

Hallwood Group Inc  
Form DEF 14A  
April 19, 2012

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**WASHINGTON, DC 20549**

**SCHEDULE 14A**

**(RULE 14a-101)**

**SCHEDULE 14A INFORMATION**

**Proxy Statement Pursuant to Section 14(a) of the Securities**

**Exchange Act of 1934 (Amendment No. \_\_\_\_\_)**

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

Preliminary Proxy Statement

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

Definitive Proxy Statement

Definitive Additional Materials

Soliciting Material Pursuant to §240.14a-12

The Hallwood Group Incorporated  
(Name of Registrant as Specified in its Charter)

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**THE HALLWOOD GROUP INCORPORATED**

**NOTICE OF ANNUAL MEETING**

Dear Hallwood Group Stockholder:

On behalf of the board of directors, you are cordially invited to attend the Annual Meeting of Stockholders of The Hallwood Group Incorporated (the "Company"). The annual meeting will be held on Tuesday, May 8, 2012, at 1:30 p.m. central time, at the offices of the Company, located at 3710 Rawlins, Suite 1500, Dallas, Texas 75219.

At the annual meeting we will:

1. Elect two directors to hold office for three years;
2. Elect one director to hold office for one year; and
3. Transact any other business properly presented at the meeting.

Only stockholders of record at the close of business on Monday, March 26, 2012, are entitled to notice of and to vote at the annual meeting.

By order of the Board of Directors

RICHARD KELLEY  
Secretary

April 20, 2012

**Important notice regarding the availability of proxy materials for the Annual Meeting of Shareholders to be held on May 8, 2012: The Hallwood Group Incorporated's Notice of Annual Meeting and Proxy Statement,**

**Annual Report and other proxy materials are available at the Company's website at [www.hallwood.com](http://www.hallwood.com). Any stockholder may request a printed copy of these materials by contacting Mr. Richard Kelley, Vice President, Chief Financial Officer and Secretary at 800.225.0135 or [investor-services@hallwood.com](mailto:investor-services@hallwood.com).**

**Only stockholders and their properly authorized representatives will be able to attend the 2012 Annual Meeting of Stockholders. If you plan to attend the meeting, please contact Mr. Richard Kelley, Vice President, Chief Financial Officer and Secretary at 800.225.0135 no later than Thursday, May 3, 2012, and notify him that you or your authorized representative plan to attend the meeting, providing the name of the person(s) planning to attend on your behalf.**

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

**The Hallwood Group Incorporated**

**3710 Rawlins, Suite 1500**

**Dallas, Texas 75219**

**PROXY STATEMENT FOR**

**ANNUAL MEETING OF STOCKHOLDERS**

**TO BE HELD ON TUESDAY, MAY 8, 2012**

This proxy statement and the accompanying proxy are first being mailed on or about April 20, 2012. The accompanying proxy is solicited by the board of directors of the Company.

**QUESTIONS AND ANSWERS ABOUT THE ANNUAL MEETING**

1.Q: Who is entitled to vote?

Stockholders of record at the close of business on Monday, March 26, 2012, the “record date,” are entitled to vote at the annual meeting.

2.Q: What may I vote on?

A: You may vote on:

- (1) the election of two nominees to serve on the board of directors for three years;
- (2) the election of one nominee to serve on the board of directors for one year; and any other business
- (3) properly presented at the meeting.

3.Q:How do I vote?

A: Sign, date and return each proxy card you receive in the prepaid envelope. If you return your signed proxy card but do not mark the boxes showing how you wish to vote, your shares will be voted **FOR** the election of the nominee for director and in the proxies' discretion with respect to any other matter properly presented at the meeting.

Abstentions, broker non-votes and proxies directing that the shares are not to be voted will not be counted as a vote in favor of the nominee.

4.Q: How does the board of directors recommend I vote on the proposal to elect the nominees for director?

A: Your board of directors recommends that you vote **FOR** each of the nominees for director.



5.Q: How can I revoke my proxy?

Attending the meeting is not sufficient to revoke your proxy unless  
A: you also take one of the following actions. You have the right to revoke your proxy at any time by:

- (1) notifying our corporate secretary in writing before the meeting;
- (2) voting in person; or
- (3) returning a later-dated proxy card before the meeting.

6.Q: How many shares can vote at the annual meeting?

As of the record date, there were 1,525,166 shares of common stock  
A: outstanding and entitled to vote at the annual meeting. You are entitled to one vote for each share of common stock you hold.

7.Q: What is a “quorum?”

A “quorum” is a majority of the outstanding shares. A quorum may be present at the meeting or represented by proxy. There must be a  
A: quorum for the meeting to be valid. If you submit a properly executed proxy card, even if you abstain from voting, you will be considered part of the quorum. In addition, broker non-votes will be counted toward determining the presence of a quorum.

8.Q: What vote is required to elect the directors?

A plurality of the votes of the shares present in person or represented by proxy at the meeting and entitled to vote on the election of directors is necessary to elect the nominee for director. Abstentions and shares held by brokers that have been designated as not voted  
A: will be counted for purposes of determining a quorum, but will not be counted as votes cast in favor of the election of the director. Mr. Gumbiner, the chairman of the board of directors, beneficially owns approximately 65.7% of the outstanding shares and, therefore, will determine the outcome of the election. He has indicated that he intends to vote his shares in favor of each of the nominees.

9.Q: Who may attend the annual meeting?

A: Only stockholders and their properly authorized representatives may attend the meeting. To be able to attend the meeting, you must contact Mr. Richard Kelley at 800.225.0135 no later than Thursday, May 3, 2012, and notify him that you or your authorized representatives plan to attend the meeting, providing the name of the

person(s) planning to attend on your behalf.

## **SOLICITATION OF PROXIES**

The cost of preparing, assembling, printing and mailing this proxy statement and the enclosed proxy form and the cost of soliciting proxies related to the annual meeting will be borne by the Company. The Company will request banks and brokers to solicit their customers who are beneficial owners of shares of common stock listed of record in names of nominees, and will reimburse those banks and brokers for the reasonable out-of-pocket expenses of the solicitation. The original solicitation of proxies by mail may be supplemented by telephone, telegram and personal solicitation by officers and other regular employees of the Company and its subsidiaries, but no additional compensation will be paid to those individuals on account of their activities. In addition, the Company has retained Georgeson Inc. to assist in the distribution of proxy materials, and the Company estimates that Georgeson Inc.'s total fees and expenses will be approximately \$4,000.

## **PROPOSAL NO. 1**

## **ELECTION OF DIRECTORS**

The Company's board of directors is divided into three classes serving staggered three-year terms.

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

Below are the names and ages of the nominees and of the directors whose terms of office will continue after the annual meeting, the year in which each director was first elected as a director of the Company, their principal occupations or employment for at least the past five years and other directorships in public companies that they have held in the past five years. In addition to the information presented below regarding each director's specific experience, qualifications, attributes and skills that led our board of directors to the conclusion that he should serve as a director, we also believe that all of our directors have a reputation for integrity, honesty and adherence to high ethical standards.

The following is information about each nominee:

**Nominees for Election for a Three-Year Term Ending with the 2015 Annual Meeting**

Anthony J. Gumbiner Mr. Gumbiner, age 67, has served as a director and Chairman of the Board since 1981, and Chief Executive Officer of the Company since 1984. He also served as President and Chief Operating Officer from December 1999 to March 2005. He also served as a director and Chairman of the board of directors of Hallwood Energy Management, LLC, the general partner of Hallwood Energy, L.P. (“Hallwood Energy”) until February 2009. Hallwood Energy Management, LLC, Hallwood Energy and its subsidiaries filed petitions for relief under Chapter 11 of the United States Bankruptcy Code on March 1, 2009. He served as a director of Hallwood Realty, LLC, the general partner of Hallwood Realty Partners, L.P. (“HRP”) and its predecessor until HRP was sold in July 2004. Mr. Gumbiner was a director and officer of Hallwood Energy Corporation until its sale in December 2004 and of Hallwood Energy III, L.P. until its sale in July 2005. He has served as a director of The Local Radio Company PLC since November 2008. Mr. Gumbiner is also a solicitor of the Supreme Court of Judicature of England.

We believe Mr. Gumbiner’s qualifications to serve on the board of directors include his leadership experience and knowledge of the Company and its business that he has obtained through serving as its Chairman of the Board and Chief Executive Officer and through the other positions he has held with the Company, along with his significant equity interest in the Company, as well as his experience as a director of other companies.

Amy Feldman Ms. Feldman, age 59, has been a Realtor representing Timbers Resorts' properties in Snowmass Village, Colorado and Tuscany, Italy since 2002. From 1990 to 2001, Ms. Feldman was an owner or co-owner of Jorden Communications, Inc., a Miami based public relations and event management agency with specialties in retail communication and marketing, real estate media relations, as well as sports-related event management and media relations. From 1983 to 1988, she was a Certified Public Accountant with Coopers & Lybrand.

We believe Ms. Feldman’s qualifications to serve on the board of directors include her experience and background in finance and accounting, her entrepreneurial experience and her business ownership and executive management experience in operations and financial analyses.

**Nominee for Election for a One-Year Term Ending with the 2013 Annual Meeting**

Michael R. Powers Mr. Powers, age 61, has served as a director of Ankor Holdings Limited, an international commodities trading company with offices in Hong Kong, Monaco and Qatar specializing in the physical and electronic trading of natural resources, since 2011. Since 1998, Mr. Powers has also served as a director of Monte Carlo Entertainment, SAM, a sports management company owning and promoting professional sports events, including ATP pro tennis tournaments and annual PGA senior golf events. Since 2003, Mr. Powers has served as a principal of Monaco Powers SC, a consulting firm working as an advisor primarily to companies in the oil and gas, real estate and sports entertainment industries, including Sotheby's France, Royal Riviera Royalty and Emotion Sports Management Group Austria.

We believe Mr. Powers' qualifications to serve on the board of directors include his experience as serving as a director of other companies, his entrepreneurial experience, as well as his vast experience and knowledge that he has obtained from working as an advisor to multiple companies across varying industries.

**Director Continuing in Office Until the 2014 Annual Meeting**

Charles A. Crocco, Jr. Mr. Crocco, age 73, has served as a director since 1981. He is an attorney, who was Counsel to Crocco & De Maio, P.C. through March 2003. He is a Securities Arbitrator in proceedings brought under the auspices of the Financial Industry Regulatory Authority (formerly National Association of Securities Dealers). He also served as a director of First Banks America, Inc., a bank holding company, from 1989 until December 2002.

We believe that Mr. Crocco's qualifications to serve on the board of directors include his leadership experience and knowledge of the Company and its business that he has obtained through serving as director of Company, his experience as a director of other companies, as well as his experience as a business and litigation attorney.

Except as indicated above, neither the nominees nor the continuing director have in the last five years held a directorship in any company with a class of securities registered under Section 12 of the Securities Exchange Act of 1934, or subject to the requirements of Section 15(d) of the Securities Exchange Act or any company registered as an investment company under the Investment Company Act of 1940. Each of Messrs. Crocco and Powers and Ms. Feldman are independent directors under the standards of the NYSE Amex, upon which the Company's Common Stock is listed for trading.

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

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

#### **Committees and Meetings of the Board of Directors**

M. Garrett Smith served on the Company's board of directors from November 2004 until his resignation on April 18, 2012. Mr. Smith served on the audit committee as its financial expert during his tenure. Ms. Feldman, who is a director nominee, is expected to fill that capacity upon her election at the Company's annual meeting on May 8, 2012.

Messrs. Crocco (Chairman) and Smith served as members of the Company's audit committee in 2011. The audit committee met fifteen times during 2011 and was charged with the responsibility of reviewing the annual audit report and the Company's accounting practices and procedures, and recommending to the board of directors the independent registered public accounting firm to be engaged for the following year.

The board of directors does not have a standing nominating or compensation committee. Because Mr. Gumbiner owns more than 50% of the Company's voting power, it is a “controlled company” under the rules of the NYSE Amex and is not required, nor does the Board believe it is necessary, to have separate nominating and compensation committees.

During the year ended December 31, 2011, the board of directors held seven meetings. Each director attended at least 75% of (1) the total number of meetings held by the board of directors, and (2) the total number of meetings held by all committees of the board of directors on which he served.

While the Company does not have a formal policy requiring them to do so, the Company encourages its directors to attend the annual meeting of stockholders. Last year, Mr. Smith was present at the annual meeting and Messrs.

Gumbiner and Crocco attended the annual meeting by telephone. Each current member of the board of directors and the director nominees has indicated his or her intent to attend the 2012 Annual Meeting.

### **Board Leadership Structure and Role in Risk Oversight**

The Company's chief executive officer, Mr. Gumbiner, also serves as the chairman of the board of directors. The board of directors believes that this leadership structure is optimal for the Company at this time because Mr. Gumbiner's extensive experience and history with the Company, together with his significant equity interest in the Company, provides the Company with strong and consistent leadership.

Management is responsible for managing the Company's risk and for bringing to the board's attention areas of risk which are most material to the Company. The board, including through its audit committee, which is comprised solely of independent directors, regularly reviews areas of risk to the Company and advises and directs management on the scope and implementation of policies, strategy and other actions designed to mitigate risk. The Company's audit committee also reviews risks and works with management and the Company's independent auditors to identify and address areas of significant risk to the Company.

### **Communication With Directors**

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

### **Code of Business Conduct and Ethics**

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



**SECURITY OWNERSHIP OF CERTAIN BENEFICIAL****OWNERS AND MANAGEMENT**

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

Name and Address of Beneficial Owner	Amount and Nature		Percentage	
	of Beneficial		of Class <sup>(1)</sup>	
	<u>Ownership</u> <sup>(1)</sup>			
Anthony J. Gumbiner	1,001,575	(2)	65.7	%
Charles A. Crocco, Jr.	9,996		0.7	
Amy Feldman	—	(3)	—	
Michael R. Powers	—	(3)	—	
M. Garrett Smith	—	(3)	—	
William L. Guzzetti	—	(3)	—	
Amber M. Brookman	—	(3)	—	
Richard Kelley	—	(3)	—	
All directors and executive officers as a group (8 persons)	1,011,571		66.3	%

Assumes, for each person or group listed, the exercise of all stock options or other rights held by that person or (1) group that are exercisable within 60 days, according to Rule 13d-3(d)(1)(i) of the Securities Exchange Act, but the exercise of none of the derivative securities owned by any other holder of options.

Shares are held through Hallwood Trust (the "Trust"), a trust formed under the laws of the Island of Jersey, Channel Islands. The trustee of the Trust is Hallwood Company Limited, a corporation formed under the laws of Nevis (2) ("HCL"). Mr. Gumbiner and members of his family are the directors of HCL. The Trust owns the Shares through Hallwood Financial Limited, a corporation organized under the laws of the British Virgin Islands that is wholly owned by the Trust and controlled by Mr. Gumbiner and members of his family.

(3)

Messrs. Powers, Smith, Guzzetti and Kelley and Mses. Feldman and Brookman do not own any shares or hold any options to purchase shares of the Company.

**EXECUTIVE COMPENSATION**

The following table reflects compensation paid to the Company's Chief Executive Officer and the Company's two most highly compensated executive officers:

**Summary Compensation Table for 2011**

Name and Principal Position	Year	Salary (\$)	Bonus (\$)	All Other Compensation (\$)	Total (\$)
Anthony J. Gumbiner, Chairman, Chairman and Chief Executive Officer	2011	996,000(1)	0	6,200	(2) 1,002,200
	2010	996,000(1)	0	6,200	(2) 1,002,200
William L. Guzzetti, President and Chief Operating Officer	2011	316,500	10,290	(3) 2,705	329,495
	2010	312,500	10,290	(3) 2,705	325,495
Amber M. Brookman, President and Chief Executive Officer of Brookwood	2011	317,538(4)	300,000	(5) 15,603	(6) 633,141
	2010	316,385(4)	1,245,289(5)	16,033	(6) 1,577,707

(1) Consists of consulting fees paid by the Company to Hallwood Investments Limited ("HIL"), a corporation associated with Mr. Gumbiner. None of the amounts paid to Mr. Gumbiner were for his service as a director of the Company. Mr. Gumbiner did not personally receive any additional compensation for his services as Chief Executive Officer of the Company.

(2) The amount shown in this column is for Mr. Gumbiner's life insurance premiums. In addition to the amounts shown in the table, the Company reimbursed HIL \$303,079 in 2011 and \$267,236 in 2010 for reasonable expenses in providing office space and administrative services to Mr. Gumbiner in Europe. The Company also reimbursed Mr. Gumbiner \$186,748 in 2011 and \$202,423 in 2010 for travel and travel related expenses between Europe and the Company's locations in the United States and health insurance premiums.

(3)

Consists of a special cash bonus in lieu of a matching contribution under the Company's 401(k) Tax Favored Savings Plan.

(4) Salary for 2011 includes payments for car allowance of \$6,000 and unused vacation time of \$11,538. Salary for 2010 includes payments for car allowance of \$6,000 and unused vacation time of \$10,385.

(5) Consists of annual bonus under compensation letter.

(6) The amount includes term life insurance premiums and matching contributions under Brookwood's 401(k) Tax Favored Savings Plan of \$7,350 in 2011 and \$7,350 in 2010.

For the fiscal year ending December 31, 2011, there were no equity or other awards granted, exercised or outstanding and no pension or nonqualified deferred compensation was paid to any of the Company's executive officers.

As discussed above, as a "controlled company" under the rules of the NYSE Amex, the Company is not required to have a standing compensation committee. The Company's board of directors is responsible for annually reviewing, approving and establishing compensation for the Company's executive officers and directors. Aside from Mr. Gumbiner, the Company's Chief Executive Officer who is also the Chairman of the Company's board of directors, none of the Company's executive officers serve as a member of the Company's board of directors. Mr. Gumbiner participates in discussions concerning the compensation of the Company's executive officers other than himself. The Company has not engaged any consultants to provide advice regarding compensation matters.

### **Potential Payments Upon Termination or Change-in-Control**

The only incremental payments to which named executive officers are entitled upon severance or change in control of the Company are provided under employment or consulting agreements and The Hallwood Group Incorporated 2005 Long-Term Incentive Plan For Brookwood Companies Incorporated ("LTI Plan"). Ms. Brookman participates in the LTI Plan.

The LTI Plan generally defines a change of control transaction as a transaction approved by the Company's board of directors or by the holders of at least 50% of the voting capital stock of the Company that results in: (i) a change in beneficial ownership of the Company or Brookwood of 50% or more of the combined voting power, (ii) the sale of all or substantially all of the assets of Brookwood, or (iii) any other transaction that, in the Company's board of directors discretion, has substantially the same effect as item (i) or (ii). Certain transfers, generally among existing stockholders and their related parties, are exempted from the definition.

Under the LTI Plan, upon a change of control transaction, each participant is entitled to receive a cash payment equal to the sum calculated by (i) dividing the number of units held by that participant by the 10,000 total units authorized under the LTI Plan, and (ii) multiplying the result by 15% of the amount by which (a) the net fair market value of all consideration received by the Company or its stockholders as a result of the transaction exceeds (b) the sum of the liquidation preference plus accrued but unpaid dividends on the Series A Preferred Stock of Brookwood at the time of the transaction. At December 31, 2011, the sum of the liquidation preference plus accrued but unpaid dividends on the Series A Preferred Stock of Brookwood was \$13,955,625. If the Board determines that certain specified officers, or other persons performing similar functions do not have, prior to the change of control transaction, in the aggregate an equity or debt interest of at least two percent in the entity with whom the change of control transaction is completed, then the minimum amount to be awarded under the LTI Plan shall be \$2,000,000. In addition, the Company agreed that, if members of Brookwood's senior management do not have, prior to a change of control transaction, in the aggregate an equity or debt interest of at least two percent in the entity with whom the change of control transaction is completed (exclusive of any such interest any such individual receives with respect to his or her employment

following the change of control transaction), then the Company will pay Ms. Brookman an additional \$2,600,000.

The Company is a party to a financial consulting agreement with HIL under which Mr. Gumbiner provides international consulting and advisory services to the Company and its affiliates. The financial consulting agreement between the Company and HIL was originally entered into as of December 31, 1996 and had an original termination date of July 31, 1998. However, it provides that, unless either party terminates the agreement upon at least 30 days written notice, then at the end of each period it is to be continued for an additional one year period on the same terms and conditions. The Company may, however, terminate the agreement for (i) any act of dishonesty on the part of HIL resulting or intended to result directly or indirectly in personal gain or benefit at the expense of the Company or material damage of or to property of the Company; (ii) any act of fraud, misappropriation, embezzlement or willful misconduct by HIL or (iii) the willful breach or repeated, habitual neglect by HIL of its duties under the agreement. Therefore, if the agreement is terminated by the Company otherwise than for one of the permitted reasons or pursuant to a timely written notice of non-renewal of the contract, the Company would be required to pay the amounts to be paid under the contract for the remainder of the one year renewal term.

The consulting agreement does not contain any other provision that would require potential payments in the event of a termination or change of control. No other agreements exist between the Company and HIL or Mr. Gumbiner that would require potential payments in the event of termination or change in control.

## Compensation of Directors

The following table sets forth the amounts paid to the Company's outside directors for their service as directors of the Company for the year ended December 31, 2011. Information concerning amounts paid to Mr. Gumbiner, the Company's Chairman and Chief Executive Officer, is included in the preceding tables.

### Director Compensation for 2011

Name	Fees Earned or Paid in Cash (\$)	Stock Awards (\$)	Option Awards (\$)	Non-Equity Incentive Plan Compensation (\$)	Nonqualified Deferred Compensation Earnings (\$)	All Other Compensation (\$)	Total (\$)
Charles A. Crocco, Jr.	68,240	0	0	0	0	0	68,240
M. Garrett Smith	70,658	0	0	0	0	0	70,658

For the year ended December 31, 2011, each of the outside directors received director fees of \$50,000. Board members are entitled to receive \$1,000 for each day spent on business of the Company, other than attendance at board meetings; no fees for this *per diem* arrangement were paid in 2011. Each director is also reimbursed for expenses reasonably incurred in connection with the performance of his duties.

In August 2011, the Company's board of directors authorized the audit committee, consisting solely of the outside directors, to investigate the facts giving rise to the proposed findings by the court and various allegations that have been made arising out of Hallwood Energy's bankruptcy in 2009. Each of the outside directors received a meeting attendance fee of \$1,000 for each of the seven meetings on these matters, totaling \$7,000 for 2011. Additionally, each director was paid for time expended outside of the formal meetings in connection with the performance of these duties.

## EMPLOYMENT AGREEMENTS

During the year ended December 31, 2011, Brookwood had a compensation letter (the "Letter") with Ms. Brookman. The Letter provided for payment of a salary of \$300,000 per year plus an annual bonus in an amount of the greater of 5% of Brookwood's earnings before taxes (with certain adjustments) or a minimum of \$300,000. In addition, the Letter provided for a car allowance of \$500 per month. The Letter does not provide for severance or termination benefits.



In addition, the Company is a party to the Financial Consulting Agreement with HIL described under “Potential Payments Upon Termination and Change-in-Control” and “Certain Relationships and Related Transactions.”

## REPORT OF THE AUDIT COMMITTEE

During 2011, the audit committee was composed of two directors and operates under an Amended and Restated Audit Committee Charter, adopted by the board of directors according to the rules and regulations of the NYSE Amex. The board of directors has determined that both of the members are independent, as defined by the NYSE Amex's Listed Company Guide. The board of directors determined that Mr. Smith was an "audit committee financial expert," as defined by the Securities and Exchange Commission ("SEC"). Mr. Smith served on the board of directors and the audit committee from November 2004 until his resignation on April 18, 2012.

Management is responsible for the Company's internal controls and the financial reporting process. Deloitte & Touche LLP ("D&T"), the Company's independent registered public accounting firm, is responsible for performing an independent audit of the Company's consolidated financial statements in accordance with the standards of the Public Company Accounting Oversight Board. The audit committee's responsibility is to monitor and oversee these processes. The audit committee also recommends to the board of directors the selection of the Company's independent registered public accounting firm.

In this context, the audit committee reviewed and discussed the audited consolidated financial statements with both management and D&T. Specifically, the audit committee has discussed with D&T matters required to be discussed by the statement on Auditing Standards No. 61 (AICPA, *Professional Standards*, Vol. 1. AU section 380), as adopted by the Public Company Accounting Oversight Board in Rule 3200T.

The audit committee received from D&T the written disclosures and the letter required by applicable requirements of the Public Company Accounting Oversight Board regarding D&T's communications with the audit committee concerning independence, and has discussed with D&T the issue of its independence from the Company.

It is not the audit committee's duty or responsibility to conduct auditing or accounting reviews or procedures. Therefore, the audit committee has relied, without independent verification, on management's representation that the financial statements have been prepared with integrity and objectivity and in accordance with the standards of the Public Company Accounting Oversight Board, and on the representations of the independent registered public accounting firm included in its report on the Company's consolidated financial statements. The audit committee's oversight does not provide it with an independent basis to determine that management has maintained appropriate accounting and financial reporting principles or policies, or appropriate internal controls and procedures designed to assure compliance with accounting standards and applicable laws and regulations. Furthermore, the audit committee's considerations and discussions with management and the independent registered public accounting firm do not assure that the Company's financial statements are presented in accordance with generally accepted accounting principles, that the audit of the Company's financial statements has been carried out in accordance with generally accepted auditing standards or that the Company's independent registered public accounting firm is in fact "independent."

Based on the audit committee's review of the audited financial statements and its discussions with management and D&T noted above and the report of the independent registered public accounting firm to the audit committee, the audit committee recommended to the board of directors that the audited consolidated financial statements be included in the Company's Annual Report on Form 10-K for the year ended December 31, 2011.

*Members of the 2011 Audit Committee of the Board of Directors of the Company*

Charles A. Crocco, Jr. (Chairman)

M. Garrett Smith (resigned from the board of directors on April 18, 2012)

**PROCEDURES FOR DIRECTOR NOMINATIONS**

As discussed above, as a “controlled company” under the rules of the NYSE Amex, the Company is not required to have a standing nominating committee or a written charter governing the nomination process. As a result, the full board of directors, of which each of the members other than Mr. Gumbiner are independent, serves that function.

The Company’s bylaws provide that a stockholder may nominate a person for election as a director at an annual meeting if written notice of the stockholder’s intent to make the nomination has been given to the Secretary of the Company at least 90 days in advance of the meeting or, if later, the tenth day following the first public announcement of the date of the meeting. Such notices must comply with the provisions of the bylaws.

In the event that a stockholder meeting the requirements and following the procedures of the bylaws was to propose a nominee, or if a vacancy occurs, the board of directors will identify candidates with superior qualifications and personally interview them and, if appropriate, arrange to have members of management interview such candidates. Preferred candidates would display the highest personal and professional character and integrity and have outstanding records of accomplishment in diverse fields of endeavor. Candidates should have demonstrated exceptional ability and judgment and have substantial expertise in their particular fields. Candidates with experience relevant to the Company’s business would be preferred. The board of directors, upon evaluation and review of the candidates, would determine who to recommend to the stockholders for approval or to fill any vacancy. The board of directors would use the same criteria for evaluating nominees recommended by stockholders as for those referred by management or any director. The Company does not pay and does not anticipate paying any fees to third parties for identifying or evaluating candidates for director.

The Company's board of directors has no formal policy with regard to the consideration of diversity in identifying director candidates; however, the Company believes that the backgrounds and qualifications of the directors, considered as a group, should provide a significant composite mix of experience, knowledge and abilities that will allow the board of directors to fulfill its responsibilities.



**CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS**

Ms. Brookman's daughter, Amber Brookman, Jr., and son-in-law, Steven Lerman, are employees of Brookwood and, beginning in 2010, Mr. Gumbiner's daughter, Celine Gumbiner, serves as a director of Brookwood, and each of those individuals received the total compensation listed below for fiscal years ended December 31, 2010 and December 31, 2011.

Name	Year	Compensation
Amber Brookman, Jr.	2011	\$ 181,279
	2010	\$ 187,432
Steven Lerman	2011	\$ 247,465
	2010	\$ 250,383
Celine Gumbiner	2011	\$ 50,000
	2010	\$