



First Southwest Company

Business Continuity Plan Summary

I. Introduction

First Southwest Holdings, Inc., through its operating subsidiaries, (collectively, "First Southwest") is a leading national financial services firm engaged in public finance, corporate finance, housing finance, underwriting, investment management, financial consulting, arbitrage rebate and the provision of securities brokerage, trading, finance and clearing services. Based in Dallas, Texas, First Southwest has numerous offices located throughout the United States.

The attacks on the World Trade Center prompted heightened review of First Southwest's business continuity procedures, including evaluation of risks not previously conceived as realistic threats. We have developed a business continuity plan (the "Plan") with a view to crisis prevention and, in the event of a business interruption, swift and effective assessment, management and recovery. The Plan incorporates regular testing, monitoring and maintenance to sustain the technology, systems and procedures in place. In addition, First Southwest has increased its expenditures for technology related to the Plan and accelerated the implementation of additional systems and safeguards.

The following summary of First Southwest's Plan outlines the firm's capabilities, strategy for responding to a business interruption, and commitment to sustaining and updating its capabilities going forward.

II. Data Processing and Backup

Protection of data and redundancy of systems are key considerations in designing and

implementing First Southwest's Plan. Industry standard hardware from vendors like HP/Compaq and Cisco form the core of our network. We maintain our computers and data storage equipment in a secure environment with safeguards against intrusion and environmental disruption. These safeguards include monitoring systems that provide alerts of outages and environmental changes in our data center.

First Southwest's system creates mirror images of trade and operating data in remote locations and integrates a daily backup protocol for further data protection. All critical file server data is backed up nightly at the Dallas office using Veritas NetBackup Data Center Version 4.5. Branch office data is replicated on a nightly basis from each remote office and stored on a server in Dallas. Data is written to a StorageTek L180 Linear Tape Open automated tape library. The StorageTek unit, in conjunction with the Veritas software, handles the changing of tapes, administers the tape rotation scheme, allows for backup job definitions, performs ad-hoc backups and restores data. First Southwest's tape rotation scheme involves daily and weekly backups. Daily backups are completed on Monday through Thursday, and weekly backups, which are completed each Friday, are archived off site for three years.

In addition to backup tape rotation, First Southwest acquired disk drive technology from Network Appliance, Inc. that allows First Southwest to consolidate its disk space in high-capacity, high-performance cabinets. This technology, along with Network Appliance software, allows First Southwest to replicate critical data from the Dallas office to the Firm's primary alternate disaster recovery site in near-real

time. The replication disks are located at the primary alternate site and the process is completed long distance.

III. Business Continuation Strategy

Our Chief Information Officer has designed and assumed responsibility for maintaining and updating the firm's Plan. This charge is carried out with the assistance of senior management, department and office heads and key vendors. In developing the Plan, we conducted an inventory of existing systems while considering the potential impact of various crisis scenarios and the specific needs of the firm's various business sectors and diverse customer base. As part of this analysis, we evaluated the specific challenges posed by a catastrophic loss to our facilities, information technology, personnel and communications systems.

First Southwest designated its principal office in Dallas, Texas, along with two other offices, as the firm's disaster recovery sites. The firm's Houston, Texas office, located about 240 miles from the Dallas office, is designated as the firm's primary alternate disaster recovery site, and its Austin, Texas office is the firm's secondary alternate site.

First Southwest's Plan incorporates numerous redundancies and geographical dispersion that insulate the firm and its customers from business interruption. The firm's strategy includes having redundant systems in the Dallas and Houston offices that are active at all times, permitting rapid recovery of operations and access to data. This strategy also includes the creation of mirror images of data in remote locations, accessible

from multiple venues and recoverable within minutes or hours.

A. Mainframe Recovery

First Southwest has analyzed its system usage and capability, and identified its mission-critical systems. While First Southwest does not host mainframe systems on site, they are an important part of the firm's operations and have been given significant attention. We have reviewed the recovery plans of each of our mission-critical service providers and have found them to be sufficient and reliable. We participate in our service providers' testing schedules, and work closely with them to ensure the compatibility of our respective systems, especially as additional measures are implemented.

B. Communications Recovery

1. Telecommunications

a. Voice Services

In the event of a telecommunications failure, First Southwest is able to re-route all toll free and direct dial lines to our alternate recovery sites. Predefined contingency configurations have been supplied to the firm's telephone service providers with implementation instructions in the event of a failure. This means that our telephone numbers can be re-routed in near real time. The

firm's telephone systems in both alternate recovery sites are oversized, as compared to the respective office's routine needs, to allow for the increased capacity required in the event the firm's lines are re-routed to those offices.

b. Data Circuits

First Southwest implemented a new telecommunications infrastructure in 2002, designed to facilitate business continuity. Using a service of SBC, Network Reconfiguration Services ("NRS"), FSC is able to re-route all critical circuits, including ADP Securities Industry Software, NASDAQ, Bloomberg news, Bank of New York and Securities Industry Automation Corporation. Using predefined contingency scenarios, these circuits can be re-routed to the firm's Houston office within minutes. The firm has also installed duplicate lines to the Houston office for its services that are not included in NRS. These lines are active at all times, and any conversion to their use takes only minutes.

First Southwest has placed high priority to preservation and recovery of Internet and e-mail access in the event of a business interruption. The firm's Dallas office has 12 mega-byte Internet capacity, which is divided among two service providers. In the event of an outage from either provider, the remaining 6 mega-byte capacity of the

remaining provider is sufficient to run the firm's critical business functions. In addition to redundant providers, we use a high quality firewall in a redundant configuration. Our Houston office has separate 6 mega-byte Internet capacity and its own firewall for protection. This capability is active at all times, and conversion to its use can occur within minutes.

2. Alternate Communications

a. Customers and Third Parties

First Southwest has compiled and regularly updates emergency contact information for critical vendors and service providers, and key banking relationships. This information is available at all times in each of the firm's disaster recovery sites. In addition, we have compiled information relating to each organization's service capabilities, in the event alternate services providers are needed.

In the event of loss of communication in the Dallas office, as discussed above, First Southwest has the ability to selectively re-route toll-free numbers and local numbers for both telephone and facsimile to an alternate site, permitting swift restoration of communication with customers and business partners. In addition,

customers can make use of mobile numbers to contact First Southwest personnel. Independent Internet access in the Dallas and Houston offices permits First Southwest personnel to communicate with customers and others via e-mail.

b. Employees and Shareholders

In the event of a catastrophic loss to the Dallas office, key employees such as executive officers, department heads, and key technical and operations personnel will be contacted directly and informed of the nature of the loss, the status of the event and any special instructions. All information technology staff members carry cellular telephones that are e-mail enabled. In the event of a business interruption, this will be the primary means of locating and notifying critical disaster recovery staff.

The firm's employees can obtain information and updates by the following means:

- 1) Calling a designated toll-free number to receive messages from an automated voice attendant with recorded messages that will be updated as necessary.
- 2) Visiting First Southwest's alternate website, designed for use only in the

event of a crisis. This site is hosted outside the firm's Dallas office, with a service provider that is geographically remote from Texas. In the event of a disaster, the website will be updated as necessary.

Because the stock of First Southwest's holding company is owned exclusively by members of its Board of Directors and its employees, our alternate systems for communicating with employees also serve as alternate means to communicate with shareholders.

C. Trading and Clearing Services Recovery

First Southwest requires access to three systems to execute, clear and settle trades. These systems, as well as a description of alternate methods to access these systems in the event of a significant loss to the Dallas office, are discussed below.

- 1) ADP Securities Industry Software is the Firm's primary customer maintenance and trade entry system. First Southwest has installed a redundant line for this service in the Firm's Houston office and can re-route access to this service within minutes.
- 2) Depository Trust Clearing Corporation ("DTCC") provides clearance, settlement, custody and information services for First Southwest's equity, debt and mortgage-backed securities transactions. Currently, loss

of access to DTCC is handled by reciprocal sharing arrangements with other securities firms. In the event of a loss of access to the Dallas office or to DTCC due to line outages, key personnel can be relocated to sharing partner locations to access the DTCC systems. First Southwest is in the process of installing a duplicate line to the Houston office, which will permit swift re-routing of the service.

3) Bank of New York ("BNY") settles trades in government securities for First Southwest. We can fully restore our communications and services with BNY by re-routing through independent lines to the Houston office. This process can be accomplished within minutes of an interruption in the Dallas office.

D. Facility Protection

First Southwest's Dallas office and alternate recovery sites are located in buildings protected at all times by security guards, cameras and controlled access. In addition, First Southwest has installed in its primary and alternate recovery sites numerous fire protection measures that exceed building code requirements, and the firm participates in the fire drills and emergency evacuation tests conducted by building management.

First Southwest has acquired a generator as an alternate power supply in the event of a disaster. The generator has the capacity to run the firm's computer room, trading desk, operations department and certain other of the firm's critical systems necessary to process and clear trades. We store fuel for the

generator sufficient to keep it running for 24 hours and, given a sufficient fuel supply, we can run the generator for extended periods. The generator will be fully installed and tested during calendar year 2004.

E. Ongoing Testing

First Southwest has implemented a testing schedule for our business continuity systems, and we participate in the tests performed by our service providers. Whenever possible, we coordinate our testing schedule with that of our service providers to ensure proper functioning from each firm's recovery site.

IV. Looking Ahead

First Southwest will continue to evaluate its systems and procedures, including monitoring industry standards and available technological advances, to continue to improve its Plan.

V. Senior Manager Approval

I have approved this Business Continuity Plan as reasonably designed to enable our firm to meet its obligations to customers in the event of an SBD.

Rule: NASD Rule 3510(d).



President
August 2004

Corporate Headquarters

Dallas

325 North St. Paul Street, Suite 800
Dallas, Texas 75201
(214) 953-4000

Branch Offices

Atlanta

235 Peachtree Street, Suite 400
Atlanta, Georgia 30303
(404) 880-3393

Austin

300 West 6th Street, Suite 1940
Austin, Texas 78701
(512) 481-2000

Boston

54 Canal Street, Suite 320
Boston, Massachusetts 02114
(617) 619-4400

Charlotte

5925 Carnegie Blvd., Suite 250
Charlotte, North Carolina 28209
(704) 731-2080

Clifton

P.O. Box 508
Clifton, Texas 76634
(254) 675-3552

El Paso

221 North Kansas, Suite 1200
El Paso, Texas 79901
(915) 351-7228

Fayetteville

308 Rollston Avenue
Fayetteville, Arkansas 72701
(479) 973-9138

Fort Worth

777 Main Street, Suite 1200
Fort Worth, Texas 76102
(817) 332-9710

Hartford

60 Hartland Street, 1st Floor
East Hartford, CT 06108
(860) 290-3000

Houston

1021 Main Street, Suite 2200
Houston, Texas 77002
(713) 651-9850

Jackson

125 S. Congress Street, Suite 1240
Jackson, MS 39201
(601) 355-4772

Lincoln

652 George Washington Hwy
2nd Floor
Lincoln, Rhode Island 02865
(401) 334-4942

Longview

P.O. Box 5504
Longview, Texas 75608
(903) 757-2077

Lubbock

1001 Main Street, Suite 802
Lubbock, Texas 79401
(806) 749-3792

McAllen

400 North McColl, Suite C
McAllen, Texas 78501
(956) 686-0991

Miami

15280 N.W. 79th Court, Suite 107
Miami Lakes, Florida 33016
(305) 819-8886

New York

530 Seventh Avenue, Suite 206
New York, New York 10018
(212) 642-4350

Orlando

20 North Orange Avenue, Suite
1209
Orlando, Florida 32801
(407) 426-9611

San Antonio

70 N.E. Loop 410, Suite 850
San Antonio, Texas 78216
(210) 349-7222

Woodland Hills

21550 Oxnard Street, Suite 1209
Woodland Hills, California 91367
(818) 712-0884

Worcester

340 Main Street, Suite 910
Worcester, Massachusetts 01608
(508) 753-9795



First Southwest Company

Investment Bankers Since 1946

Member NASD & SIPC

*Atlanta Austin Boston Charlotte
Clifton Dallas El Paso Fayetteville
Fort Worth Hartford Houston Longview
Lincoln Longview Lubbock McAllen
Miami New York Orlando San Antonio
Woodland Hills Worcester*