

HALLWOOD GROUP INC

Form 10-K/A

November 06, 2007

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**SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549**

**Form 10-K/A**

MARK ONE

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

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

**FOR THE TRANSITION PERIOD FROM \_\_\_\_\_ TO \_\_\_\_\_**

**For the Year Ended December 31, 2006**

**Commission File Number: 1-8303**

**The Hallwood Group Incorporated**

(Exact name of registrant as specified in its charter)

**Delaware**

(State or other jurisdiction of  
incorporation or organization)

**51-0261339**

(I.R.S. Employer  
Identification Number)

**3710 Rawlins, Suite 1500, Dallas, Texas**

(Address of principal executive offices)

**75219**

(Zip Code)

Registrant's telephone number, including area code: (214) 528-5588

**Securities Registered Pursuant to Section 12(b) of the Act:**

**Title of Class**

Common Stock (\$0.10 par value)

**Name of Each Exchange  
On Which Registered**

American Stock Exchange

**Securities Registered Pursuant to Section 12(g) of the Act:**

**Title of Class**

Series B Redeemable Preferred Stock

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act.

Yes  No

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

Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large accelerated filer  Accelerated filer  Non-accelerated filer

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

The aggregate market value of the Common Stock, \$0.10 par value per share, held by non-affiliates of the registrant as of June 30, 2006, based on the closing price of \$112.53 per share on the American Stock Exchange, was \$55,075,000.

1,516,711 shares of Common Stock, \$0.10 par value per share, were outstanding at March 23, 2007.

**DOCUMENTS INCORPORATED BY REFERENCE**

The information called for by Part III is incorporated by reference to the definitive Proxy Statement for the Annual Meeting of Stockholders of the Company filed with the Securities and Exchange Commission on May 14, 2007.

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**THE HALLWOOD GROUP INCORPORATED AND SUBSIDIARIES  
EXPLANATORY NOTE**

This Amendment No. 1 (the Amendment) amends The Hallwood Group Incorporated's (the Company) Annual Report on Form 10-K for the year ended December 31, 2006 filed on May 14, 2007 (the Original Filing) to address comments received from the Staff of the Securities and Exchange Commission (SEC Comments). This Amendment amends the report of Deloitte & Touche LLP (Deloitte), the Company's independent registered public accounting firm, with respect to Hallwood Energy, L.P., which report inadvertently omitted the city and state in which the report was issued. This Amendment also amends the consent of Deloitte filed as Exhibit 23.1 to the Original Filing, which inadvertently did not refer to Deloitte's report with respect to the consolidated financial statements of Hallwood Energy, L.P. included in the Original Filing. The remainder of the Original Filing, excluding Item 15, is unchanged and is not reproduced in this Amendment No. 1. This Amendment No. 1 speaks as of the filing date of the Original Filing and reflects only the provision of the updated certifications of the Company's officers and the amended report and consent of Deloitte as noted above. No other information included in the Original Filing, including the Company's financial statements and the footnotes thereto, has been modified or updated in any way to reflect any events that occurred subsequent to May 14, 2007.

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**THE HALLWOOD GROUP INCORPORATED AND SUBSIDIARIES**

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**PART IV  
PART IV**

**Item 15. *Financial Statements, Financial Statement Schedules and Exhibits***

Reference is made to the Index to Financial Statements and Schedules appearing after the signature page hereof.

*1. Financial Statements.*

Included in Part II, Item 8 of this report are the following

Report of Independent Registered Public Accounting Firm  
Consolidated Balance Sheets, December 31, 2006 and 2005  
Consolidated Statements of Operations, Years ended December 31, 2006, 2005 and 2004  
Consolidated Statements of Comprehensive Income, Years ended December 31, 2006, 2005 and 2004  
Consolidated Statements of Changes in Stockholders' Equity, Years ended December 31, 2004, 2005 and 2006  
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Notes to Consolidated Financial Statements

*2. Financial Statement Schedules.*

- I. Condensed Financial Information of Registrant
- II. Valuation and Qualifying Accounts and Reserves

All other schedules are omitted since the required information is not applicable or is included in the consolidated financial statements or related notes.

Financial Statements of Hallwood Energy, L.P. and Subsidiaries

Consolidated Financial Statements for the Years Ended December 31, 2006, 2005 and 2004 (unaudited) and Report of Independent Registered Public Accounting Firm

*3. Exhibits.*

(a) *Exhibits.*

- 3.1 Second Restated Certificate of Incorporation of The Hallwood Group Incorporated, is incorporated herein by reference to Exhibit 4.2 to the Company's Form S-8 Registration Statement, filed on October 26, 1995 File No. 33-63709.
- 3.2 Amendment to Second Restated Certificate of Incorporation of The Hallwood Group Incorporated, is incorporated herein by reference to Exhibit 2.2 to the Company's Form 8-K filed on May 14, 2004, File No. 1-8303.
- 3.3 Restated Bylaws of the Company is incorporated herein by reference to Exhibit 3.2 to the Company's Form 10-K for the year ended December 31, 1997, File No. 1-8303.
- \*10.1 Employment Agreement, dated January 1, 1994, between the Company and Melvin John Melle, as incorporated by reference to Exhibit 10.9 to the Company's Form 10-K for the fiscal year ended July 31, 1994, File No. 1-8303.
- 10.2 Tax Sharing Agreement, dated as of March 15, 1989, between the Company and Brookwood Companies Incorporated is incorporated herein by reference to Exhibit 10.25 to the Company's Form 10-K for the fiscal year ended July 31, 1989, File No. 1-8303.
- \*10.3 Amended Tax-Favored Savings Plan Agreement of the Company, effective as of February 1, 1992, is incorporated herein by reference to Exhibit 10.33 to the Company's Form 10-K for the fiscal year ended July 31, 1992, File No. 1-8303.



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- \*10.4 Hallwood Special Bonus Agreement, dated as of August 1, 1993, between the Company and all members of its control group that now, or hereafter, participate in the Hallwood Tax Favored Savings Plan and its related trust, and those employees who, during the plan year of reference are highly-compensated employees of the Company, is incorporated herein by reference to Exhibit 10.34 to the Company's Form 10-K for the fiscal year ended July 31, 1994, File No. 1-8303.
- \*10.5 Financial Consulting Agreement, dated as of December 31, 1996, between the Company and Hallwood Investments Limited, formerly HSC Financial Corporation, is incorporated herein by reference to Exhibit 10.22 to the Company's Form 10-K for the year ended December 31, 1996, File No. 1-8303.
- \*10.6 Amendment to Financial Consulting Agreement, dated as of May 16, 2001, between the Company and Hallwood Investments Limited is incorporated herein by reference to Exhibit 10.9 to the Company's Form 10-K for the year ended December 31, 2001, File No. 1-8303.
- \*10.7 Amendment to Financial Consulting Agreement, dated as of January 1, 2000, between the Company and Hallwood Investments Limited, is incorporated herein by reference to Exhibit 10.15 to the Company's Form 10-Q for the quarter ended March 31, 2000, File No. 1-8303.
- 10.8 Promissory Note and Security Agreement regarding equipment term loan in the amount of \$541,976.24, dated as of February 25, 2002, between Brookwood Companies Incorporated, Kenyon Industries, Inc., Brookwood Laminating, Inc., Ashford Bromely, Inc., Xtramile, Inc., and Land Ocean III, Inc. and Key Leasing, a division of Key Corporate Capital, Inc., Libor plus 325 basis points-floating, due February 25, 2007, is incorporated herein by reference to exhibit 10.20 to the Company's Form 10-Q for the quarter ended March 31, 2002, File No. 1-8303.
- 10.9 Promissory Note and Security Agreement regarding equipment term loan in the amount of \$298,018, dated as of December 20, 2002, between Brookwood Companies Incorporated, Kenyon Industries, Inc., Brookwood Laminating, Inc., Ashford Bromely, Inc., Xtramile, Inc., Land Ocean III, Inc. and Strategic Technical Alliance LLC and Key Leasing, a division of Key Corporate Capital, Inc., fixed interest 4.67%, due December 20, 2007, is incorporated herein by reference to Exhibit 10.16 to the Company's Form 10-K for the year ended December 31, 2002, File No. 1-8303.
- 10.10 Second Amended and Restated Revolving Credit Loan and Security Agreement, dated as of January 30, 2004, by and among Key Bank National Association, Brookwood Companies Incorporated and certain subsidiaries, is incorporated by reference to Exhibit 10.21 to the Company's Form 10-K for the year ended December 31, 2003, File No. 1-8303.
- \*10.11 Amendment to Financial Consulting Agreement, dated March 10, 2004, by and between the Company and Hallwood Investments Limited, is incorporated by reference to Exhibit 10.22 to the Company's Form 10-K for the year ended December 31, 2003, File No. 1-8303.
- \*10.12 Compensation Letter, dated May 11, 1998, between Brookwood Companies Incorporated and Amber M. Brookman is incorporated by reference to Exhibit 10.24 to the Company's Form 10-Q for the quarter ended March 31, 2004, File No. 1-8303.
- \*10.13 Amended 1995 Stock Option Plan for The Hallwood Group Incorporated is incorporated by reference to Annex B of the Company's Proxy Statement, as filed on April 18, 2001, File No. 1-8303.



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- \*10.14 Form of Stock Option Agreement to 1995 Stock Option Plan for The Hallwood Group Incorporated, is incorporated herein by reference to Exhibit 10.16 to the Company's Form 10-K for the year ended December 31, 2004, File No. 1-8303.
- \*10.15 Amendment to Financial Consulting Agreement, dated March 9, 2005, by and between the Company and Hallwood Investments Limited, is incorporated herein by reference to Exhibit 10.16 to the Company's Form 10-K for the year ended December 31, 2004, File No. 1-8303.
- 10.16 First Amendment to Second Amended and Restated Revolving Credit Loan and Security Agreement, dated as of March 25, 2005, by and among Key Bank National Association, Brookwood Companies Incorporated and certain subsidiaries, is incorporated by reference to Exhibit 10.20 to the Company's Form 10-Q for the quarter ended March 31, 2005, File No. 1-8303.
- \*10.17 The Hallwood Group Incorporated 2005 Long-Term Incentive Plan for Brookwood Companies Incorporated and Unit Agreement under the Plan between Amber M. Brookman and the Company, is incorporated herein by reference to Exhibits 99.1 and 99.2 to the Company's Form 8-K dated January 17, 2006, File No. 1-8303.
- 10.18 Limited Partnership Agreement of Hallwood Energy 4, L.P., a Delaware Limited Partnership, dated as of August 23, 2005; Memorandum of Amendment Changing the Name of Hallwood Energy 4, L.P. to Hallwood Energy, L.P., effective immediately before midnight on December 31, 2005; and Amendment to Limited Partnership Agreement of Hallwood Energy, L.P. dated as of December 31, 2005, is incorporated by reference to Exhibit 10.21 to the Company's Form 10-K for the year ended December 31, 2005, File No. 1-8303.

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- 10.19 Second Amendment to Second Amended and Restated Revolving Credit Loan and Security Agreement, dated as of March 25, 2006, by and among Key Bank National Association, Brookwood Companies Incorporated and certain subsidiaries, is incorporated by reference to Exhibit 10.22 to the Company's Form 10-K for the year ended December 31, 2005, File No. 1-8303.
- \*10.20 Change in compensation payable to Amber Brookman is incorporated herein by reference to Item 5.02 to the Company's Form 8-K dated March 15, 2007, File No. 1-8303.
- 20 Information contained in the definitive Proxy Statement for the Annual Meeting of Stockholders of the Company, is incorporated herein by reference to Form DEF 14A filed on May 14, 2007, File No. 1-8303.
- 21 Active subsidiaries of the Registrant as of February 28, 2007, is incorporated by reference to Exhibit 21 to the Company's Form 10-K for the year ended December 31, 2006, File No. 1-8303.
- 23.1 Independent Registered Public Accounting Firm's Consent, dated May 11, 2007, *filed herewith*.
- 31.1 Certification of the Chief Executive Officer, pursuant to Section 302 of Sarbanes-Oxley Act of 2002, *filed herewith*.
- 31.2 Certification of the Chief Financial Officer, pursuant to Section 302 of Sarbanes-Oxley Act of 2002, *filed herewith*.
- 32.1 Certification of the Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, *filed herewith*.
- \* Constitutes a compensation plan or agreement for executive officers.

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**THE HALLWOOD GROUP INCORPORATED AND SUBSIDIARIES  
SIGNATURE**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

**THE HALLWOOD GROUP  
INCORPORATED**

Dated: November 6, 2007

By: /s/ Melvin J. Melle  
Melvin J. Melle, Vice President  
(Duly Authorized Officer and Principal  
Financial and Accounting Officer)

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Stockholders and Directors of  
The Hallwood Group Incorporated

We have audited the accompanying consolidated balance sheets of The Hallwood Group Incorporated and subsidiaries (the Company) as of December 31, 2006 and 2005, and the related consolidated statements of operations, comprehensive income (loss), changes in stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2006. Our audits also included the financial statement schedules listed in the Index at Item 15. These financial statements and financial statement schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and financial statement schedules based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of The Hallwood Group Incorporated and subsidiaries as of December 31, 2006 and 2005, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2006, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedules, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly in all material respects the information set forth therein.

As discussed in Note 1 to the consolidated financial statements, effective January 1, 2006, the Company adopted Statement of Financial Accounting Standards No. 123 (Revised 2004), *Share-Based Payment*.

Deloitte & Touche LLP

Dallas, Texas  
May 11, 2007

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**(Dollars in thousands, except per share amounts)**

	<b>December 31,</b>	
	<b>2006</b>	<b>2005</b>
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 10,054	\$ 16,648
Accounts receivable, net		
Trade and other	19,623	18,987
Related parties	161	616
Inventories, net	17,293	16,879
Prepaid federal income taxes	3,861	1,322
Prepays, deposits and other assets	916	831
Deferred income tax, net	904	1,029
	52,812	56,312
<b>Noncurrent Assets</b>		
Investments in Hallwood Energy, L.P.	39,864	40,854
Property, plant and equipment, net	13,853	11,358
Deferred income tax, net	751	
Other assets	317	277
	54,785	52,489
<b>Total Assets</b>	<b>\$ 107,597</b>	<b>\$ 108,801</b>
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
<b>Current Liabilities</b>		
Accounts payable	\$ 10,491	\$ 7,274
Accrued expenses and other current liabilities	3,217	4,848
Current portion of loans payable	275	352
Income taxes payable	31	9
	14,014	12,483
<b>Noncurrent Liabilities</b>		
Long term portion of loans payable	10,617	6,460
Redeemable preferred stock	1,000	1,000
Deferred income tax		415
	11,617	7,875
<b>Total Liabilities</b>	<b>25,631</b>	<b>20,358</b>

**Contingencies and Commitments****Stockholders Equity**

Common stock, \$0.10 par value; authorized 10,000,000 shares; issued 2,396,105 and 2,396,103 shares, respectively; outstanding 1,515,438 and 1,511,218 shares, respectively	240	240
Additional paid-in capital	56,451	56,258
Accumulated other comprehensive income	55	
Retained earnings	38,401	45,126
Treasury stock, 880,667 and 884,885 shares, respectively; at cost	(13,181)	(13,181)
<b>Total Stockholders Equity</b>	<b>81,966</b>	<b>88,443</b>
<b>Total Liabilities and Stockholders Equity</b>	<b>\$ 107,597</b>	<b>\$ 108,801</b>

See accompanying notes to consolidated financial statements.

Table of Contents**THE HALLWOOD GROUP INCORPORATED AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF OPERATIONS**

(Amounts in thousands, except per share amounts)

	<b>Years Ended December 31,</b>		
	<b>2006</b>	<b>2005</b>	<b>2004</b>
<b>Revenues</b>			
Textile products sales	\$ 112,154	\$ 133,108	\$ 136,276
Administrative fees from energy affiliates		1,499	1,004
	112,154	134,607	137,280
<b>Expenses</b>			
Textile products cost of sales	93,134	105,299	102,772
Administrative and selling expenses	18,248	29,255	22,837
	111,382	134,554	125,609
Operating income	772	53	11,671
<b>Other Income (Loss)</b>			
Equity income (loss) from investments in energy affiliates	(10,418)	(8,500)	(9,901)
Interest expense	(616)	(545)	(1,197)
Interest and other income	566	1,532	1,536
Gain (loss) from disposition of investments in energy affiliates			
HE III	(17)	52,425	
HEC		(113)	62,288
Amortization of deferred revenue noncompetition agreement			1,007
Separation Agreement income			375
	(10,485)	44,799	54,108
Income (loss) from continuing operations before income taxes	(9,713)	44,852	65,779
Income tax expense (benefit)	(2,988)	18,510	11,079
Income (loss) from continuing operations	(6,725)	26,342	54,700
Income from discontinued operations, net of tax			
Real estate			39,002
Hotels			783
			39,785
<b>Net Income (Loss)</b>	<b>\$ (6,725)</b>	<b>\$ 26,342</b>	<b>\$ 94,485</b>



**Income (Loss) Per Common Share**

Basic

Income (loss) from continuing operations	\$	(4.44)	\$	18.22	\$	41.24
Income from discontinued operations						30.00

Net income (loss)	\$	(4.44)	\$	18.22	\$	71.24
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Assuming Dilution

Income (loss) from continuing operations	\$	(4.44)	\$	17.47	\$	36.79
Income from discontinued operations						26.76

Net income (loss)	\$	(4.44)	\$	17.47	\$	63.55
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**Weighted Average Shares Outstanding**

Basic		1,514		1,446		1,326
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Assuming Dilution		1,514		1,508		1,487
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See accompanying notes to consolidated financial statements.

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**THE HALLWOOD GROUP INCORPORATED AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)**  
**(In thousands)**

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