

# **Paradigm Holdings Inc.**

## **Guidelines on Significant Corporate Governance Issues**

These guidelines reflect the Board's current thinking with respect to selected corporate governance issues. These guidelines are intended only to provide general guidance and are not rigid rules. We will annually assess the appropriateness and efficacy of these guidelines and make changes that are deemed appropriate.

### **BOARD OF DIRECTORS**

The Board of Directors (the "Board") oversees the business of Paradigm Holdings, Inc. (the "Company"; the Company and its controlled entities are referred to as the "Group") and is responsible for corporate governance of the Group. The Board establishes broad corporate policies, sets the strategic direction for the Group and oversees management with a focus on enhancing the interests of shareholders.

Directors are classified as either Executive or Non-executive Directors, the former being those Directors engaged in full time employment by the Group. The Board currently comprises three Executive Directors and three Non-executive Directors. Details of the members of the Board, their experience, qualifications and term in office are detailed in the attached report. The Board has determined that three of the six Directors are non-executive ("independent").

Various information reports are sent to the Board in order to keep them informed of the Group's businesses. Directors also receive operating and financial reports and access to senior management at Board and Committee meetings. The Board holds regular meetings six times each year and special meetings when necessary. In addition, not less than twice each year, the Non-executive Director meets with other senior managers without the Executive Directors present.

### **RESPONSIBILITY, SELECTION, AND COMPOSITION OF THE BOARD**

- 1) In addition to the general oversight of management, the Board also performs a number of specific functions, including but not limited to:
  - (a) Reviewing, approving and monitoring fundamental financial, non-financial and business strategies, and major corporate actions;
  - (b) Providing advice and counsel to the CEO and other senior executives of the Company;
  - (c) Selecting, evaluating, and compensating the CEO;
  - (d) Overseeing succession planning for the CEO and other key executives;
  - (e) Providing advice and oversight on the selection, evaluation, development and compensation of senior management;

- (f) Working with management to implement processes for maintaining the integrity of the Company, the accuracy of the Company's financial statements, and the compliance by the Company with laws and the Company's Code of Business Conduct and Ethics. In discharging their responsibilities, directors must exercise their business judgment to act in a manner that they believe in good faith is in the best interests of the Company and its stockholders. Directors are expected to attend all or substantially all Board meetings and meetings of the committees of the Board on which they serve. Directors also are expected to spend the necessary time to discharge their responsibilities appropriately and to use reasonable efforts to avoid having their other existing or future commitments materially interfere with their responsibilities as members of the Board.

## 2) Selection of Board Members

The Company's shareholders elect all Board members annually. The Board is responsible for recommending candidates for election by the shareholders. The Board's recommendations are based on its determination as to the suitability of each individual, and the slate as a whole, to serve as directors of the Company, taking into account the membership criteria set forth below.

## 3) Board Membership Criteria

The Board considers a number of factors in selecting director nominees including, but not limited to: a general understanding of marketing, finance, the information technology industry, Paradigm Holdings Inc. business' and other elements relevant to the success of the Company; the nominee's intelligence, integrity, judgment, foresight, personal character, experience, achievements, leadership and team building skills, community standing, and ownership of Company stock, the overall composition of the Board; having the Board composed of a majority of independent directors; and representation of a diversity of backgrounds and expertise which are most needed and beneficial to the Board and the Company.

## 4) Ethics

Directors of the Company, as well as Company officers and employees, shall act ethically at all times and acknowledge their adherence to the policies of the Company's Code of Business Conduct. If an actual or potential conflict of interest arises for a director, the director shall promptly inform the Chairman of the Board. If a significant conflict exists and cannot be resolved appropriately, the director shall resign. All directors shall re-cuse themselves from voting on any matter affecting their charitable, personal, business or professional interests. The Board shall address any conflict of interest question involving the Chairman of the Board, the CEO and chief financial officer, and the CEO shall address any conflict of interest issue involving any other officer of the Company.

## **Board Leadership**

### 5) Selection of Chairman and CEO

The Board should be free to make these choices in any way that seems best for the Company at a given point in time. Therefore, the Board does not have a formal policy, regarding the separation of the roles and titles of Chief Executive Officer and Chairman and, whether the Chairman should be selected from the independent directors or be an employee.

## **Board Composition and Performance**

### 6) Size of Board

It is the sense of the Board that a size of 7-9 members is desirable.

### 7) Term Limits

The Board does not impose arbitrary term limits on director's service or a mandatory retirement age. The Board member evaluation process described below is an important determinant for Board tenure.

### 8a) Board Compensation

Executive Directors do not receive any additional compensation for serving as a Director. Non-executive Directors receive fees for serving on the Board and on Committees. All non-executive directors receive \$1500.00 per board meeting attended. Committee chairmen receive \$2000.00 per board meeting. It is the intention of the board to offer board members a mixture of grants of common stock, stock options and fees for service. The Compensation Committee makes recommendations to the Board regarding compensation for directors and committee members.

### 8b) Board Definition of What Constitutes Independence for Outside Directors

The Board shall establish and maintain standards used to determine which directors are independent. These standards shall include the definition of the NASDAQ for "independence." The Board has adopted the following definition of "independent director": a director who is a non-employee of the Company and free from any relationship that, in the opinion of the Board of Directors, may interfere with the exercise of independent judgment as a Board member including, without limitation, any relationship that involves payments to a director from the Company other than compensation for services as a director .

### 9) Executive Sessions of Independent Directors

Non-Executive directors meet separately or with the CEO from time to time (but at least annually) as determined by the independent directors or the CEO. This includes an evaluation of CEO performance at least annually.

#### 10) Assessing the Board's Performance

The Board annually evaluates its performance as a whole and as individual directors.

#### 11) Board Interaction with Institutional Investors, the Press, Customers, etc.

The Board believes that management generally should speak for the Company. While individual Board members may, from time to time, meet or otherwise communicate with various constituencies that are involved with Paradigm Holdings Inc., it is expected that Board members would do this with the knowledge of management and, in most instances, at the request of management.

### **Board Relationship to Senior Management**

#### 12) Regular Attendance of Non-Directors at Board Meetings

The Chief Operating Officer, Chief Financial Officer, executive directors present at each Board meeting for its duration. Corporate officers attend all meetings for operational, financial and related presentations as required. Other presenters attend on an invitational basis for their presentation(s).

#### 13) Board Access to Senior Management

Board members have complete access to Paradigm Holdings Inc. management. It is assumed that Board members will use judgment to ensure that this contact is not distracting to the Company and that such contact, if in writing, be copied to the CEO. Furthermore, the Board encourages management to, from time to time, bring managers into Board Meetings who: (a) can provide additional insight into the items being discussed because of personal involvement in these areas, and/or (b) represent managers with future executive potential whom senior management believes should be given exposure to the Board.

### **Meeting Procedures**

#### 14) Selection of Meeting Schedule and Agenda Items for Board Meetings

Prior to the beginning of each year, the Board will establish a meeting schedule, which will include a tentative meeting date for each calendar month. The Chairman of the Board, in consultation with members of management, will establish a list of standing topics that will be addressed during Board meetings, and a schedule for these topics to be addressed based upon the meeting schedule adopted. The Chairman of the Board, in consultation with management, will establish the final agenda prior to each Board meeting. Each Board member is free to suggest the inclusion of items(s) on the agenda.

#### 15) Board Materials Distributed in Advance

It is the sense of the Board that information and data that are important to the Board's understanding of the business be distributed in writing to the Board before the Board meets. Management will make every attempt to ensure that

materials are accurate, complete yet concise while still providing the desired information.

#### 16) Board Presentations

As a general rule, presentations on specific subjects should be sent to the Board members in advance so that Board meeting time may be conserved and discussion time focused on questions that the Board has about the material. On those occasions in which the subject matter is too sensitive to put on paper, the presentation will be discussed or distributed at the meeting.

### **Committee Matters**

#### 17) Number of Committees

There are currently three Board committees: Audit, Compensation, Governance and Nominating. The Board may form, merge or dissolve a committee as the Board determines, depending on circumstances. Committee charters are reviewed at least annually.

#### 18) Committee Assignment and Rotation

Committee assignments are evaluated and rotated as appropriate. The charters of the Governance and Nominating, Audit and Compensation Committees limit membership on those committees to non-executive directors only. The full Board approves all committee charters and appointments.

#### 19) Frequency and Length of Committee Meetings

Committee schedules are set at the discretion of the committee chairperson. The taking and publication of minutes of each committee meeting is required.

#### 20) Committee Agenda

The chairperson of a committee, in consultation with the appropriate members of management, will develop the committee's agenda. The final agenda is set by the committee chairperson in consultation with appropriate members of management prior to each meeting. Each committee member is free to suggest the inclusion of items(s) on the agenda.

### **Leadership Development**

#### 21) Formal Evaluation of the Chief Executive Officer

The Compensation Committee annually evaluates the CEO's performance. This Committee has adopted a policy of reviewing the CEO's annual performance evaluation with all independent directors. The evaluation is based on criteria such as performance of the business, accomplishment of long-term strategic objectives, development of management, etc.

## 22) Management Development

The CEO meets annually with the non-executive directors to report on management development.

### **BOARD COMMITTEES**

To assist in the execution of its responsibilities, the Board has established the following standing Committees:

- Audit Committee
- Nominating and Corporate Governance Committee
- Compensation Committee

The composition and charters of these Committees are in accordance with the requirements of corporate governance guidelines issued by the Sarbanes-Oxley Act and related US Securities and Exchange Commission ("SEC") rules. These Committees consist solely of Non-executive Directors.

#### **Audit Committee**

The Audit Committee consists of the following Non-executive Directors:

Frank X. Ryan, Chairman  
John Moore  
Edwin Avery

Each Audit Committee member is a Non-executive independent Director. In addition, as determined by the Board in its business judgment, the members of the Audit Committee meet the requirements of the SEC for membership on audit committees.

The Audit Committee's Charter is in Exhibit A.

#### **Nominating and Corporate Governance Committee**

The Nominating and Corporate Governance Committee consists of the following Non-executive Directors:

Frank X. Ryan, Chairman  
John Moore  
Edwin Avery

The Nominating and Corporate Governance Committee consists entirely of Non-executive Directors whom the Board has determined are independent. The Nominating and Corporate Governance Committee's Charter is in Exhibit B.

#### **Compensation Committee**

The Compensation Committee consists of the following Non-executive Directors:

John Moore, Chairman

Frank X. Ryan

The Compensation Committee consists entirely of Non-executive Directors whom the Board has determined are independent. The Nominating and Compensation Committee's Charter is in Exhibit C.

The committee charters and composition meet the rules of SEC, NASDAQ, AMEX and OTC-BB.