
Goodman Financial Corporation

Business Continuity and Contingency Plan

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PREFACE

Despite the efforts of each business, state and local government and federal agency to renovate, validate, and implement their mission-critical information systems, the financial industry remains vulnerable to the disruption of its business processes. Because most companies in the financial industry are highly dependent on information technology to carry out their business, a business disruption induced failure of one or more mission critical system(s) may have a severe impact on a financial services firm's ability to deliver core business services.

Because of these risks, the United States Securities and Exchange Commission ("SEC") has implemented programs to attempt to mitigate the risks associated with business failures in the financial industry which would be caused by an event causing a failure to deliver financial services as a result of a significant business disruption. Specifically, the SEC has required that firms create and maintain business continuity plans.

Ultimately, the business continuity planning process focuses on reducing the risk of business failures resulting from business disruptions. It safeguards a company's ability to produce a minimum acceptable level of outputs and services in the event of failures of internal or external mission-critical information systems and services. While it does not offer a long-term solution to all situations which create a significant business disruption, it will help Goodman Financial Corporation to prepare for a potential crisis.

REGULATORY BACKGROUND

Based upon the survey findings, discussions with the SEC and the United States General Accounting Office, the experiences of September 11th, and comment letters received, firms should be required to create and maintain business continuity plans. The rule change recognizes that business continuity plans should reflect the particular operations and activities of a member. This allows member firms to tailor plans to suit their size, business, and structure. The proposed rule change, however, requires that a member's business continuity plan must, at a minimum, address:

- data back-up and recovery (hard copy and electronic);
- mission critical systems;
- financial and operational assessments;
- alternate communications between customers and the member;
- alternate communications between the member and its employees;
- business constituent, bank and counter-party impact;
- regulatory reporting; and
- communications with regulators.

The following Business Continuity Plan has been prepared to address the concerns set out above.

OVERVIEW OF GOODMAN FINANCIAL CORPORATION

Goodman Financial Corporation engages in investment advisory services, and is registered as an investment advisor with the SEC and various other state regulatory jurisdictions. Goodman Financial Corporation complies with the recordkeeping provisions of the SEC Rules 204-2 and the records of the firm are maintained at the firm's principal office.

PLAN OVERVIEW

Designated Principal.

Executive management is aware of the potentially devastating financial, organizational, and political consequences of the failure of one or more mission-critical information systems. Steven R. Goodman has been designated as the executive responsible for initiation, and implementation of the Business Continuity Plan for Goodman Financial Corporation.

Increase Employee Awareness of Business Continuity Plan.

Goodman Financial Corporation will take steps to both educate and increase the awareness of its employee and associated persons with respect to the firms Business Continuity Plan, and the current actions being taken to address such problem by the industry as a whole and Goodman Financial Corporation. To this end, Goodman Financial Corporation will provide access to the Plan to all associated persons of Goodman Financial Corporation.

Identify Business Systems.

Goodman Financial Corporation will identify the mission critical systems utilized by the company in services to its clients.

Business Resumption Team.

Goodman Financial Corporation will designate personnel who are to participate in the resumption of core business processes and priorities. This team would be responsible for managing the implementation of the contingency plan and would deal with a wide range of operational problems, including the potential failures of systems thought to be renovated and tested, and the potential failures of external systems and data exchanges.

Plan Elements.

The Business Continuity Plan for Goodman Financial Corporation is comprised of the following elements: (1) data back-up and recovery (hard copy and electronic); (2) mission critical systems; (3) financial and operational assessments; (4) alternate communications – both between customers and the member and between the member and its employees; (5) business constituent, bank and counterparty impact; (6) regulatory reporting; and (7) communications with regulators.

DATABACK-UP AND RECOVERY

Third Party Records.

Copies of confirmations, account statements, and order tickets that are entered electronically are maintained by the firm. CD copies of these records are provided to the Company and kept on-site. In the event of a disruption, the Company shall access the clearing firm's copy of these records via Internet or an alternative computer line. Firm personnel shall use personal computers to accomplish this, or company computers if such are maintained at an alternative site.

On-site Company Records.

Company computer records such as computerized accounting records, word documents, and e-mails shall be backed up at least monthly. Select copies shall be maintained on an off-site server, and/or CD's or diskettes. If CD's/diskettes are used, a copy shall be given to one of the following: President/CEO, Chief Compliance Officer, or the Computer Manager. The CD/diskette copies shall be stored at an off-site location such as personal residence, bank lock box, alternative office site, etc.

MISSION CRITICAL SYSTEMS

Mission Critical Systems - Definition.

"Mission critical systems" are defined as, "any system that is necessary, to ensure prompt and accurate processing of securities transactions, including order taking, entry, execution, comparison, allocation, clearance and settlement of securities transactions, the maintenance of customer accounts, access to customer accounts and the delivery of funds and securities."

Mission Critical Systems – Assessment.

The Company's mission critical systems are maintained by the clearing firm. To ensure continuous access to these systems the Company shall implement the following applicable measures: (a) if electricity or telephone systems are not accessible at the main office, the business shall be conducted at a branch office if available. If such is not available, firm personnel shall work from their homes unless instructed otherwise via the communications described in the section below titled, "Alternate communications between the firm and its employees". If electricity is available but telephone service is unavailable, firm personnel shall use the office and personal cell telephones until instructed to do otherwise.

FINANCIAL AND OPERATIONAL ASSESSMENTS

If the business interruption causes the company to not be able to meet its contractual commitments, or interrupt its operations to the point that the alternative measures discussed in the sections above and below cannot be implemented, the Company's customers shall be notified promptly.

ALTERNATIVE COMMUNICATIONS

Alternate Communications Between Customers and the Firm.

If the office phones are interrupted, customer contact shall be maintained by the following methods to the extent they are available (a) personal cell phones; (b) e-mail; (c) off-site phones; (d) direct communication between the employee and client; (e) messenger.

Alternate Communications Between the Firm and its Employees.

Each employee shall receive a copy of this plan and a corporate telephone directory upon its approval. If a disruption shall occur and firm personnel cannot be at the same location, communications shall be maintained by the following methods: (a) phone tree where the President shall communicate to the supervisors who, in turn, shall communicate to the people that they supervise; (b) home phones and/or cell phones; (c) e-mail; (d) messenger.

BUSINESS CONSTITUENT, BANK AND COUNTER-PARTY IMPACT

The Company shall maintain contact with its banks, clearing firm, and vendors via the following: (a) cell and/or home telephones; (b) fax; (c) Internet & e-mails; (d) messenger.

REGULATORY REPORTING

Regulatory reporting (i.e. focus filings, U-4's and U-5's, etc.) shall be continued by making use of the following to the extent they are available: (a) fax; (b) Internet; (c) e-mail; (d) service providers (i.e. MGL Consulting); (e) messenger; (f) mail service.

COMMUNICATIONS WITH REGULATORS

Communications with regulators shall be continued by the following methods: (a) personal and cell phones; (b) fax; (c) Internet; (d) e-mail; (e) service providers (i.e. MGL Consulting); (f) messenger; (g) mail service.

GLOSSARY

Application: A computer program or set of programs designed to help people perform certain types of work.

Assessment: The process of identifying core business areas and processes, completing an inventory and analyzing systems supporting the core business areas, prioritizing their conversion or replacement, identifying risks and the necessary resources.

Business Area: A grouping of business functions and processes that result in the production of specific outputs or services.

Business Function: A group of logically related tasks, which when they are performed, accomplish an objective.

Contingency Plan: A contingency plan describes the steps a company would take, including the activation of manual or contract processes, to ensure the continuity of its core business processes in the event which causes a business interruption induced system or process failure.

Defect: A problem or "bug" that, if not removed, could cause a program to either produce erroneous results or otherwise fail.

Infrastructure: The computer and communication hardware, software, databases, people, and policies supporting the company's businesses and operations.

Interface: A connection between two business systems or processes. The hardware or software needed to enable one device to communicate with another.

Mission-Critical System: The loss of these critical functions would cause an immediate stoppage or significant impairment to core business areas. The identification of these systems is a result of a complete inventory and proper assessment.

Outsourcing: Paying another company or individual, to provide services that an organization might otherwise have performed itself, (*i.e.*, software development, payroll).

Platform: The foundation technology of a computer system. Typically, a specific combination of hardware and operating system.

Quality Assurance: The critical review process to guarantee that all procedures, tasks, analysis, and reporting were correctly performed.

Mission-Critical System: The loss of these critical functions would cause an immediate stoppage or significant impairment to core business areas.

Utilities: To a business this could mean several things: computer programs designed to perform maintenance work on the system or on system components, *i.e.*, a storage backup program, a disk or file recovery program, or a resource editor; or the general phrase used to refer to telecommunication, electrical, gas, water and waste management services.