

# THE HALLWOOD GROUP INCORPORATED

## AMENDED AND RESTATED AUDIT COMMITTEE CHARTER

### General

The role of the Audit Committee is to assist the Board of Directors (the “Board”) in fulfilling its oversight responsibilities by:

- Serving as an independent and objective party to monitor the Corporation’s accounting and financial reporting processes, internal control system and audits.
- Reviewing and appraising the audit efforts of the Corporation’s independent registered public accounting firm.
- Providing an open avenue of communication among the independent registered public accounting firm, financial and senior management and the Board.

The Corporation will provide appropriate funding, as determined by the Audit Committee, for compensation to the independent registered public accounting firm, to any advisors that the Audit Committee chooses to engage, and for payment of ordinary administrative expenses of the Audit Committee that are necessary or appropriate in carrying out its duties.

### Composition

The Audit Committee shall consist of two or more directors as determined by the Board, each of whom shall be independent directors. Independence shall be determined pursuant to the standards set by the Securities and Exchange Commission (the “Commission”) and the requirements of the NYSE Amex.

#### *Independence*

Directors who are affiliates of the Corporation, or officers or employees of the Corporation or of its subsidiaries who have been employed by the Corporation or subsidiaries within the past three years, will not be considered independent. No member of the Audit Committee may receive direct or indirect (as defined by the Commission) compensation of any kind (including consulting and advisory fees) from the Corporation, other than for services rendered as a member of the Board and as a member of committees of the Board.

In addition, Directors falling within any of the categories listed below will not be considered independent:

- A Director who is, or during the past three years was, employed by the Corporation or by any parent or subsidiary of the Corporation, other than prior employment as an interim Chairman or CEO.

- A Director who accepts (or whose immediate family member accepts) any payment from the Corporation (or any parent or subsidiary of the Corporation) in excess of \$120,000 during the current or any of the past three previous fiscal years, other than compensation specifically excluded under Section 803(b) of the NYSE Amex Company Guide.
- A Director who is, or has an immediate family member who is, a partner in, or a controlling shareholder or executive officer of, any organization to which or from which the Corporation made or received payments that exceed 5% of the recipient's consolidated gross revenues, or \$200,000 (whichever is more) in any of the most recent three fiscal years.
- A Director who is or has an immediate family member of an individual who is or has been employed by the Corporation (or any parent or subsidiary of the Corporation) as an executive officer during any of the past three years.
- A Director who is or was or has an immediate family member who is or was an executive officer of another entity where at any time during the most recent three fiscal years any of the Corporation's executive officers serve on the compensation committee of that entity.
- A Director who is or was or has an immediate family member who is or was a partner or employee of the Corporation's outside independent registered public accounting firm and worked on the audit engagement during any of the past three years.

#### *Financial Expertise*

All members of the Audit Committee must be able to read and understand fundamental financial statements, including the Corporation's balance sheet, income statement, and cash flow statement.

In addition, at least one member of the Audit Committee must be "financially sophisticated" pursuant to the NYSE Amex rules and be a "financial expert," as such term is defined by the Commission. Qualifications for such financial expert would include, among other things, whether a member has:

- an understanding of generally accepted accounting principles and financial statements;
- the ability to assess the general application of generally accepted accounting principles in connection with the accounting for estimates, accruals and reserves;
- experience preparing, auditing, analyzing or evaluating financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to those raised by the Corporation's financial statements, or experience actively supervising one or more persons engaged in such activities;

- an understanding of internal control over financial reporting;
- an understanding of audit committee functions;
- past employment experience in finance or accounting; and
- professional certification in accounting.

The Board shall make all determinations as to whether a Director is a “financial expert,” as defined by rules of the Commission.

The members of the Audit Committee are to be elected by the Board, which shall make all decisions with respect to whether an Audit Committee member is “independent” and/or a “financial expert” and shall serve until their successors are duly elected and qualified. Unless the Chair is elected by the full Board, the members of the Audit Committee may designate a Chair by majority vote of the full Audit Committee membership.

### **Meetings**

The Audit Committee shall meet no less than once per quarter. As part of its job to foster open communication, the Audit Committee should meet regularly with management and the independent registered public accounting firm in separate executive sessions to discuss any matters that the Audit Committee or either of these groups believe should be discussed privately. In addition, the Audit Committee or its Chair should meet with the independent registered public accounting firm and management quarterly to review the Corporation’s financial statements.

### **Relationship with Independent Registered Public Accounting Firm**

The Corporation’s independent registered public accounting firm is to be ultimately accountable to, and will report directly to, the Audit Committee, and the Audit Committee shall have the authority and responsibility to select, evaluate determine the compensation of, and, where appropriate, replace the independent registered public accounting firm. The Audit Committee will be responsible for resolving any disputes between the independent registered public accounting firm and the Corporation’s management.

### **Responsibilities and Duties**

To fulfill its responsibilities and duties the Audit Committee shall:

#### **A. Documents/Reports Review**

1. Review this Charter at least annually and update it as conditions dictate.
2. Review the Corporation’s annual financial statements and any reports or other financial information submitted to the Commission or the public, including any certification, report, opinion or review rendered by the independent registered public accounting firm.

3. Review with financial management and the independent registered public accounting firm the Corporation's filings with the Commission prior to their filing or prior to the release of earnings reports. The Chair of the Audit Committee may represent the entire Audit Committee for purposes of this review.

4. Review and discuss with the Chief Executive Officer and Chief Financial Officer the certifications required by the Sarbanes-Oxley Act of 2002 ("Sarbanes-Oxley").

5. Review and discuss with the independent registered public accounting firm and management steps necessary for the Corporation to review and assess its internal control over financial reporting in order to file the "internal control report of management" as required by Sarbanes-Oxley, at such time as the requirement to file this report becomes applicable to the Corporation.

6. Review the independent registered public accounting firm's attestation and report on management's internal control report at such time as the law requiring an internal control report becomes applicable to the Corporation.

**B. Independent Registered Public Accounting Firm**

1. Select the independent registered public accounting firm, considering independence and effectiveness, and pre-approve the fees and other compensation to be paid to the independent registered public accounting firm.

2. On no less than an annual basis, obtain from the independent registered public accounting firm, and review and discuss with the independent registered public accounting firm, a formal written statement delineating all relationships the independent registered public accounting firm has with the Corporation and actively engage in a dialogue with the independent registered public accounting firm with respect to any disclosed relationships or services that may impact the objectivity and independence of the independent registered public accounting firm.

3. Recommend to the Board any appropriate action to ensure the independence of the independent registered public accounting firm.

4. Review the performance of the independent registered public accounting firm and approve any proposed discharge of the independent registered public accounting firm when circumstances warrant.

5. Periodically consult with the independent registered public accounting firm out of the presence of management about internal controls and the fullness and accuracy of the Corporation's financial statements.

6. Review and pre-approve any and all audit and non-audit related services provided to the Corporation by the independent registered public accounting firm and their affiliates.

7. Obtain and review, at least annually, a report by the independent registered public accounting firm describing: (i) the independent registered public accounting firm's internal quality control procedures; (ii) any material issues raised by the most recent internal quality control review or peer review of the independent registered public accounting firm, or by any investigation by governmental or professional authorities within the last five years, regarding any independent audit carried out by the independent registered public accounting firm, and any steps taken to address these issues; and (iii) all relationships between the independent registered public accounting firm and the Corporation, addressing the requirements of the Public Company Accounting Oversight Board regarding the independent accountant's communications with the Audit Committee concerning independence.

8. Review with the independent registered public accounting firm: (i) all critical accounting policies and practices; (ii) all alternative treatments of financial information within generally accepted accounting principles that have been discussed with management, ramifications or the use of such alternative disclosures and treatments, and the treatment preferred by the independent registered public accounting firm; and (iii) other material written communications between the independent registered public accounting firm and management, including, but not limited to, the management letter and schedule of unadjusted differences.

#### C. Financial Reporting Processes

1. In consultation with the independent registered public accounting firm, review the integrity of the organization's financial reporting processes, both internal and external.

2. Consider the independent registered public accounting firm's judgments about the quality and appropriateness of the Corporation's accounting principles as applied in its financial reporting.

3. Consider and approve, if appropriate, major changes to the Corporation's auditing and accounting principles and practices as suggested by the independent registered public accounting firm or management.

4. Establish regular and separate reporting to the Audit Committee by each of management and the independent registered public accounting firm regarding any significant judgments made in management's preparation of the financial statements and the view of each as to appropriateness of such judgments.

5. Following completion of the annual audit, review separately with each of management and the independent registered public accounting firm any significant difficulties encountered during the course of the audit, including any restrictions on the scope of work or access to required information.

6. Review any significant disagreement among management and the independent registered public accounting firm in connection with the preparation of the financial statements.

7. Review with the independent registered public accounting firm and management the extent to which changes or improvements in financial or accounting practices, as approved by the Audit Committee, have been implemented.

D. Ethical and Legal Compliance

1. Establish, review and update periodically a code of ethics that applies to the Corporation's principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions, and ensure that management has established a system to enforce the code of ethics.

2. Review and, if the Audit Committee determines it is appropriate, approve transactions proposed between the Corporation and its affiliates.

3. Review, with the Corporation's counsel, any legal matter that could have a significant impact on the Corporation's financial statements.

4. If and when appropriate, appoint independent legal counsel and other advisors to assist the audit Committee in carrying out its duties.

5. Establish procedures for the receipt, collection, retention and treatment of complaints received by the Corporation regarding accounting, internal accounting controls and auditing matters and the confidential and anonymous submission by employees of concerns regarding questionable accounting or auditing matters.

6. Establish hiring policies for employees or former employees of the independent registered public accounting firm which prohibits employment of any person as chief executive officer, controller, chief financial officer or chief accounting officer (or any person serving in an equivalent position) of the Corporation who was employed by the independent registered public accounting firm and participated in the Corporation's audit in any capacity for a period of one year preceding the date the audit was initiated.

7. Perform any other activities consistent with this Charter, the Corporation's bylaws and governing law, as the Audit Committee or the Board deems necessary or appropriate.

*Adopted by Resolution of the Board of Directors  
May 13, 2009*