Hallwood Group Inc
Form PRER14A
March 05, 2014
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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

(Amendment No. 2)

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:

   Common stock, par value $0.10 per share
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 $876.69 was determined by multiplying 0.0001288 by the maximum aggregate Merger Consideration of $6,806,683. The maximum aggregate Merger Consideration was calculated as the product of (a) 523,591 outstanding shares of common stock as of March 3, 2014 to be acquired in the merger and (b) the maximum per share Merger Consideration of $13.00.
4. Proposed maximum aggregate value of transaction: $6,806,683

5. Total fee paid: $876.69 ($202.30 paid herewith)

¨ Fee paid previously with preliminary materials.

x 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: $674.39

2. Form, Schedule or Registration Statement No.: Preliminary Proxy Statement on Schedule 14A, File No. 001-08303

3. Filing Party: The Hallwood Group Incorporated

4. Date Filed: November 14, 2013

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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

[ ], 2014

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 April , 2014, 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, and as further amended by that certain Second Amendment to Agreement and Plan of Merger, dated as of February 7, 2014 (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 $13.00 in cash, without interest, less a proportionate deduction for any incentive fee and attorney s fees (the Merger Consideration) that may be awarded by the Delaware Court of Chancery (the Court) in connection with the Stipulation of Settlement, filed on February 7, 2014, relating to the purported class and, in the alternative, derivative action filed by Gary L. Sample against the Company and other defendants, asserting, among other things, that the original Merger Consideration was unfair and did not reflect the true value of the Company and all of its assets (the Sample Litigation). The Sample Litigation is more fully described in the accompanying proxy statement under the section entitled *Special Factors Litigation.* The plaintiff and plaintiff s attorneys in the Sample Litigation intend to petition the Court for an award of an incentive fee of $15,000 to plaintiff and attorney s fees and expenses not exceeding $310,000, which if granted in its entirety is equivalent to approximately $0.62 per share. Therefore, the Company expects that if the settlement is approved, the

Merger Consideration will be at least $12.38 per share and may be more if the Court does not approve the full amount requested by the plaintiff and the plaintiff s counsel. 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. In the event that the Court does not approve the settlement, the parties to the Merger Agreement have agreed to proceed with the consummation of the Merger based on the Original Merger Consideration of $10.00 per share, without the $3.00 per share increase to the Merger Consideration contemplated by the Second Amendment, which would involve the solicitation of stockholder approval at such $10.00 price per share.

The board of directors of the Company (the Board) formed a special committee (the Special Committee), consisting of three independent 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 (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

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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 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 and March 3, 2014, 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 A. Crocco, Jr.

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 [ ], 2014 and is first being mailed to stockholders on or about [ ], 2014.

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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 April , 2014, 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 further amended by that certain Second Amendment to Agreement and Plan of Merger, dated as of February 7, 2014 (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 March , 2014, 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 [ ], 2014

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 52)

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 68 and *The Parties to the Merger The Company* on page 52.

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 83.

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 52.

The Purpose of the Special Meeting (page 53)

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 further amended by that certain Second Amendment to Agreement and Plan of Merger, dated as of February 7, 2014 (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 $13.00 in cash, without interest, less a proportionate deduction for any incentive fee and attorney s fees (the Merger Consideration) that may be awarded by the Court in connection with the Stipulation of Settlement, filed on February 7, 2014, relating to the purported class and, in the alternative, derivative action filed by Gary L. Sample against the Company and other defendants, asserting, among other things, that the original Merger Consideration was unfair and did not reflect the true value of the Company and all of its assets (the Sample Litigation), 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. The plaintiff and the plaintiff s attorneys in the Sample Litigation intend to petition the Court for a $15,000 incentive fee and attorney s fees and expenses not exceeding $310,000 which, if granted in its entirety, is equivalent to approximately $0.62 per share. Therefore, the Company expects that if the settlement is approved, the Merger Consideration will be at least $12.38 per share and may be more if the Court does not approve the full amount requested by the plaintiff and the plaintiff s attorneys. In the event that the Court does

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not approve the settlement, the parties to the Merger Agreement have agreed to proceed with the consummation of the Merger based on the Original Merger Consideration of $10.00 per share, without the $3.00 per share increase to the Merger Consideration contemplated by the Second Amendment, which would involve the solicitation of stockholder approval at such $10.00 price per share. The Sample Litigation is more fully described under the section entitled *Special Factors Litigation.* 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 37)

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 37)

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 February 7, 2014, the last trading day prior to our public announcement of the Second Amendment to Agreement and Plan of Merger, dated as of February 7, 2014, by and among Parent, Merger Sub and the Company (the Second Amendment) and the increase in Merger Consideration, the closing price of our Common Stock was $9.73. On March 3, 2014, the closing price of our Common Stock on the NYSE MKT was $12.35 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 53)

The special meeting of stockholders will be held at 3710 Rawlins, Suite 1500, Dallas, Texas 75219, on April , 2014 at [ ], Central Time.

Record Date and Quorum

The holders of record of Common Stock as of the close of business on March , 2014, 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. Given Parent s ownership of 65.7% of the issued and outstanding shares of Common Stock, Parent s attendance at the special meeting will, by itself, constitute a quorum.

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 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

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(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 54.

Voting; Proxies; Revocation (page 54)

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 54.

Revocation of Proxies (page 55)

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.

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 56)

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.

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Appraisal Rights (pages 56, 77, 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 77 and the text of the Delaware appraisal rights statute, Section 262, which is reproduced in its entirety as Annex C to this proxy statement. Assuming you have otherwise complied with the requirements of Section 262, your right to seek appraisal under Section 262 is not released under the Settlement, but if the Settlement is approved, you may not claim value related to or arising from the derivative claims that are released, settled, and dismissed with prejudice pursuant to the Settlement.

Adjournments and Postponements (page 56)

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.

Structure of the Merger (page 58)

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 59)

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 $13.00 per share, without interest, less a proportionate deduction for any incentive fee and attorney s fees that may be awarded by the Court in connection with the Stipulation of Settlement, filed on February 7, 2014, relating to the Sample Litigation. The plaintiff and plaintiff s attorneys in

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the Sample Litigation intend to petition the Court for a $15,000 incentive fee and attorney s fees and expenses not exceeding $310,000, which, if granted in their entirety, is equivalent to approximately $0.62 per share. Therefore, the Company expects that if the Settlement is approved, the Merger Consideration will be at least $12.38 per share and may be more if the Court does not approve the full amount requested by the plaintiff and the plaintiff s counsel. In the event that the Court does not approve the Settlement, the parties to the Merger Agreement have agreed to proceed with the consummation of the Merger based on the Original Merger Consideration of $10.00 per share, without the $3.00 per share increase to the Merger Consideration contemplated by the Second Amendment, which would involve the solicitation of stockholder approval at such $10.00 price per share. The Sample Litigation is more fully described under the section entitled *Special Factors Litigation.*

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 59.

Conditions to the Merger (page 64)

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 61.

When the Merger Becomes Effective (page 58)

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.

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 23)

The Board, acting upon the unanimous recommendation of a special committee of the Board consisting of three independent directors of the Company (the Special Committee), determined that the Merger was substantively and procedurally fair to minority and unaffiliated stockholders, and was advisable and in the best interests of the Company and its minority and unaffiliated stockholders. The Board (without Mr. Gumbiner s participation) unanimously 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 23.

Opinion of Southwest Securities (page 27 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.

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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 originally agreed 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 27 and Annex B to this proxy statement.

Purposes and Reasons of the Company for the Merger (page 23)

The Company s purpose for engaging in the Merger is to enable its minority and unaffiliated stockholders to receive the Merger Consideration. The original Merger Consideration of $10.00 per share, without interest, represented 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. If the Settlement is approved, the increased Merger Consideration of at least $12.38 per share (assuming the Court approves an incentive fee and attorney s fees totaling $325,000, which is equivalent to $0.62 per share) represents a premium of at least 120% above the closing price of our Common Stock on November 8, 2012. 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 23.

Certain Effects of the Merger (page 38)

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 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 38.

Interests of the Company s Directors and Executive Officers in the Merger (page 43)

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 43. Mr. Charles A. Crocco, Jr., a director of the Company and Chairman of the Special Committee, owned 9,996 shares of Common Stock, or approximately 0.7% of the total number of outstanding shares of Common Stock, as of March 3, 2014. 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 43)

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 43.

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.

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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 Delaware Court of Chancery (the Court) captioned Sample v. Gumbiner et al., Civil Action No. 8833-VCN. The action named as defendants the directors of the Company, and also named as defendants Parent and Merger Sub. The Company is also named as a defendant, or in the alternative, as a nominal defendant. The plaintiff and defendants have entered into a Stipulation of Settlement (the Stipulation), filed with the Court on February 7, 2014, relating to the Sample Litigation. A hearing for final approval of the settlement set forth in the Stipulation (the Settlement) is set to be held on March 25, 2014. For a more information, see the section entitled *Special Factors Litigation* beginning on page 47.

No Solicitation (page 63)

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).

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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 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 63.

Termination (page 66)

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