. Please complete and return all of the proxy cards or voting instruction cards you receive (or submit each of your proxies by telephone or the Internet, if available to you) to ensure that all of your shares are voted.

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Q: What is householding and how does it affect me?

A: The SEC permits companies to send a single set of proxy materials to any household at which two or more stockholders reside, unless contrary instructions have been received, but only if the applicable company provides advance notice and follows certain procedures. In such cases, each stockholder continues to receive a separate notice of the meeting and proxy card. Certain brokerage firms may have instituted householding for beneficial owners of Common Stock held through brokerage firms. If your family has multiple accounts holding Common Stock, you may have already received householding notification from your broker. Please contact your broker directly if you have any questions or require additional copies of this proxy statement. The broker will arrange for delivery of a separate copy of this proxy statement promptly upon your written or oral request. You may decide at any time to revoke your decision to household, and thereby receive multiple copies.

Q: Who can help answer my other questions?

A: If you have more questions about the special meeting, or require assistance in submitting your proxy or voting your shares or need additional copies of the proxy statement or the enclosed proxy card, please contact Georgeson Inc., which is acting as the Company s proxy solicitation agent:

Call Toll-Free 1-866-391-7007

Email: hallwood@georgeson.com

If your broker, bank or other nominee holds your shares, you should also call your broker, bank or other nominee for additional information.

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SPECIAL FACTORS

BACKGROUND OF THE MERGER

Background of the Merger

The Board of Directors of the Company (the Board) and management, regularly and in the ordinary course of business, evaluate potential strategic alternatives available to the Company in an effort to enhance stockholder value. In addition, Mr. Gumbiner or entities affiliated with him have from time to time discussed with the Board, or made, various proposals that would have resulted in the Company ceasing to be a public reporting company. On June 13, 2012, at Mr. Gumbiner s request, Hunton & Williams LLP (Hunton & Williams) advised the outside members of the Board that Mr. Gumbiner believed it would be appropriate for Parent to consider the status and structure of Parent s ownership of Hallwood Group and had requested that those outside members of the Board consent to Hunton & Williams representation of Parent in that connection. The outside directors provided that consent on behalf of the Company and the Board on June 21, 2012. However, during the months of July and August of 2012, Mr. Gumbiner advised the outside members of the Board that he had not determined whether, on what basis or when he might make any proposal concerning the Company.

At the meeting of the Board held on September 4, 2012, management of the Company discussed with the outside members of the Board whether it would be appropriate for the Board to consider a transaction to take the Company private, but in late October, the outside directors determined that they did not believe they were able to consider such a transaction in the abstract. After management of the Company advised Mr. Gumbiner of that determination, on about November 1, 2012, Mr. Gumbiner informed management of the Company, and on November 6, 2012, advised Mr. Crocco by telephone that Parent intended to propose to acquire all of the outstanding shares of Common Stock that were not already beneficially owned by Parent, at a cash purchase price of $10.00 per share.

Later on November 6, 2012, Mr. Gumbiner sent a letter (the Proposal Letter) to the rest of Board setting forth the proposal from Parent to acquire all of the outstanding shares of Common Stock that were not already beneficially owned by Parent at a cash purchase price of $10.00 per share (the Proposed Transaction). The Proposal Letter specified that the Proposed Transaction would be in the form of a merger of the Company with a new acquisition vehicle that Parent would form. The Proposal Letter also specified that the Proposed Transaction would be governed by a merger agreement providing for a non-waivable condition requiring the approval of a majority of the shares of the Company that are not directly or indirectly owned by Parent, and that it was expected that the Board would establish a special committee of independent directors to consider the Proposed Transaction on behalf of the Company s public stockholders and to make a recommendation to the full Board. In addition, the Proposal Letter stated that, in its capacity as a stockholder of the Company, Parent was interested only in acquiring the shares of the Company that it did not currently own, and that in such capacity Parent had no interest in a disposition or sale of its interest in the Company, nor was it Parent s intention to vote in favor of any alternative sale, merger or similar transaction involving the Company. As such, without the approval of Parent as the Company s controlling stockholder, no transaction other than the Proposed Transaction would be possible.

On November 7, 2012, in response to the Proposal Letter, the Board formed a special committee (the Special Committee) of disinterested and independent directors for the purposes of negotiating the Proposed Transaction on an arm s length basis against Parent, consisting of Charles A. Crocco, Jr., Amy H. Feldman and Michael R. Powers, all of the Company s independent directors. The Special Committee was empowered, among other things, to consider whether the Proposed Transaction was in the best interests of the Company and the holders of the Common Stock, consider and review potential alternative transactions, and, in its own and full discretion, reject the Proposed Transaction if the Special Committee determined it was not fair to or otherwise not in the best interests of the

Company and the holders of the Common Stock, in addition to considering other matters deemed appropriate by the Special Committee. The Board empowered the Special Committee to, among other things, retain its own independent legal and financial advisors to assist in its review of the Proposed Transaction.

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The Board also resolved to refrain from taking any action in relation to the Proposed Transaction, including, without limitation, its negotiation, rejection or approval, without first having obtained a recommendation from the Special Committee that the Board take such action. The Board established the compensation for each member of the Special Committee as $1,000 per meeting of the Special Committee attended and $125 per hour (or a proportionate amount thereof for each hourly fraction) for other time expended on Special Committee matters. The Special Committee retained Wick Phillips Gould & Martin, LLP (Wick Phillips) on November 8, 2012 as its independent legal counsel.

On November 9, 2012, the Company issued a press release announcing the Company s receipt of the Proposal Letter and the Board s formation of the Special Committee, and filed a copy with the SEC as an exhibit to a Current Report on Form 8-K on the same day.

On November 14, 2012, Hallwood Energy I Creditors Trust (HEI Creditors Trust), successor-in-interest to Hallwood Energy, L.P., the plaintiff in the case originally styled as *Hallwood Energy, L.P. v. The Hallwood Group Incorporated* pending in the Bankruptcy Court of the Northern District of Texas (the Bankruptcy Court), a description of which can be found under *Special Factors Litigation* , filed a motion requesting that the Bankruptcy Court direct the Company to comply with the Bankruptcy Court s prior order issued on May 28, 2010. That order required the Company to notify the Bankruptcy Court of any intention to sell assets out of the ordinary course of business, pay a dividend, distribution or return of capital to its stockholders or transfer in any manner any assets to its majority stockholder or its affiliates outside the ordinary course of business. In reference to such order, the November 14, 2012 motion sought to enjoin the Company from participating in the Proposed Transaction.

On December 3, 2012, the Special Committee held a telephonic meeting, at which representatives of Wick Phillips were also in attendance, during which it discussed, among other things, the independence of the members of the Special Committee (with Mr. Crocco confirming during the meeting, and following the advice of Wick Phillips, that he had already analyzed the situation and determined that he satisfied the required level of independence) and the need for engaging an independent financial advisor to the Special Committee to assist in the negotiation and evaluation of the Proposed Transaction. The Special Committee also noted during its meeting the Company s recent engagement of K&L Gates LLP (K&L Gates) as counsel to the Company.

On December 12, 2012, Wick Phillips interviewed each of Ms. Feldman and Mr. Powers. During such interviews, Wick Phillips discussed with each of Ms. Feldman and Mr. Powers, among other things, any interest that they or their respective families may have in the Proposed Transaction, their relationship with Mr. Gumbiner, the percentage that their compensation as directors of the Company represented out of their respective families total assets and any other factors or relationships that could adversely affect their ability to consider the merits of the Proposed Transaction in a neutral, non-biased manner. Following their respective interviews and after receiving advice from Wick Phillips, each of Ms. Feldman and Mr. Powers confirmed their independence from Parent for the purposes of serving on the Special Committee.

During the week of December 19, 2012, Mr. Crocco, on behalf of the Special Committee, interviewed five investment banking candidates to act as independent financial advisor to the Special Committee in connection with the Proposed Transaction.

On January 7, 2013, the Special Committee held a telephonic meeting at which a representative of Wick Phillips was also in attendance, during which it discussed the results of Mr. Crocco s interviews with Southwest Securities and the four other investment banks, and, after consideration, selected Southwest Securities as its independent financial advisor in connection with the Proposed Transaction. The criteria for the Special Committee s selection of Southwest Securities over the other four investment banks were the experience of Southwest Securities as a large, sophisticated investment bank, its quality presentation to Mr. Crocco, its preparation for such presentation and resulting knowledge

about the Company and its competitive fee bid. On January 10, 2013, the Company executed an engagement letter with Southwest Securities as financial advisor to the Special Committee.

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On January 10, 2013, after a hearing on HEI Creditors Trust s November 14, 2012 motion which was held on January 7, 2013, the Bankruptcy Court entered an order (the Notice Order) requiring the Company to notify the Bankruptcy Court and HEI Creditors Trust after entering into a material, definitive agreement to consummate any transaction similar to that described in the Proposal Letter and the related Form 8-K filed by the Company. Pursuant to the Notice Order, upon the signing of any such agreement, the Company was required to provide at least 35 days prior notice of the earliest anticipated closing date of the Proposed Transaction so that HEI Creditors Trust could request a hearing as to whether the Proposed Transaction is prohibited by the Notice Order. The Company s required notice was to be in the form of a copy of a Current Report on Form 8-K reporting the entry into a material, definitive agreement as filed with the SEC.

On January 23, 2013, Mr. Crocco, Southwest Securities and Wick Phillips met telephonically to discuss business and financial due diligence being performed by Southwest Securities with respect to the Company.

On January 29, 2013, William L. Guzzetti and Richard Kelley, the respective President and Chief Operating Officer and Chief Financial Officer of the Company, met with Southwest Securities at the Company s offices to provide Southwest Securities with a historical overview of the Company. Among other items discussed, the Company s management explained to Southwest Securities that the Company was unable, and it was not the Company s practice, to prepare cash flow projections beyond one year, as a result of the Company s reliance on orders from the U.S. military as its predominant source of revenue and the uncertainty as to when during the year such orders would be placed.

During the week of February 11, 2013, as part of its due diligence review, Southwest Securities conducted on-site visits to the facilities of the Company and updated Wick Phillips as to its progress. Southwest Securities informed Wick Phillips that, although it was not customary for bankers to conduct an analysis for the purposes of preparing a fairness opinion without the benefit of cash flow projections from the target company s management, Southwest Securities would consider other factors in performing its analysis, such as a comparable company analysis, selected precedent transaction analysis, and premiums paid analysis as more fully described in *Summary of Southwest Securities Analyses*.

On March 11, 2013, the Special Committee held a telephonic meeting, at which representatives of Wick Phillips and Southwest Securities were also in attendance, for a discussion led by Southwest Securities, regarding the financial analysis performed by Southwest Securities in connection with the Proposed Transaction and the fairness of the proposal contained in the Proposal Letter to the Company s minority stockholders. Southwest Securities reported to the Special Committee that, as part of such analysis, Southwest Securities performed (i) a market analysis of companies comparable to the Company, (ii) an analysis of precedent mergers and acquisitions transactions that Southwest Securities deemed similar to the Proposed Transaction and (iii) an analysis of the premiums paid in connection with transactions similar to the Proposed Transaction. Southwest Securities and the Special Committee also discussed the fact that, due to the uncertainty of the Company s prospects as a result of its business material reliance on U.S. military activity, the Company s management had not been able to provide five-year financial projections or estimates of future performance beyond 2013, and that Southwest Securities was thus unable to conduct a discounted cash flow analysis. The Special Committee then asked Southwest Securities for its view with respect to the valuation of the Company s property, plant and equipment on its balance sheet. Southwest Securities explained that it did not perform an independent evaluation, physical inspection or appraisal of any of the assets or liabilities (contingent or otherwise) of the Company, and had not been furnished with any such valuations or appraisals. After deliberation, the Special Committee decided to look further into obtaining a valuation of the Rhode Island facilities of Kenyon Industries, Inc., a subsidiary of the Company, for the purposes of considering the possibility of a liquidation of such parcel of real estate.

On March 18, 2013, the Special Committee held a telephonic meeting, at which representatives of Wick Phillips were also in attendance, to discuss, among other things, the Special Committee s duties with respect to the Proposed Transaction, the Special Committee s progress as to the evaluation of Parent s proposal contained in the Proposal Letter and the Special Committee s preferred strategy in negotiating with Parent for the benefit of the Company s minority stockholders.

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On March 25, 2013, the Special Committee held a telephonic meeting, at which representatives of Wick Phillips and, for a portion of such meeting, Southwest Securities, were also in attendance. After Southwest Securities joined the meeting, a discussion ensued regarding the Company s continued liquidity issues and the probability that the audit opinion from the Company s independent registered public accounting firm, Deloitte & Touche LLP (Deloitte), to be included in Company s upcoming Annual Report on Form 10-K for the fiscal year ended December 31, 2012, might contain a going concern explanatory paragraph. A going concern explanatory paragraph included in the unqualified opinion from a company s independent registered public accounting firm references the readers of the company s financial statements to a company s disclosure regarding the current financial position and the company s analysis, based upon current financial resources, as to whether the company can meet its obligations over the next year in order to continue as a going concern. The Special Committee discussed with its advisors its concern that, as a result of such liquidity issues, the Company s minority stockholders could be harmed by a drop in the Company s stock price followed by a reduction or possible withdrawal of Parent s bid to consummate the Proposed Transaction. The Special Committee requested that Wick Phillips and Southwest Securities contact Hunton & Williams to discuss and negotiate the terms of the Proposed Transaction on the basis of the comments discussed during the meeting. In particular, because the Special Committee was concerned about losing the $10.00 per share offer in light of the Company s liquidity issues and preliminary report from Southwest Securities, it instructed Wick Phillips to inquire whether Parent would consider increasing its offered price, rather than aggressively demand a higher price.

On March 25, 2013, as instructed by the Special Committee, Wick Phillips and Southwest Securities held a telephonic meeting with Hunton & Williams to begin negotiating the terms of the Proposed Transaction and inquired whether Parent would consider increasing the price per share that it was prepared to offer.

On March 26, 2013, Hunton & Williams replied telephonically to Wick Phillips that in order for Parent to consider a higher price, the Special Committee should provide Parent with information that supported a value for the Common Stock greater than the price of $10.00 per share.

On March 28, 2013, the Special Committee held a telephonic meeting, at which representatives of Wick Phillips and Southwest Securities were also in attendance, for the primary purpose of a presentation by Southwest Securities of an analysis report, which had previously been provided to the Special Committee, presenting Southwest Securities findings with respect to the financial terms of the Proposed Transaction and its fairness to the Company s minority stockholders and to determine the Special Committee s response to Parent. With the assistance of the presentation materials comprising its report, Southwest Securities explained its preliminary conclusion that the Merger Consideration of $10.00 per share offered by Parent was a fair price from a financial point of view. The Special Committee then discussed the possible reasons for Parent s offer and proposed Merger Consideration as set forth in the Proposal Letter. On the basis of the Company s lack of liquidity, market and economic considerations and other factors, the Special Committee concluded that it could not present sufficient rationale to Parent supporting a higher price than that offered by Parent. Because of its inability to obtain support for a per share price higher than $10.00 per share, and its concern that the Company s minority stockholders would be harmed by a withdrawal of Parent s proposed $10.00 offer as discussed in the March 25, 2013 meeting, the Special Committee decided not to ask for an increased purchase price. Following such decision, the Special Committee instructed Wick Phillips to contact Hunton & Williams to request a draft merger agreement reflecting the terms set forth in the Proposal Letter.

On April 1, 2013, the Company filed its Form 10-K for the year ended December 31, 2012. The Form 10-K disclosed several factors negatively impacting the Company s financial situation, including the Company s dependence on Brookwood for cash, the Company s lack of cash to pay its operating costs or service its existing debt and an audit report from Deloitte, which included an explanatory paragraph related to its status as a going concern resulting from the uncertainty of the payment of dividends from Brookwood to fund the Company s ongoing operations and obligations.

On April 2, 2013, the closing price of the Common Stock dropped to $7.90 per share from its closing price of $8.61 per share on March 28, 2013, the trading day prior to the filing of the Company s Form 10-K.

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On April 8, 2013, Hunton & Williams delivered a draft Merger Agreement to the Special Committee.

On April 11, 2013, the Company received a letter from NYSE MKT LLC (the Exchange), indicating that the Company was not in compliance with certain NYSE MKT continued listing standards. The Exchange determined the Company s financial condition had become impaired based upon its review of the Company s Form 10-K for the fiscal year ended December 31, 2012. As a result of the Exchange s review and determination, the Company was not in compliance with one of the Exchange s continued listing standards, and therefore became subject to the procedures and requirements of Section 1009 of the NYSE MKT Company Guide (Company Guide). Specifically, the Company was not in compliance with Section 1003(a)(iv) of the Company Guide in that it had sustained losses which were so substantial in relation to its overall operations or its then-existing financial resources or financial condition had become so impaired that it appeared questionable, in the opinion of the Exchange, as to whether the Company would be able to continue operations and/or meet its obligations as they mature. The letter stated that, in order to maintain the Company s listing with the Exchange, the Company was required to submit a plan of compliance by May 13, 2013 addressing how it intended to regain compliance with Section 1003(a)(iv) by July 15, 2013. If the Company did not submit a plan, or if the plan was not accepted by the Exchange, the Company would be subject to delisting proceedings. Furthermore, if the plan was accepted but the Company was not in compliance with the continued listing standards of the Company Guide by July 15, 2013, or if the Company did not make progress consistent with the plan, the Exchange staff would initiate delisting proceedings in accordance with Section 1010 and Part 12 of the Company Guide.

On April 15, 2013, the Company issued a press release announcing receipt of the April 11, 2013 notice from the Exchange of potential delisting. On April 16, 2013, the Company filed a copy of such press release as an exhibit to a Current Report on Form 8-K.

On April 16, 2013, the Special Committee held a telephonic meeting, at which representatives of Wick Phillips were also in attendance, primarily for the purposes of discussing comments and questions from the Special Committee and Wick Phillips pertaining to the Merger Agreement. The Special Committee asked Wick Phillips to revise the Merger Agreement accordingly and to deliver the revised version to Hunton & Williams.

On April 19, 2013, the Special Committee, through its counsel, returned a revised draft of the Merger Agreement to Parent, through its counsel. As part of its comments, the Special Committee requested, among other things, additional materiality qualifiers to representations and warranties; a reduced scope of several representations and warranties; a representation by Parent that it has sufficient internal funds to consummate the Proposed Transaction without reliance on funds or assets of the Company, as well as an indication as to the source of such funds; the removal of a covenant of the Company to cooperate with Parent in connection with Parent s efforts to obtain financing for purposes of consummating the Proposed Transaction; the increased ability for the Board to consider alternative proposals without breaching the no shop provision and change its recommendation to the Company s stockholders that they adopt the Merger Agreement; a change to the standard for the Company s efforts with respect to certain pre-closing covenants from reasonable best efforts to commercially reasonable efforts ; certain additional exceptions to occurrences which constitute a Company Material Adverse Effect under the Merger Agreement; the right for the Company to terminate the Merger Agreement if it has satisfied its obligations and waived any unsatisfied obligations of Parent thereunder but Parent fails to proceed with the Proposed Transaction; and the removal of the lack of occurrence of a Company Material Adverse Effect as a condition to Parent s obligation to effect the Proposed Transaction.

On April 22, 2103, Mr. Gumbiner requested that the Special Committee consent to Parent s retention of Potter Anderson & Corroon LLP (Potter Anderson) as its Delaware counsel in connection with the Merger in light of the fact that Potter Anderson had in the past also represented the Company in certain matters. The Special Committee considered this request and provided its consent on April 30, 2013.

On April 23, 2013, the Special Committee held a telephonic meeting, at which representatives of Wick Phillips were also in attendance, to discuss, among other matters, the April 11, 2013 letter from the Exchange informing

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the Company of its potential delisting unless certain measures were put in place. The Special Committee discussed its concern about the ability of the Company to maintain its listing if the Proposed Transaction was not announced and consummated and the potential harm that the failure to maintain such listing could cause to the Company s minority stockholders.

On April 30, 2013, Hunton & Williams, on behalf of Parent, communicated orally to Wick Phillips Parent s comments to the revised draft of the Merger Agreement that had been circulated by the Special Committee, through its counsel, on April 19, 2013. As part of such comments, Parent generally accepted most of the Special Committee s requested changes, but insisted on keeping the lack of a Company Material Adverse Effect as a condition to Parent s obligation to effect the Proposed Transaction and rejected the ability of the Company to terminate the Merger Agreement if Parent fails to close (while leaving the Company other possibilities for terminating the Merger Agreement in certain other circumstances). Also, in exchange for reducing certain representations and warranties regarding certain environmental matters, Parent added an additional condition precedent to its obligation to effect the Proposed Transaction that the Company did not suffer environmental liabilities in excess of a certain threshold after the signing of the Merger Agreement.

On May 3, 2013, the Special Committee held a telephonic meeting, at which representatives of Wick Phillips were also in attendance, to discuss, among other things, Parent s comments to the Merger Agreement communicated orally to Wick Phillips on April 30, 2013.

On May 4, 2013, Hunton & Williams delivered to Wick Phillips a revised version of the Merger Agreement containing Parent s comments which had previously been communicated orally on April 30, 2013 as described above.

During the week of May 6, 2013, discussions between Wick Phillips and the Special Committee occurred to finalize the then-current draft of the Merger Agreement. The Special Committee considered the fact that Parent had accepted most of the Special Committee s material changes to the Merger Agreement contained in its April 19, 2013 draft (including, among others, the changes making the representations and warranties more favorable to the Company and reinforcing Parent s commitment to finance the Proposed Transaction with internal funds). The Special Committee determined that the significant concessions made by Parent in accepting most of the Special Committee s material transaction points, combined with the relatively few substantial counterproposals included by Parent in its May 4, 2013 draft of the Merger Agreement, had resulted in a balanced draft of the Merger Agreement which the Special Committee had negotiated to the best of its ability in the interest of the Company s minority stockholders.

On May 9, 2013, representatives of Southwest Securities met with the Company s management team at the Company s Dallas, Texas office to provide Southwest Securities an opportunity to update its due diligence review of the Company.

On May 10, 2013, the Special Committee held a telephonic meeting, at which representatives of Wick Phillips were also in attendance, to discuss, among other items, the status of negotiations of the Merger Agreement and various factors impacting the general timing of the contemplated signing of the Merger Agreement.

On May 13, 2013, the Company submitted a plan of compliance with the Exchange in response to the Exchange s request set forth in its April 11, 2013 letter to the Company. Additionally and as part of the Company plan of compliance, on May 13, 2013, the promissory note associated with the loan to the Company by Hallwood Family (BVI) L.P., an affiliate of Parent (HFL Loan), was amended, pursuant to a Second Amendment to Promissory Note, to convert it to a revolving credit facility to provide additional liquidity to the Company. The maturity date of the promissory note continues to be June 30, 2015. As of March 31, 2013, the outstanding balance of the HFL Loan was $9,047,000, and such amendment resulted in $953,000 of credit availability as of May 13, 2013. Subject to the terms

and conditions of the HFL Loan, upon written request, the Company may

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borrow and receive advances of amounts requested by the Company (including amounts previously repaid) not to exceed either of: (a) the amount in each calendar quarter equal to the amount budgeted by the Company to fund general and administrative costs for that calendar quarter; or (b) an amount that would result in the aggregate principal amount of the HFL Loan to exceed $10,000,000.

During the week of May 27, 2013, K&L Gates communicated to Wick Phillips its comments to the Merger Agreement, which comments were primarily aimed at ensuring that certain recent events concerning the Company and its business were adequately disclosed as exceptions to the Company s representations and warranties set forth in the Merger Agreement.

On May 29, 2013, Hunton & Williams delivered to Wick Phillips a final draft of the Merger Agreement containing the agreed upon terms, including the changes requested by K&L Gates on May 27, 2013 and the price per share comprising the Merger Consideration.

On May 30, 2013, representatives of Southwest Securities met with the Company s management team telephonically to provide Southwest Securities an opportunity to update its due diligence review of the Company.

On June 4, 2013, the Special Committee held a telephonic meeting with all of its advisors to review the final terms of the Merger Agreement and to consider an oral report by Southwest Securities of its draft fairness opinion with respect to the Proposed Transaction and the fairness of the offered price per share to the Company s minority stockholders, which draft had previously been provided to the Special Committee. Southwest Securities subsequently delivered to the Special Committee a signed version of its fairness opinion. After receiving Southwest Securities report, the Special Committee performed a final review of the Merger Agreement and received from Wick Phillips a final reminder of the fiduciary obligations of the Special Committee. The Special Committee then discussed the reasons for its decision not to insist that the Merger Agreement contain a provision allowing the Company to actively solicit competing offers from other potential bidders. In doing so, the Special Committee considered the fact that, although the Company had announced the Potential Transaction to the public in November 2012, the Company had not since that time received any indication of interest from other bidders besides Parent, and that the Proposal Letter made it clear that Parent was only interested in acquiring the shares it did not currently own, had no interest in a disposition of its own interest, and had no intention to vote in favor of any transaction other than the Proposed Transaction. Given those considerations, the Special Committee ultimately concluded that the inclusion in the Merger Agreement of a go-shop provision, permitting the Company to seek a superior bid, the consummation of which would in any event have required the approval of Parent, would have been futile. The Special Committee also determined that, in negotiating the Proposed Transaction, it had reached an appropriate balance between giving the Proposal Letter due consideration and vigorously negotiating the Proposed Transaction, while remaining wary of the risk of jeopardizing the only available transaction that would allow the minority stockholders to receive a premium over the market value of their shares. The Special Committee also noted during its discussion that it had considered the possibility of liquidating the real estate owned by the Company in Rhode Island, but had concluded that such a transaction was unlikely to yield a value as favorable to the Company s minority stockholders as the per share price offered by Parent. Following the Special Committee s deliberation regarding the reasons for the Proposed Transaction and the fairness of the Proposed Transaction, it reiterated its conclusion that its members were independent and disinterested in the Proposed Transaction and that it had analyzed the Proposed Transaction in the best interest of the Company s minority stockholders. Then, taking into account the relevant facts and circumstances, the Special Committee unanimously determined to recommend that the Board approve the Proposed Transaction and the entry into and execution of the Merger Agreement (and any other document deemed necessary or advisable in connection with the Proposed Transaction) and to recommend that the Board recommend the same to the Company s stockholders.

On June 4, 2013, immediately following the meeting of the Special Committee, the Board held a telephonic meeting (with Mr. Gumbiner not participating) to consider the Proposed Transaction and the Merger Agreement. During such meeting, the Board (with Mr. Gumbiner not participating), upon the recommendation of the Special

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Committee, agreed with the Special Committee that the Proposed Transaction, as contemplated by the Merger Agreement, was advisable and in the best interests of the Company and its minority stockholders and approved the Merger Agreement and recommended the Merger Agreement to the Company s stockholders for their approval and adoption.

On June 4, 2013, following the Board meeting, the Merger Agreement in the form submitted to the Board was executed by the parties thereto.

On June 5, 2013, the Company issued a press release and filed with the SEC a Current Report on Form 8-K announcing that it had entered into the Merger Agreement.

On June 5, 2013, as required by the January 10, 2013 Notice Order, the Company provided notice to HEI Creditors Trust and the Bankruptcy Court of the filing on June 5, 2013 of the Company s Current Report on Form 8-K announcing its entry into the Merger Agreement.

On June 11, 2013, HEI Creditors Trust, FEI Shale L.P. and Hall Phoenix/Inwood Ltd. filed in the Bankruptcy Court an objection to the Company s June 5, 2013 notice of intent to proceed with the Proposed Transaction. The plaintiffs motion argues, among other things, that the Proposed Transaction would be in violation of the Bankruptcy Court s May 28, 2010 order and requests that the Bankruptcy Court enjoin the Company from consummating the Proposed Transaction.

On July 1, 2013, the Special Committee held a telephonic meeting, at which representatives of Wick Phillips were also in attendance, to consider, among other items, a postponement by the parties to the Merger Agreement of the performance of their respective obligations thereunder. After deliberating and receiving advice from its counsel, the Special Committee concluded that such postponement was in the best interest of the Company and its stockholders.

On July 8, 2013, the Company issued a press release announcing the receipt of a letter from the Exchange dated July 5, 2013 informing the Company that it had resolved the continued listing deficiency referenced in the Exchange s letter dated April 11, 2013. On July 9, 2013, the Company filed a copy of such press release as an exhibit to a Current Report on Form 8-K.

On July 11, 2013, the parties to the Merger Agreement entered into an Amendment to Agreement and Plan of Merger stating that no party shall have any obligation to file a Schedule 13E-3, prior to October 31, 2013. (the Amendment).

On July 12, 2013, the Company filed with the SEC a Current Report on Form 8-K announcing that it had entered into the Amendment.

REASONS FOR THE MERGER; FAIRNESS OF THE MERGER; RECOMMENDATIONS OF THE SPECIAL COMMITTEE AND THE BOARD

The Company s Board of Directors

As discussed in greater detail below, the Board believes that the Merger Agreement and the merger contemplated thereby (the Merger), upon the terms and conditions set forth in the Merger Agreement, are advisable and in the best interests of the Company and its minority stockholders. The recommendation of the Board is based, in part, upon the unanimous recommendation of the Special Committee.

The Board consists of four directors. Anthony J. Gumbiner, who is affiliated with Parent and will remain as an executive officer and director of the Company, did not participate in the deliberations concerning or voting on the Merger Agreement or the above recommendations. The remaining directors, who are all independent and who constitute a majority of the Board, voted in favor of the above recommendations.

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The Special Committee

In November 2012, in response to the Proposal Letter from Parent, the Board formed a Special Committee of independent and disinterested non-employee directors to consider on behalf of the Board the Proposed Transaction. The Special Committee is comprised of Charles A. Crocco (chairman), Amy H. Feldman and Michael R. Powers, three independent directors.

As discussed in greater detail below, the Special Committee believes that the Merger Agreement and the Merger, upon the terms set forth in the Merger Agreement, including without limitation, the price of $10.00 per share of Common Stock to be paid to the Company s minority stockholders, are advisable, in the best interest of, and fair to, such minority stockholders.

Recommendation of the Special Committee

The Special Committee, by unanimous vote at a meeting held on June 4, 2013:

- determined that it was advisable and in the best interests of the Company and the Company s minority stockholders to consummate the Merger, enter into and execute the Merger Agreement and enter into and/or execute any agreement or document deemed necessary or advisable in connection with the Merger; and

- recommended that the Board approve the Merger, the Merger Agreement and any agreement or document deemed necessary or advisable in connection with the Merger, and that the Board recommend the same to all of the Company s stockholders for their approval.

The Special Committee considered the following material factors in approving the Merger Agreement and making its determination and recommendation:

- the cash consideration to be paid to the Company s minority stockholders upon consummation of the Merger;

- the current and historical market prices of the Common Stock, including, without limitation, the fact that the price of $10.00 per share represented a premium of 78.3% over the $5.61 closing price of the Common Stock on November 8, 2012, the last trading day prior to the Company s public announcement of the Proposal Letter;

- the financial analyses and valuation factors reviewed by Southwest Securities with the Special Committee; these factors are set forth in more detail under the subheadings *Historical Stock Trading Analysis* , *Comparable Company Analysis* , *Selected Precedent Transactions Analysis* , and *Premiums Paid Analysis* , under *Opinion of Southwest Securities* ;

- the opinion of Southwest Securities delivered to the Special Committee on June 4, 2013 as to the fairness, as of June 4, 2013, from a financial point of view, of the Merger Consideration of $10.00 in cash per share to

be received by the holders of Common Stock (other than the shares held by Parent, Merger Sub and their respective affiliates) in the Merger, and based upon and subject to the procedures followed, assumptions made, qualifications and limitations on the review undertaken and other matters considered by Southwest Securities in preparing its opinion. A more detailed description of the opinion of Southwest Securities is set forth below under *Opinion of Southwest Securities* ;

the conclusion by the Special Committee, after reviewing information relating to the Company and consulting its advisors, and, given the absence of an alternative bidder following the announcement of the Proposed Transaction in November 2012, that it was unlikely that either Parent or another bidder would be willing to pay more than $10.00 per share of Common Stock;

the fact that Parent has stated it has no intention of selling its interest in the Company in the foreseeable future and that it would not vote in favor of any alternative sale, merger or similar transaction involving the Company, rendering futile the pursuit by the Special Committee of any such alternative sale, merger or similar transaction;

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the Special Committee s understanding of the Company s business, historical and current financial performance, competitive and operating environment, operations, management strength and future prospects, including the Company s dependence on sales to the U.S. military and the decline in such sales in recent years;

the fact that the consideration to be paid to the Company s minority stockholders would be all cash, which provides liquidity and certainty to the Company s minority stockholders in light of the Company s historically low trading volume;

the high costs of operating as a public company;

the Special Committee s understanding of Parent s ability to obtain financing from internal sources to fully fund the payment of the Merger Consideration and the related fees and expenses without further leveraging the Company or its assets;

the fact that the Special Committee considered the Company s liquidation value and determined that the value to the Company s minority stockholders of such a liquidation was unlikely to equal or exceed the Merger Consideration being offered by Parent;

the fact that the Merger Agreement includes a non-waivable condition requiring the approval by holders of at least a majority of the outstanding shares of Common Stock and by holders of a majority of the outstanding shares of Common Stock, excluding all shares of Common Stock owned by Parent, Merger Sub, Mr. Gumbiner or any of their respective affiliates or by any director, officer or employee of the Company or any of its subsidiaries;

the fact that the Special Committee had retained Southwest Securities as its financial advisor and Wick Phillips as its legal counsel, both of whom are unaffiliated with the Company, Parent or their respective affiliates, to assist and advise the Special Committee, solely with respect to the Company s minority stockholders interests, in negotiations of the Merger Agreement with Parent; and

the potential risks and costs to the Company and its minority stockholders if the Merger does not close, including the Company s current financial situation.

In considering the Proposed Transaction, the Special Committee also considered certain risks and potentially negative factors, including the following:

the fact that the Merger Agreement does not permit the Company to solicit third-party bids or to enter into discussions or negotiations regarding, or to accept, approve or recommend, any unsolicited third-party bids except subject to specific terms and conditions;

the fact that, upon consummation of the Merger, the Company s minority stockholders will cease to be stockholders of the Company and thus will be unable to participate in any future appreciation in the value of the Company s stock; and

the fact that the current market price of the Common Stock may not reflect the value of the Common Stock, given the lack of trading volume in the Common Stock, the position held by the principal stockholder and the paucity of coverage by outside analysts.

The foregoing discussion is not intended to be exhaustive, but summarizes certain factors considered by the Special Committee in making its determination and recommendation to the Board. In view of the wide variety of factors considered by the Special Committee and the complexity of these matters, the Special Committee did not find it practicable to quantify or otherwise assign relative weights to the foregoing factors. In addition, each of the members of the Special Committee may have assigned different weights to various factors. On balance, the Special Committee determined that the positive factors discussed above outweighed any negative factors.

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The Special Committee believes that the process it followed in making its determination and recommendation with respect to the Merger Agreement was fair and proper because, among other things:

- the Special Committee consists solely of independent and disinterested directors, as no such director has a material financial or other interest in the Merger, nor does any such director have any other significant interest or relationship that would influence such director s decision;
- the Special Committee retained and was advised by experienced and independent legal counsel;
- the Special Committee retained and was advised by an experienced and independent financial advisor, which rendered an opinion as to the fairness, from a financial point of view, of the Merger Consideration of $10.00 in cash per share to be received by the Company s minority stockholders in the Merger;
- the Special Committee, with the assistance of its independent advisors, diligently negotiated the terms of the Merger Agreement with Parent; and
- the Special Committee acted diligently in discharging its responsibilities, meeting on eleven separate occasions prior to execution of the Merger Agreement, to review all information relevant to the Proposed Transaction and carefully consider matters related to its mandate.

Recommendation of the Board

At a meeting on June 4, 2013, following the recommendation of the Special Committee, the Board (with Mr. Gumbiner not participating):

- approved the Merger Agreement; and
- recommended the Merger Agreement to the Company s stockholders for their approval and adoption.

In voting on the above items, the Board reviewed a significant amount of information and considered each of the factors recited above with respect to the Special Committee s deliberations, as well as the fact that the Merger Agreement was approved and recommended by the Special Committee after a full and deliberate process. In view of the wide variety of factors considered by the Board and the complexity of these matters, the Board did not find it practicable to quantify or otherwise assign relative weights to the factors it considered in making its decision. In addition, individual members of the Board may have assigned different weights to various factors. The Board members voting on the Merger Agreement unanimously approved the Merger Agreement and the Merger based upon the totality of the information presented to and considered by them.

The Board (without Mr. Gumbiner s participation) unanimously recommends that you vote FOR the proposal to adopt the Merger Agreement and FOR the adjournment of the special meeting, if necessary or appropriate, to solicit additional proxies if there are insufficient votes at the time of the special meeting to approve the

proposal to adopt the Merger Agreement.

OPINION OF SOUTHWEST SECURITIES

Southwest Securities was retained to act as financial advisor to the Special Committee in connection with the transactions described in this Proxy Statement. In connection with this engagement, the Special Committee requested Southwest Securities to evaluate the fairness, from a financial point of view, to the holders of Common Stock (other than shares of Common Stock owned by Parent, HFL Merger Corporation, a Delaware corporation (Merger Sub), and their respective affiliates and other than shares as to which any appraisal rights are properly exercised) of the Merger Consideration payable per share of Common Stock pursuant to the Merger Agreement. On March 28, 2013, at a meeting of the Special Committee, Southwest Securities expressed orally to the Special Committee that it was prepared to opine that the Merger Consideration offered by Parent was fair from a financial point of view. On June 4, 2013, Southwest Securities provided its oral report to the Special Committee, which confirmed, with no substantial changes, its March 28, 2013 oral statement and was then confirmed by

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delivery of its written opinion dated as of June 4, 2013, to the effect that, as of that date and based on and subject to the matters described in its opinion, the Merger Consideration payable pursuant to the Merger Agreement was fair, from a financial point of view, to the holders of Common Stock (other than shares of Common Stock owned by Parent, Merger Sub and their respective affiliates and other than shares as to which any appraisal rights are properly exercised).

The full text of Southwest Securities written opinion, dated as of June 4, 2013, which describes the assumptions made, procedures followed, matters considered and limitations on the review undertaken, is attached to this Proxy Statement as Annex B. You are urged to read the opinion carefully and in its entirety. Southwest Securities opinion was directed to the Special Committee in connection with its evaluation of the Merger Consideration from a financial point of view and does not address any other aspects or implications of the Merger. Southwest Securities opinion is not intended to be and does not constitute a recommendation to any stockholder as to any action that should be taken with respect to the proposed Merger. Southwest Securities opinion does not address the relative merits of the Merger as compared to any alternative business strategies that might exist for the Company or the underlying business decision of the Company to effect the Merger. The following is a summary of Southwest Securities opinion and the methodology that Southwest Securities used to render its opinion.

Southwest Securities opinion was furnished solely for the use and benefit of the Special Committee (solely in its capacity as such) in connection with its consideration of the Merger and was not intended to, and did not, confer any rights or remedies upon any other person, and was not intended to be used, and may not be used, for any other purpose, without the express, prior written consent of Southwest Securities. This opinion should not be construed as creating any fiduciary duty on the part of Southwest Securities to any party. This opinion is not intended to be, and does not constitute, a recommendation to the Special Committee, any security holder or any other person or entity as to how to act or vote with respect to any matter relating to the Merger.

The opinion was necessarily based on financial, economic, market and other conditions as in effect on, and information available to Southwest Securities as of, the date of the opinion. Southwest Securities did not undertake to update, reaffirm, revise or withdraw its opinion or otherwise comment upon any events occurring or coming to its attention after the date of the opinion and does not have any obligation to update, revise or reaffirm this opinion.

In the course of performing its review and analysis for rendering this opinion, Southwest Securities, among other things:

(i) reviewed a draft of the Merger Agreement dated June 4, 2013;

(ii) reviewed and analyzed certain publicly available financial and other data with respect to the Company and certain other relevant historical operating data relating to the Company made available to Southwest Securities from published sources and from the internal records of the Company;

(iii) conducted discussions with members of the senior management of the Company with respect to the business, operations, prospects and financial condition and outlook of the Company;

(iv) visited certain facilities and the business offices of the Company;

(v) reviewed current and historical market prices and trading activity of the Common Stock of the Company;

(vi) compared certain financial information for the Company with similar information for certain other companies, the securities of which are publicly traded;

(vii) reviewed the financial terms, to the extent publicly available, of selected precedent transactions which Southwest Securities deemed generally comparable to the Company and the Merger; and

(viii) conducted such other financial studies, analyses and investigations and considered such other information as Southwest Securities deemed appropriate.

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In rendering its opinion, Southwest Securities relied upon and assumed, without independent verification, the accuracy and completeness of all data, material and other information furnished or otherwise made available to it, discussed with it or reviewed by it, or that was publicly available, and did not assume any responsibility for or with respect to such data, material, or other information. Southwest Securities was not requested to, and did not perform an independent evaluation, physical inspection or appraisal of any of the assets or liabilities (contingent or otherwise) of the Company, and was not furnished with any such valuations or appraisals. Southwest Securities did not undertake any independent analysis of any potential or actual litigation, regulatory action, possible unasserted claims or other contingent liabilities, to which the Company is or may be a party or is or may be subject, or of any governmental investigation of any possible unasserted claims or other contingent liabilities to which the Company is or may be a party or is or may be subject. Southwest Securities was not provided any financial projections or estimates of future performance by management of the Company beyond the year ended December 31, 2013, and was advised by management that none exist or could be meaningfully prepared, due to the uncertainty created by the Company s significant reliance on one source of revenue. In relying on the financial analyses and forecasts provided, Southwest Securities assumed that they were reasonably prepared on a basis reflecting the best currently available estimates and judgments of the management of the Company as to the future financial performance of the Company. Southwest Securities relied on the assurances of management of the Company that they were unaware of any facts that would make such business prospects and financial outlook incomplete or misleading. Southwest Securities also assumed that the Merger Agreement conformed in all material respects to the latest available drafts it reviewed; that the Merger will be consummated in a timely manner and in accordance with the terms set forth in the Merger Agreement without waiver, modification, or amendment of any material term, condition or agreement; and that all governmental, regulatory, and other consents and approvals necessary for the consummation of the Merger will be obtained without any material adverse effect on the Company or on the contemplated benefits of the Merger. Southwest Securities relied upon and assumed, without independent verification, that there had been no change in the business, assets, liabilities, financial condition, results of operations, cash flows or prospects of the Company since the dates of the most recent financial statements and other information, financial or otherwise, provided to it, in each case that would be material to the analysis for its opinion.

The opinion addressed solely the fairness of the financial terms of the Merger Consideration and did not address any other terms or agreement relating to the Merger or any other matters pertaining to the Company. Southwest Securities was not authorized to, and did not:

(i) solicit other potential parties with respect to the Merger or any alternatives to the Merger or any related transaction with the Company;

(ii) negotiate the terms of the Merger or any related transaction; or

(iii) advise the Special Committee or any other party or entity with respect to alternatives to the Merger or any related transaction.

Southwest Securities did not consider, and expressed no opinion with respect to, the price at which shares of the Common Stock may trade following announcement or consummation of the Merger.

Southwest Securities acted as financial advisor to the Special Committee in connection with the Merger and received a fee for its services in the aggregate amount of $150,000. A portion of the fee was paid at the commencement of the engagement, and the remainder was paid in accordance with the terms of the engagement letter, including $75,000

which was paid upon the delivery of an oral summary by Southwest Securities of its fairness opinion. No portion of the fee was contingent upon consummation of the Merger or the conclusions which Southwest Securities reached in its opinion. In addition, the Company agreed to reimburse Southwest Securities for its expenses and indemnify Southwest Securities for certain liabilities that may arise out of the engagement. In the ordinary course of business, Southwest Securities may, for its own account and the accounts of its customers, actively trade the securities of the Company and, accordingly, may hold a long or short position in such securities. During the last two years, Southwest Securities has not provided investment banking or any other services to the Company for which it received compensation from the Company.

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Southwest Securities opinion does not constitute legal, regulatory, accounting, insurance, tax or other similar professional advice, and does not address or express an opinion regarding:

(i) the underlying business decision of the Special Committee of the Company or the Company s security holders to proceed with or effect the Merger;

(ii) the fairness of any portion or aspect of the Merger not expressly addressed in this opinion;

(iii) the fairness of any portion or aspect of the Merger to the creditors or other constituencies of the Company other than those set forth in the opinion;

(iv) the relative merits of the Merger as compared to any alternative business strategies that might exist for the Company or the effect of any other transaction in which the Company might engage;

(v) the tax or legal consequences of the Merger to either the Company or its security holders;

(vi) how any security holder should act or vote, as the case may be, with respect to the Merger;

(vii) the solvency, creditworthiness or fair value of the Company or any other participant in the Merger under any applicable laws relating to bankruptcy, insolvency or similar matters; or

(viii) the fairness of the amount or nature of the compensation to any of the Company s officers, directors, or employees relative to the compensation to the other stockholders of the Company.

Summary of Southwest Securities Analyses

In preparing its opinion, Southwest Securities performed a variety of financial and comparative analyses, including those described below. This summary is not a complete description of Southwest Securities opinion of the financial and comparative analyses performed and factors considered in connection with its opinion. The preparation of a fairness opinion is a complex process involving various determinations as to the most appropriate and relevant quantitative and qualitative methods of financial analysis and the applications of those methods to the particular circumstances and, therefore, is not necessarily susceptible to partial analysis or summary description. Southwest Securities believes that its analyses must be considered as a whole. Considering any portion of Southwest Securities analyses or the factors considered by Southwest Securities, without considering all analyses and factors, could create a misleading or incomplete view of the process underlying the conclusion expressed in Southwest Securities opinion. In addition, Southwest Securities did not attribute any particular weight to any analysis, but instead made qualitative judgments about the significance and relevance of each such analysis so that the range of valuations resulting from any particular analysis described below should not be taken to be Southwest Securities view of the Company s actual value. Accordingly, the conclusions reached by Southwest Securities are based on all analyses and factors taken as a whole and also on the application of Southwest Securities own experience and judgment.

In performing the analyses, Southwest Securities took into consideration factors related to industry performance, general business, economic and regulatory conditions and other matters, many of which are beyond the Company s and Southwest Securities control. The analyses performed by Southwest Securities are not necessarily indicative of actual values or actual future results, which may be significantly more or less favorable than suggested by such analyses. In addition, analyses relating to the per share value of the Common Stock do not purport to be appraisals or to reflect the prices at which the Common Stock may actually be sold. The analyses performed were prepared solely as part of Southwest Securities analysis of the fairness, from a financial point of view, of the proposed Merger Consideration to be received by holders of Common Stock pursuant to the Merger Agreement, and were provided to the Special Committee in connection with the delivery of Southwest Securities opinion. As described in the foregoing analysis, certain approaches resulted in estimates of value that were either negative or approximately zero and therefore, Southwest Securities noted that stock prices cannot be negative and considers any negative results to imply speculative or essentially no value.

The following is a summary of the material financial and comparative analyses reviewed by Southwest Securities with the Special Committee in connection with Southwest Securities delivery of its opinion. **The financial**

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analyses summarized below include information presented in tabular format. In order to fully understand Southwest Securities financial analyses, the tables must be read together with the text of each summary. The tables alone do not constitute a complete description of the financial analyses. Considering the data described below without considering the full narrative description of the financial analyses, including the methodologies and assumptions underlying the analyses, could create a misleading or incomplete view of Southwest Securities financial analyses.

Historical Stock Trading Analysis. Southwest Securities analyzed the $10.00 cash per share of Common Stock to be paid to the holders of shares of Common Stock pursuant to the Merger Agreement in relation to the closing price of shares of Common Stock on November 8, 2012, the closing prices of shares of Common Stock for the 52-week period ended March 26, 2013, and the Common Stock s 30-trading day average, 60-trading day average, 90-trading day average and 120-trading day average closing prices prior to November 8, 2012 the last trading day prior to the date on which the offer was announced. This analysis was undertaken to assist the Special Committee in understanding the Merger Consideration compared to recent historical market prices of the Common Stock.

This analysis indicated that the $10.00 cash per share of Common Stock to be paid to the holders of the Company s shares of Common Stock pursuant to the Merger Agreement represented:

- a premium of 78.3% based on the closing stock price of $5.61 per share of Common Stock on November 8, 2012;
- a premium of 49.8% based on the average closing price of $6.68 per share of Common Stock during the 30-day period ended November 8, 2012;
- a premium of 27.5% based on the average closing price of $7.85 per share of Common Stock during the 60-day period ended November 8, 2012;
- a premium of 17.4% based on the average closing price of $8.52 per share of Common Stock during the 90-day period ended November 8, 2012; and
- a premium of 15.7% based on the average closing price of $8.64 per share of Common Stock during the 120-day period ended November 8, 2012.

Southwest Securities also presented a stock price histogram for the 12-month period ended March 26, 2013, illustrating that 87.9% of the trading activity in the Common Stock occurred at prices of $10.00 per share or below.

Comparable Company Analysis. Southwest Securities reviewed and analyzed certain financial information, public market valuation multiples and market trading data relating to 12 selected comparable publicly-traded textile and specialty apparel manufacturers. Southwest Securities then compared such information to the corresponding information for the Company. No company used in this analysis is identical to the Company. The selected group of comparable companies was as follows:

Cintas Corporation

ComWest Enterprise Corp.

Culp Inc.

Delta Apparel Inc.

Formosa Taffeta Co., Ltd.

G&K Services Inc.

Kurabo Industries Ltd.

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Lakeland Industries Inc.

S. Kumars Nationwide Ltd.

Superior Uniform Group Inc.

Unifi Inc.

UniFirst Corp.

Although none of the selected textile and specialty apparel manufacturers is directly comparable to the Company, the companies included were chosen because they are publicly-traded companies in the textile and specialty apparel manufacturers industries with operations and/or business drivers that for the purposes of this analysis may be considered similar to the operations and business drivers of the Company. Criteria for selecting comparable companies included similar lines of business, markets of operation, customers and other business and financial considerations (*e.g.*, business drivers, business risk and financial performance).

In the analysis, Southwest Securities reviewed, among other things, enterprise values of the selected publicly-traded companies, calculated as equity values based on closing stock prices as of March 26, 2013, plus debt, minority interest and preferred stock, less cash, as a multiple of actual and estimated EBITDA for the calendar years 2012 and 2013 (unless otherwise noted). Southwest Securities utilized EBITDA because the metric is commonly used when evaluating companies in the textile and specialty apparel manufacturers industries. The estimated financial data of the selected publicly-traded companies were based on publicly available research analysts estimates, public filings and other publicly available information. Based on the comparable company metrics analyzed and its professional judgment, Southwest Securities selected a multiple range of 3.3x to 10.7x for calendar year 2012 EBITDA and 3.1x to 8.8x for calendar year 2013 estimated EBITDA. Southwest Securities then applied the calculated multiples for the comparable companies to the Company s EBITDA. Financial data of the Company were based on actual results for calendar year 2012 and based on management s forecast estimate for the calendar year 2013 (adjusted to add-back to EBITDA the costs associated with the Hallwood Energy and Nextec litigation which were deemed to be unusual in nature). The analysis yielded only negative amounts and therefore, Southwest Securities noted that stock prices cannot be negative and considers any negative results to imply speculative or essentially no value.

Southwest Securities selected the companies reviewed in this analysis because, among other things, such companies operate similar businesses to the Company. However, no selected company is identical to the Company. Accordingly, Southwest Securities believed that purely quantitative analyses are not, in isolation, determinative in the context of the Merger and that qualitative judgments concerning differences between the business, financial and operating characteristics and prospects of the Company and the selected companies that could affect the public trading values of each also are relevant.

Selected Precedent Transactions Analysis. Using publicly available information, Southwest Securities examined financial information relating to the following six majority stake acquisition transactions of various transaction sizes, announced over the last seven years involving textile and specialty apparel manufacturers. These transactions were selected generally because they involve target companies with similar industry focus and business drivers to the Company. The closing dates and transactions were as follows:

Acquirer	Target	Date Closed
Qualium Investissement	Kermel S.A.	07/27/12
Lear Corp.	Guilford Performance Textiles, Inc.	05/31/12
Bangladesh Export Import Company Ltd.	Bextex Limited	07/31/11
Gilde Buy Out Partners	Gamma Holding NV	02/22/11
The Blackstone Group	Polymer Group, Inc.	01/28/11
International Textile Group, Inc.	Global Safety Textiles GmbH	04/01/07

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Southwest Securities reviewed transaction values, calculated as the enterprise value implied for the target company based on the consideration payable in the selected transaction, as a multiple of the target company s latest 12 months revenues and EBITDA. Financial data of the selected transactions were based on publicly available information at the time of announcement of the transaction. This analysis indicated the following multiple ranges:

	Enterprise Value/ LTM EBITDA
Low	5.9x
Mean	6.6x
Median	6.4x
High	8.2x

Based on the selected precedent transaction metrics analyzed and its professional judgment, Southwest Securities selected a multiple range of 5.9x to 8.2x for EBITDA. Southwest Securities then applied the calculated multiples for the precedent transactions to the Company s EBITDA. Financial data of the Company were based on actual results for calendar year 2012 and based on management s forecast estimate for the calendar year 2013 (adjusted to add-back to EBITDA the costs associated with the Hallwood Energy and Nextec litigation which were deemed to be unusual in nature). The analysis yielded only negative amounts and therefore, Southwest Securities noted that stock prices cannot be negative and considers any negative results to imply speculative or essentially no value.

No company, business or transaction used in this analysis is identical to the Company or the Merger. In addition, an evaluation of the results of this analysis is not entirely mathematical. This analysis involves considerations and judgments concerning differences in financial and operating characteristics and other factors that could affect the acquisition or other values of the companies, business segments or transactions to which the Company and the Merger were compared.

Discounted Cash Flow Analysis. Management did not prepare or make available to Southwest Securities financial forecasts beyond 2013 and therefore, a discounted cash flow analysis was not available.

Premiums Paid Analysis. Using publicly available information, Southwest Securities analyzed the premiums offered in (i) 41 selected publicly-traded minority buy-in merger and acquisition transactions of all sizes since January 1, 2008 and (ii) 20 selected publicly-traded minority buy-in merger and acquisition transactions for less than $50 million since January 1, 2008. For each of these transactions, Southwest Securities calculated the premium represented by the offer price over the target company s closing share price one day, one week, 30-days and 60-days prior to the transaction s announcement. This analysis indicated the following premiums for those time periods prior to announcement:

Publicly-Traded Minority Buy-In M&A Transactions All Sizes

	Hallwood Group Historical (1)	Hallwood Group $10.00	Buy-In Premium Low (2)	Buy-In Premium Mean (3)	Buy-In Premium Median	Buy-In Premium High (4)	Implied Hallwood Group Price Per Share Mean (3)	Implied Hallwood Group Price Per Share Median
1-Day Spot Premium	$ 5.61	78.3%	9.9%	30.8%	28.3%	62.5%	$ 7.34	$ 7.20
1-Week Spot Premium	6.15	62.6%	8.0%	31.9%	28.6%	63.0%	8.11	7.91

30-Day Spot Premium	8.00	25.0%	10.3%	33.4%	36.4%	70.9%	10.67	10.91
60-Day Spot Premium	9.74	2.7%	2.1%	27.9%	30.3%	60.5%	12.46	12.69

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Publicly-Traded Minority Buy-In M&A Transactions Less than $50 million

	Hallwood Group		Buy-In Premium			Implied Hallwood Group Price Per Share	
	Historical (1)	$10.00	Low (2)	Mean (3)	Median	High (4)	Mean (3)	Median
1-Day Spot Premium	$ 5.61	78.3%	0.8%	22.5%	17.6%	74.0%	$ 6.87	$ 6.59
1-Week Spot Premium	6.15	62.6%	(0.2%)	20.5%	14.5%	67.9%	7.41	7.04
30-Day Spot Premium	8.00	25.0%	0.1%	28.0%	22.8%	72.7%	10.24	9.82
60-Day Spot Premium	9.74	2.7%	(7.3%)	25.3%	11.9%	91.7%	12.20	10.90

Source: Capital IQ

(1) Closing price on trading days prior to the date on which the offer was announced.
(2) First quartile.
(3) Based on interquartile data set.
(4) Third quartile.

Based on the foregoing, this analysis indicated the following implied equity value reference ranges based on median minority buy-in premiums for the Company, as compared to the Merger Consideration of $10.00:

Minority Buy-in M&A Transactions All Sizes

Implied Per Share Equity

Value Reference Range

$7.20 - $12.69

Minority Buy-in M&A Transactions Less Than $50 million

Implied Per Share Equity

Value Reference Range

$6.59 - $10.90

The above information was presented to the Special Committee on March 28, 2013.

General. The Merger Consideration was determined through negotiations between the Company and Parent, and was approved by the Special Committee. Southwest Securities opinion was one of many factors taken into consideration by the Special Committee in making its determination to approve the Merger and should not be considered determinative of the views of the Special Committee, the Board or management with respect to the Merger or the Merger Consideration. Southwest Securities was selected by the Special Committee based on Southwest Securities qualifications, expertise and reputation. Southwest Securities is a nationally recognized investment banking and advisory firm. Southwest Securities, as part of its investment banking business, is regularly engaged in the valuation of businesses and securities in connection with mergers and acquisitions, negotiated underwritings, competitive biddings, secondary distributions of listed and unlisted securities, private placements, financial restructurings and

other financial services. In the ordinary course of business, Southwest Securities may, for its own account and the accounts of its customers, actively trade the securities of the Company and, accordingly, may hold a long or short position in such securities. During the last two years, Southwest Securities has not provided investment banking services to the Company, Parent, or their respective affiliates for which it received compensation.

THE PARENT FILING PERSONS PURPOSES AND REASONS FOR THE MERGER

Each of the Parent Filing Persons (as defined below) may be deemed to be affiliates of the Company and, therefore, under the SEC rules governing going-private transactions, are required to express their purpose and reasons for the Merger. The Parent Filing Persons are making the statements included in this section solely for the purpose of complying with the requirements of Rule 13e-3 and related rules under the Exchange Act.

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Mr. Gumbiner, his wife Marie Magdeleine Gumbiner and Gert Lessing are the directors of Parent. Messrs. Gumbiner and Lessing are the executive directors of Parent, and the sole directors and officers of Merger Sub. Mrs. Gumbiner, in her role as a director of Parent, and Mr. Lessing, in his roles as a director of Parent and a director and officer of Merger Sub, each delegated the determination of issues related to the Merger, and the negotiation of the Merger Agreement to Mr. Gumbiner. Parent, Merger Sub and Mr. Gumbiner are referred to collectively in this discussion as the Parent Filing Persons. For the Parent Filing Persons, the purpose of the Merger is to enable Parent to acquire sole ownership of the Company, in a transaction in which the unaffiliated stockholders of the Company will be cashed out for $10.00 per share of Common Stock, so Parent will bear the rewards and risks of the ownership of the Company after shares of Common Stock cease to be publicly held and traded. Parent attempted to negotiate the terms of a transaction that would be most favorable to itself, and not to stockholders of the Company and, accordingly, did not negotiate the Merger Agreement with the goal of obtaining terms that were fair to such stockholders. Parent decided to pursue the Merger because it believes that the Company can be operated more effectively as a privately-owned company because it will not be subject to the obligations, constraints and costs associated with having publicly traded securities. In addition, the success of the Company depends primarily on the success of its Brookwood subsidiary. Brookwood s success in turn depends in large part on sales to the customers from whom it derives its military business, which have been increasingly volatile and difficult to predict. The Parent Filing Persons believe that a business subject to this type of volatility is more appropriately operated as a private company because the public markets tend to focus on consistency and growth. For these reasons, the Parent Filing Persons believe that private ownership is in the best interests of the business and the organization and that the Merger is in the best interests of the Company s stockholders.

THE PARENT FILING PERSONS POSITION AS TO THE FAIRNESS OF THE MERGER

Under the SEC rules governing going-private transactions, each of the Parent Filing Persons may be deemed to be affiliates of the Company and, therefore, required to express their beliefs as to the substantive and procedural fairness of the Merger to the unaffiliated stockholders of the Company. The Parent Filing Persons are making the statements included in this section solely for the purpose of complying with the requirements of Rule 13e-3 and related rules under the Exchange Act. The Parent Filing Persons views as to the fairness of the Merger should not be construed as a recommendation to any stockholder as to how that stockholder should vote on the proposal to adopt the Merger Agreement.

Given Mr. Gumbiner s participation in the transactions contemplated by the Merger Agreement, Mr. Gumbiner did not vote or otherwise participate in the deliberations of the Special Committee or the Board when the Special Committee voted to recommend, or the Board voted to approve, the adoption of the Merger Agreement and did not receive advice from the Company s or the Special Committee s legal counsel or Financial Advisor.

As described in the *Special Factors Interests of the Company s Directors and Executive Officers in the Merger* section beginning on page 44, the Parent Filing Persons have interests in the Merger different from those of the unaffiliated stockholders of the Company by virtue of Parent s and Mr. Gumbiner s holdings of Common Stock and Mr. Gumbiner s expectation of a continuing leadership role in the Surviving Corporation. None of the Parent Filing Persons participated in the deliberations of the Special Committee or the Board regarding, or received advice from the Special Committee s legal or financial advisors as to, the fairness of the Merger. Nevertheless, the Parent Filing Persons took into account the fact that the Board determined, by the unanimous vote of all members of the Board (with Mr. Gumbiner not participating), based on the unanimous recommendation of the Special Committee, that the Merger is fair to, and in the best interests of, the Company and its unaffiliated stockholders on the basis of the factors and considerations described in the *Special Factors Background of the Merger Reasons for the Merger; Fairness of the Merger; Recommendations of the Special Committee and the Board* section beginning on page 25. In addition, the Parent Filing Persons believe that the Merger is fair to the unaffiliated stockholders of the Company on the basis of

the additional factors and considerations described below in this section. In this section, we refer to the Board to mean the Board of Directors other than Mr. Gumbiner (who did not participate as a Board member in discussions relating to the Merger).

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The Parent Filing Persons have not engaged a financial advisor to perform any valuation or other analysis for the purpose of assessing the fairness of the Merger to the unaffiliated stockholders of the Company. Based on the Parent Filing Persons knowledge and analysis of available information regarding the Company, the Parent Filing Persons believe that the Merger is substantively fair to the unaffiliated stockholders of the Company. In particular, the Parent Filing Persons considered the following factors:

- other than their receipt of Board and Special Committee fees (which are not contingent upon the consummation of the Merger or the Special Committee s or the Board s recommendation or approval of the Merger) and their interests described in the *Special Factors Interests of the Company s Directors and Executive Officers in the Merger* section beginning on page 44, no member of the Special Committee has a financial interest in the Merger that is different from, or in addition to, the interests of the unaffiliated stockholders generally, although the Merger Agreement does include customary provisions for indemnity and the continuation of liability insurance for the Company s officers and directors;

- the Board determined, by the unanimous vote of all members of the Board, based on the unanimous recommendation of the Special Committee, that the Merger is fair to, and in the best interests of, the Company and its unaffiliated stockholders;

- the $10.00 cash per share of Common Stock to be paid to the holders of the Company s shares of Common Stock pursuant to the Merger Agreement represents a 78.3% premium over the closing price of the Common Stock on November 8, 2012, the last trading day prior to the date on which the offer was announced; a premium of 49.8% over the average closing price of $6.68 per share of Common Stock during the 30-day period ended November 8, 2012; a premium of 27.5% over the average closing price of $7.85 per share of Common Stock during the 60-day period ended November 8, 2012; a premium of 17.4% over the average closing price of $8.52 per share of Common Stock during the 90-day period ended November 8, 2012; and a premium of 15.7% over the average closing price of $8.64 per share of Common Stock during the 120-day period ended November 8, 2012;

- the Merger will provide consideration to the unaffiliated stockholders of the Company entirely in cash, allowing the unaffiliated stockholders of the Company to realize immediately a certain and fair value for their shares of Common Stock and eliminating any uncertainty in valuing the consideration to be received by those stockholders;

- the Parent Filing Persons understanding of the Company s business, historical and current financial performance, competitive and operating environment, operations, management strength and future prospects, including Brookwood s dependence on military sales and the decline in those sales in recent years;

- the high costs of operating as a public company;

the fact that there are no unusual requirements or conditions to the Merger, and the ability of Parent to fund fully the payment of the Merger Consideration and the related fees and expenses from internal sources; and

that the Merger Agreement allows the Board to withdraw or change its recommendation of the Merger Agreement, and to terminate the Merger Agreement, under certain circumstances.

The Parent Filing Persons did not establish, and did not consider, a pre-Merger public company going concern value of Common Stock for the purposes of determining the per share Merger Consideration or the fairness of the per share Merger Consideration to the unaffiliated stockholders of the Company. However, to the extent the pre-Merger going concern value was reflected in the pre-announcement per share price of Common Stock, the per share Merger Consideration of $10.00 represented a premium to the going concern value of the Company. In addition, the Parent Filing Persons did not consider net book value of Common Stock because they believe that net book value, which is an accounting concept, does not reflect, or have any meaningful impact on, either the market trading prices of Common Stock or the Company s value as a going concern. The Parent Filing Persons did not consider liquidation value in determining the fairness of the Merger to the unaffiliated stockholders of the

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Company because of their belief that liquidation sales generally result in proceeds substantially less than sales of a going concern, because of the impracticability of determining a liquidation value given the significant execution risk involved in any breakup, because they considered the Company to be a viable, going concern and because the Company will continue to operate its business following the Merger.

The Parent Filing Persons believe that the Merger is procedurally fair to the unaffiliated stockholders of the Company based primarily upon the following:

- other than their receipt of Board of Directors and Special Committee fees (which are not contingent upon the consummation of the Merger or the Special Committee s or the Board s recommendation or approval of the Merger) and their interests described in the *Special Factors Interests of the Company s Directors and Executive Officers in the Merger* section beginning on page 44, the Special Committee, consisting solely of directors who are not officers or employees of the Company and who are not affiliated with Parent or Mr. Gumbiner, and who have no financial interest in the Merger that is different from, or in addition to, the interests of the unaffiliated stockholders generally, was given exclusive authority to, among other things, review, evaluate and negotiate the terms of the proposed Merger, to decide not to engage in the Merger and to consider alternatives to the Merger;

- the Special Committee retained its own independent legal and financial advisors;

- the Special Committee and its advisors had all information they believed was necessary to represent the interests of the unaffiliated stockholders effectively;

- the per share Merger Consideration of $10.00, and the other terms and conditions of the Merger Agreement, resulted from arm s-length negotiations between Parent and its advisors, on the one hand, and the Special Committee and its advisors, on the other hand;

- the Special Committee was deliberate in its process, taking approximately seven months to analyze and evaluate Mr. Gumbiner s initial proposal and to negotiate with Mr. Gumbiner the terms of the proposed Merger;

- the Special Committee received an opinion, dated June 4, 2013, of its financial advisor as to the fairness, from a financial point of view and as of such date, to holders of Common Stock (other than holders of Excluded Shares) of the $10.00 per share Merger Consideration to be received by those holders;

- the Merger was approved by the unanimous vote of the Board (without Mr. Gumbiner s participation), based on the unanimous recommendation of the Special Committee;

the Merger is subject to a non-waivable condition requiring an affirmative vote of at least a majority of all outstanding shares of Common Stock held by stockholders other than holders of Excluded Shares (the Majority of the Minority Approval); and

the Company s ability to terminate the Merger Agreement if the Majority of the Minority Approval is not obtained, with each party generally bearing its own expenses in such circumstances as described in the *The Merger Agreement Fees and Expenses* section beginning on page 47.

While Mr. Gumbiner is an officer and director of the Company, because of his participation in the transaction as described in the *Special Factors Interests of the Company s Directors and Executive Officers in the Merger* section beginning on page 44, he did not serve on the Special Committee, nor did he participate in, or vote in connection with, the Special Committee s evaluation or recommendation of the Merger Agreement and the Merger or the Board s evaluation or approval of the Merger Agreement and the Merger. For these reasons, the Parent Filing Persons do not believe that Mr. Gumbiner s interests in the Merger influenced the decision of the Special Committee or the Board with respect to the Merger Agreement or the Merger. Parent has stated, including in its initial proposal letter for the Merger, that the failure of the Special Committee to recommend, or the unaffiliated stockholders to approve, the Merger would not adversely affect Parent s or Mr. Gumbiner s future relationship with the Company.

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The foregoing discussion of the information and factors considered and given weight by the Parent Filing Persons in connection with the fairness of the Merger Agreement and the Merger is not intended to be exhaustive but is believed to include all material factors considered by them. The Parent Filing Persons did not find it practicable to, and did not, quantify or otherwise attach relative weights to the foregoing factors in reaching their position as to the fairness of the Merger Agreement and the Merger. Rather, the Parent Filing Persons made the fairness determinations after considering all of the foregoing as a whole. The Parent Filing Persons believe these factors provide a reasonable basis upon which to form their belief that the Merger is fair to the unaffiliated stockholders of the Company. This belief should not, however, be construed as a recommendation to any Company stockholder to approve the Merger or adopt the Merger Agreement. The Parent Filing Persons do not make any recommendation as to how stockholders of the Company should vote their shares of Common Stock relating to the Merger.

DEREGISTRATION OF THE COMPANY S COMMON STOCK

Following and as a consequence of the Merger, the Company will become a privately held company and a wholly owned subsidiary of Parent. Shares of our Common Stock will no longer be listed on any stock exchange or quotation system, including the NYSE MKT or publicly traded and will be deregistered under the Exchange Act.

MARKET PRICE OF THE COMPANY S COMMON STOCK

Shares of Common Stock are traded on the NYSE MKT under the ticker symbol HWG . The closing price of our Common Stock on the NYSE MKT on June 4, 2013, the last trading day prior to our public announcement of the Merger Agreement on June 5, 2013, was $8.05 per share. On November 12, 2013, the closing price of our Common Stock on the NYSE MKT was $9.95 per share. The Company has not paid any cash dividends on its Common Stock since 2008. You are encouraged to obtain current market quotations for our Common Stock.

CERTAIN EFFECTS OF THE MERGER

If the Merger Agreement is adopted by the requisite votes of the Company s stockholders and all other conditions to the Closing are either satisfied or waived, Merger Sub will merge with and into the Company, with the Company continuing as the Surviving Corporation and as a wholly owned subsidiary of Parent. At the Effective Time, each share of Common Stock outstanding immediately prior to the Effective Time (other than Excluded Shares and any Dissenting Shares) will be converted into the right to receive the Merger Consideration, and all such shares will be automatically cancelled upon the conversion thereof and will cease to exist, and each holder of (x) a certificate that immediately prior to the Effective Time represented such share or (y) uncertificated shares represented by book-entry that immediately prior to the Effective Time represented such shares will cease to have any rights with respect thereto, other than the right to receive the Merger Consideration, without interest, upon surrender of such certificate or book-entry share in accordance with the Merger Agreement.

A primary benefit of the Merger to our stockholders (other than holders of Excluded Shares) will be the right of such stockholders to receive a cash payment of $10.00, without interest, for each share of Common Stock held by such stockholders, as described above, representing a premium of approximately 24% above the closing price of the Common Stock on June 4, 2013, the last trading day prior to our public announcement of the Merger Agreement and a premium of approximately 78% above the closing price of the Common Stock on November 8, 2012, the last trading day prior to the date on which Parent s proposal of a transaction was announced. Additionally, such stockholders will avoid the risk after the Merger of any possible decrease in our future earnings, growth or value.

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The primary detriments of the Merger to our stockholders (other than holders of Excluded Shares) include the lack of interest of such stockholders in any potential future earnings, growth or value realized by the Company after the Merger. Additionally, the receipt of cash in exchange for shares of Common Stock pursuant to the Merger generally will be a taxable transaction for U.S. federal income tax purposes to our stockholders who are U.S. holders. See *Special Factors Material U.S. Federal Income Tax Consequences of the Merger* beginning on page 44.

PROJECTED FINANCIAL INFORMATION

The Company does not as a matter of course make public projections as to future sales, earnings, or other results. However, the management of the Company prepared the projected financial information for Brookwood and the Company as of May 7, 2013, set forth below and were made available to the Board, the Special Committee, the Company s financial advisors, and the Special Committee s advisors in connection with their respective consideration of strategic alternatives available to the Company. This information was also made available to Mr. Gumbiner in the normal course of business in his capacity as a member of management and the Board. In addition, the management of the Company prepared the projected financial information for Brookwood and the Company as of March 12, 2013 and November 7, 2012 described below, which was made available to the Board, including Mr. Gumbiner, in the normal course of business. The accompanying projected financial information was not prepared with a view toward public disclosure or with a view toward complying with the guidelines established by the American Institute of Certified Public Accountants with respect to projected financial information, but, in the view of the Company s management, was prepared on a reasonable basis, and at the time it was prepared reflected the best estimates and judgments then available, and presented, to the best of management s knowledge and belief, the expected course of action and the expected future financial performance of the Company. However, this information is not fact and should not be relied upon as being necessarily indicative of future results, and readers of this proxy statement are cautioned not to place undue reliance on the prospective financial information.

Neither the Company s independent auditors, nor any other independent accountants, have compiled, examined, or performed any procedures with respect to the projected financial information contained herein, nor have they expressed any opinion or any other form of assurance on such information or its achievability, and assume no responsibility for, and disclaim any association with, the prospective financial information.

The projected financial information is being included in this proxy statement not to influence your decision whether to vote for or against the proposal to adopt the Merger Agreement, but because these financial forecasts were made available to the Board, the Special Committee, the Company s financial advisors, or the Special Committee s advisors. The inclusion of this information should not be regarded as an indication that the Company, the Board, the Special Committee, the Special Committee s advisors, the Company s financial advisors or any other recipient of this information considered, or now considers, such financial forecasts to be a reliable prediction of future results. No person has made or makes any representation to any stockholder regarding the information included in these financial forecasts.

Although presented with numerical specificity, the projected financial information is based upon a variety of estimates and numerous assumptions made by the Company s management with respect to, among other matters, industry performance, general business, economic, market and financial conditions and other matters, including the factors described under *Cautionary Statement Concerning Forward-Looking Information* beginning on page 51, many of which are difficult to predict, are subject to significant economic and competitive uncertainties, and are beyond the Company s control. As a result, there can be no assurance that the estimates and assumptions made in preparing the projected financial information will prove accurate, that the projected results will be realized or that actual results will not be significantly higher or lower than projected.

The financial projections for Brookwood are dependent on Brookwood s having adequate liquidity to purchase greige goods and other raw materials and to maintain levels of inventory to support both ongoing programs and opportunistic sales.

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The projected financial information does not take into account any circumstances or events occurring after the date they were prepared, and, except as may be required in order to comply with applicable securities laws, neither the Company nor its management intends to update, or otherwise revise, the projected financial information, or the specific portions presented, to reflect circumstances existing after the date when they were made or to reflect the occurrence of future events, even in the event that any or all of the assumptions are shown to be in error. In addition, the projected financial information assumes that the Company will remain a publicly traded company.

For the foregoing reasons, as well as the bases and assumptions on which the projected financial information was compiled, the inclusion of specific portions of the projected financial information in this proxy statement should not be regarded as an indication that the Company considers such projected financial information to be an accurate prediction of future events, and the projections should not be relied on as such an indication. No one has made any representation to any stockholder of the Company or anyone else regarding the information included in the projected financial information discussed below.

On May 7, 2013, management presented the 2013 projected financial information for Brookwood and the Company summarized below to the Board.

BROOKWOOD FINANCIAL PROJECTIONS

CONSOLIDATED STATEMENT OF EARNINGS

MAY 7, 2013

			2013 FORECAST MAY 7, 2013				
	Actual 2011	Actual 2012	Q1 Actual	Q2 Forecast	Q3 Forecast	Q4 Forecast	Year Forecast
Sales	139,499	130,524	31,283	33,875	31,075	33,480	129,713
Cost of sales	115,865	112,193	27,459	29,279	26,728	28,964	112,430
Gross profit	23,634	18,332	3,824	4,597	4,347	4,516	17,283
	16.94%	14.04%	12.22%	13.57%	13.99%	13.49%	13.32%
Operating expenses	17,999	18,824	3,730	4,021	4,021	4,021	15,792
Operating Profit (EBIT)	5,635	(493)	94	576	326	496	1,491
	4.04%	-0.38%	0.30%	1.70%	1.05%	1.48%	1.15%
Interest (income) / expense	78	166	62	60	53	62	237
Profit before income taxes	5,557	(659)	32	515	273	433	1,254
	3.98%	-0.50%	0.10%	1.52%	0.88%	1.29%	0.97%
Income taxes	2,183	(239)	12	186	98	156	452
Net income	3,374	(419)	20	330	175	277	802

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BROOKWOOD CONSOLIDATED BALANCE SHEET

MAY 7, 2013

	2013			
	Q1	Q2	Q3	Q4
Amounts in $000	Actual	Forecast	Forecast	Forecast
Cash	32	200	219	239
Marketable Securities				
Accounts receivable (net)	21,654	22,358	20,510	22,097
Inventory (net)	23,325	23,788	25,778	26,028
Prepaid expenses	886	886	886	886
Other current assets	1,206	1,206	1,206	1,206
Total Current Assets	47,103	48,437	48,598	50,456
Fixed assets (net)	19,631	19,754	19,912	20,077
Other assets	136	136	136	136
Total Assets	66,870	68,327	68,646	70,669
Notes payable current	2,675	5,975	4,925	6,225
Accounts payable				