

SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-K

(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 Fiscal Year Ended March 31, 1996 Commission File Number: 811-1056

CAPITAL SOUTHWEST CORPORATION  
(Exact name of registrant as specified in its charter)

Texas

75-1072796

(State or other Jurisdiction of  
Incorporation or Organization)

(I.R.S. Employer  
Identification Number)

12900 Preston Road, Suite 700, Dallas, Texas 75230

(Address of principal executive offices including zip code)

(214) 233-8242

(Registrant's telephone number including area code)

Securities registered pursuant to Section 12(b) of the Act: None

Securities registered pursuant to Section 12(g) of the Act:  
Common Stock, \$1.00 par value

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.

The aggregate market value of the voting stock held by non-affiliates of the registrant as of May 1, 1996 was \$123,639,354, based on the last sale price of such stock as quoted by Nasdaq on such date (officers, directors and 5% shareholders are considered affiliates for purposes of this calculation).

The number of shares of common stock outstanding as of May 1, 1996 was 3,767,051:

Documents Incorporated by Reference	Part of Form 10-K
(1) Annual Report to Shareholders for the Year Ended March 31, 1996	Parts I and II; and Part IV, Item 14(a)(1) and (2)
(2) Proxy Statement for Annual Meeting of Shareholders to be held July 15, 1996	Part III

TABLE OF CONTENTS

Item 1. Business.....	1
Item 2. Properties.....	1
Item 3. Legal Proceedings.....	1
Item 4. Submission of Matters to a Vote of Security Holders.....	1
Executive Officers of the Registrant.....	2

PART II

Item 5. Market for Registrant's Common Equity and Related Stockholder Matters.....	2
Item 6. Selected Financial Data.....	2
Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.....	2
Item 8. Financial Statements and Supplementary Data.....	3
Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure.....	3

PART III

Item 10. Directors and Executive Officers of the Registrant.....	3
Item 11. Executive Compensation.....	4
Item 12. Security Ownership of Certain Beneficial Owners and Management.....	4
Item 13. Certain Relationships and Related Transactions.....	4

PART IV

Item 14. Exhibits, Financial Statement Schedules, and Reports on Form 8-K .....	4
--	---

Signatures .....	6
------------------	---

Exhibit Index .....	7
---------------------	---

PART I

ITEM 1. BUSINESS

Capital Southwest Corporation (the "Company") was organized as a Texas corporation on April 19, 1961. Until September 1969, the Company operated as a licensee under the Small Business Investment Act of 1958. At that time, the Company transferred to its wholly-owned subsidiary, Capital Southwest Venture Corporation ("CSVVC"), certain of its assets and its license as a small business investment company ("SBIC"). CSVVC is a closed-end, non-diversified investment company of the management type. Prior to March 30, 1988, the Company was registered as a closed-end, non-diversified investment company under the Investment Company Act of 1940 (the "1940 Act"). On that date, the Company elected to become a business development company subject to the provisions of Sections 55 through 65 of the 1940 Act, as amended by the Small Business Incentive Act of 1980.

The Company is a venture capital investment company whose objective is to achieve capital appreciation through long-term investments in businesses believed to have favorable growth potential. The Company participates in start-up and early-stage financings, expansion financings and leveraged buyout financings in a broad range of industry segments. The Company's portfolio is a composite of investments in several companies in which the Company has major interests as well as a number of developing companies and marketable securities of established publicly-owned companies. The Company makes available significant managerial assistance to the companies in which it invests and believes that providing material assistance to such investee companies is critical to its business development activities.

The twelve largest investments of the Company had a combined cost of \$40,271,590 and a value of \$232,906,947, representing 90.6% of the value of the Company's consolidated investment portfolio at March 31, 1996. For a narrative description of the twelve largest investments, see "Twelve Largest Investments - March 31, 1996" on pages 5 through 7 of the Company's Annual Report to Shareholders for the Year Ended March 31, 1996 (the "1996 Annual Report") which is herein incorporated by reference. Certain of the information presented on the twelve largest investments has been obtained from the respective companies and, in certain cases, from public filings of such companies. The financial information presented on each of the respective companies is from such companies' financial statements, which in some instances are unaudited.

The Company competes for attractive investment opportunities with venture

capital partnerships and corporations, venture capital affiliates of industrial and financial companies, other SBICs and wealthy individuals.

The number of persons employed by the Company at March 31, 1996 was eight.

#### ITEM 2. PROPERTIES

The Company maintains its offices at 12900 Preston Road, Suite 700, Dallas, Texas, 75230, where it rents approximately 3,200 square feet of office space pursuant to a lease agreement expiring in February 1998. The Company believes that its offices are adequate to meet its current and expected future needs.

#### ITEM 3. LEGAL PROCEEDINGS

The Company has no material pending legal proceedings to which it is a party or to which any of its property is subject.

#### ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of security holders during the quarter ended March 31, 1996.

1

#### EXECUTIVE OFFICERS OF THE REGISTRANT

The officers of the Company, together with the offices in the Company presently held by them, their business experience during the last five years and their ages are as follows:

D. Scott Collier, age 33, has served as Vice President of the Company since April 1995 and was an investment associate with the Company from 1991 to 1995. He is a graduate of the University of Texas Graduate School of Business, which he attended from 1989 to 1991 while he was also employed by Austin Technology Incubator.

J. Bruce Duty, age 45, has served as Senior Vice President of the Company since 1993, Vice President of the Company from 1982 to 1993, Secretary of the Company from 1980 to 1993 and Treasurer of the Company from 1980 to January 1990.

Patrick F. Hamner, age 40, has served as Vice President of the Company since 1986 and was an investment associate with the Company from 1982 to 1986.

Gary L. Martin, age 49, has been a director of the Company since July 1988 and has served as Vice President of the Company since 1984. He previously served as Vice President of the Company from 1978 to 1980. Since 1980, Mr. Martin has served as President of The Whitmore Manufacturing Company, a wholly-owned subsidiary of the Company.

Tim Smith, age 35, has served as Vice President and Secretary of the Company since 1993, Treasurer of the Company since January 1990 and was an investment associate with the Company from July 1989 to January 1990.

William R. Thomas, age 67, has served as Chairman of the Board of Directors of the Company since 1982 and President of the Company since 1980. In addition, he has been a director of the Company since 1972 and was previously Senior Vice President of the Company from 1969 to 1980.

No family relationship exists between any of the above-listed officers, and there are no arrangements or understandings between any of them and any other person pursuant to which they were selected as an officer. All officers are elected to hold office for one year and until their successors are elected and qualify.

#### PART II

#### ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Information set forth under the captions "Shareholder Information - Shareholders, Market Prices and Dividends" on page 31 of the 1996 Annual Report

are herein incorporated by reference.

ITEM 6. SELECTED FINANCIAL DATA

"Selected Consolidated Financial Data" on page 30 of the 1996 Annual Report is herein incorporated by reference.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Pages 27 through 29 of the Company's 1996 Annual Report are herein incorporated by reference.

2

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Pages 8 through 26 of the Company's 1996 Annual Report are herein incorporated by reference. See also Item 14 of this Form 10-K - "Exhibits, Financial Statement Schedules, and Reports on Form 8-K".

Selected Quarterly Financial Data (Unaudited)

The following presents a summary of the unaudited quarterly consolidated financial information for the years ended March 31, 1996 and 1995.

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total
	-----	-----	-----	-----	-----
	(In thousands, except per share amounts)				
1996					
-----					
Net investment income	\$ 816	\$ 633	\$ 934	\$ 472	\$ 2,855
Net realized gain (loss) on investments	-	-	12,358	(1,184)	11,174
Net increase (decrease) in unrealized appreciation of investments before distributions	2,613	27,272	(2,180)	11,041	38,746
Net increase in net assets from operations before distributions	3,429	27,905	11,112	10,329	52,775
Net increase in net assets from operations before distributions per share	.91	7.41	2.95	2.74	14.01
1995					
-----					
Net investment income	\$ 613	\$ 655	\$ 637	\$ 542	\$ 2,447
Net realized gain (loss) on investments	617	(115)	(262)	(98)	142
Net increase (decrease) in unrealized appreciation of investments	(4,184)	3,682	1,780	12,306	13,584
Net increase (decrease) in net assets from operations	(2,954)	4,222	2,155	12,750	16,173
Net increase (decrease) in net assets from operations per share	(.79)	1.13	.58	3.43	4.35

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

Not applicable.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information set forth under the captions "Election of Directors" in the Company's definitive Proxy Statement for Annual Meeting of Shareholders to be held July 15, 1996, filed pursuant to Regulation 14A under the Securities Exchange Act of 1934, on or about June 6, 1996 (the "1996 Proxy Statement") is herein incorporated by reference. See also Part I of this Form 10-K - "Executive Officers of the Registrant".

## ITEM 11. EXECUTIVE COMPENSATION

The information set forth under the caption "Compensation of Directors and Executive Officers" in the 1996 Proxy Statement is herein incorporated by reference.

## ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information set forth under the captions "Stock Ownership of Certain Beneficial Owners" and "Election of Directors" in the 1996 Proxy Statement is herein incorporated by reference.

## ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

There were no relationships or transactions within the meaning of this item during the fiscal year ended March 31, 1996 or proposed for the fiscal year ending March 31, 1997.

## PART IV

## ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

(a) (1) The following financial statements included in pages 14 through 26 of the Company's 1996 Annual Report are herein incorporated by reference:

## (A) Consolidated Financial Statements of the Company and Subsidiary

Consolidated Statements of Financial Condition - March 31, 1996 and 1995

Consolidated Statements of Operations - Years Ended March 31, 1996, 1995 and 1994

Consolidated Statements of Changes in Net Assets - Years Ended March 31, 1996, 1995 and 1994

Consolidated Statements of Cash Flows - Years Ended March 31, 1996, 1995 and 1994

## (B) Financial Statements of CSVC

Statement of Financial Condition - March 31, 1996

Statement of Operations - Year Ended March 31, 1996

Statements of Changes in Shareholder's Equity - Years ended March 31, 1996 and 1995

Statement of Cash Flows - Year Ended March 31, 1996

## (C) Notes to Consolidated Financial Statements

## (D) Selected Per Share Data and Ratios

## (E) Independent Auditors' Report

(a) (2) All schedules are omitted because they are not applicable or not required, or the information is otherwise supplied.

(a) (3) See the Exhibit Index on page 7.

(b) The Company filed no reports on Form 8-K during the three months ended March 31, 1996.

## SIGNATURES

Pursuant to the requirements of Section 13 or 13(d) 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.

CAPITAL SOUTHWEST CORPORATION

By: /s/ William R. Thomas  
(William R. Thomas, President  
and Chairman of the Board)

Date: June 26, 1996

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the date indicated.

Signature	Title	Date
/s/ William R. Thomas (William R. Thomas)	President and Chairman of the Board and Director	June 26, 1996
/s/ Gary L. Martin (Gary L. Martin)	Director	June 26, 1996
/s/ Graeme W. Henderson (Graeme W. Henderson)	Director	June 26, 1996
/s/ James M. Nolan (James M. Nolan)	Director	June 26, 1996
/s/ John H. Wilson (John H. Wilson)	Director	June 26, 1996
/s/ Tim Smith (Tim Smith)	Vice President and Secretary-Treasurer (Financial and Accounting Officer)	June 26, 1996

## EXHIBIT INDEX

The following exhibits are filed with this report or are incorporated herein by reference to a prior filing, in accordance with Rule 12b-32 under the Securities Exchange Act of 1934. (Asterisk denotes exhibits filed with this report.)

Exhibit No.	Description
-----	-----
3.1(a)	Articles of Incorporation and Articles of Amendment to Articles of Incorporation, dated June 25, 1969 (filed as Exhibit 1(a) and 1(b) to Amendment No. 3 to Form N-2 for the fiscal year ended March 31, 1979).
3.1(b)	Articles of Amendment to Articles of Incorporation, dated July 20, 1987 (filed as an exhibit to Form N-SAR for the six month period ended September 30, 1987).
3.2	By-Laws of the Company, as amended (filed as Exhibit 2 to Amendment No. 11 to Form N-2 for the fiscal year ended March 31, 1987).

- 4.1 Specimen of Common Stock certificate (filed as Exhibit 4 to Amendment No. 3 to Form N-2 for the fiscal year ended March 31, 1979).
- 4.2 Subordinated debentures of CSVG guaranteed by the Small Business Administration (filed as Exhibit 5 to Amendment No. 11 to Form N-2 for the fiscal year ended March 31, 1987 and Exhibit 4.3 to Form 10-K for the fiscal year ended March 31, 1993).
- 10.1 \* The RectorSeal Corporation and Jet-Lube, Inc. Employee Stock Ownership Plan as revised and restated effective April 1, 1989.
- 10.3 Retirement Plan for Employees of Capital Southwest Corporation and Its Affiliates as amended and restated effective April 1, 1989 (filed as Exhibit 10.3 to Form 10-K for the fiscal year ended March 31, 1995).
- 10.4 Capital Southwest Corporation and Its Affiliates Restoration of Retirement Income Plan for certain highly-compensated superseded plan participants effective April 1, 1993 (filed as Exhibit 10.4 to Form 10-K for the fiscal year ended March 31, 1995).
- 10.5 Capital Southwest Corporation Retirement Income Restoration Plan as amended and restated effective April 1, 1989 (filed as Exhibit 10.5 to Form 10-K for the fiscal year ended March 31, 1995).
- 10.6 Form of Indemnification Agreement which has been established with all directors and executive officers of the Company (filed as Exhibit 10.9 to Form 8-K dated February 10, 1994).
- 10.7 Capital Southwest Corporation 1984 Incentive Stock Option Plan as amended and restated as of April 20, 1987 (filed as Exhibit 10.10 to Form 10-K for the fiscal year ended March 31, 1990).

Exhibit No.	Description
-----	-----
13. *	Annual Report to Shareholders for the fiscal year ended March 31, 1996.
21.	List of subsidiaries of the Company (filed as Exhibit 22 to Form 10-K for the fiscal year ended March 31, 1992).
23. *	Independent Auditors' Consent.
27. *	Financial Data Schedule.

THE RECTORSEAL CORPORATION AND JET-LUBE, INC.  
EMPLOYEE STOCK OWNERSHIP PLAN

(As Revised and Restated Effective April 1, 1989)

TABLE OF CONTENTS

	Page
ARTICLE I	DEFINITIONS..... 2
ARTICLE II	ELIGIBILITY OF EMPLOYEES..... 10
ARTICLE III	CONTRIBUTIONS, FUNDING POLICY AND WITHDRAWALS..... 11
ARTICLE IV	ACCOUNTS AND VALUATION OF TRUST FUND..... 13
ARTICLE V	LIMITATION ON ALLOCATIONS..... 16
ARTICLE VI	INDIVIDUAL ACCOUNTS..... 25
ARTICLE VII	RETIREMENT..... 25
ARTICLE VIII	DEATH..... 26
ARTICLE IX	DISABILITY..... 27
ARTICLE X	TERMINATION BENEFITS..... 28
ARTICLE XI	DISTRIBUTIONS..... 30
ARTICLE XII	NOTICES..... 39
ARTICLE XIII	AMENDMENT OR TERMINATION OF PLAN..... 39
ARTICLE XIV	COMMITTEE..... 42
ARTICLE XV	MISCELLANEOUS..... 44
ARTICLE XVI	ADOPTION BY AFFILIATED COMPANIES..... 46
ARTICLE XVII	THE TRUSTEE..... 47
ARTICLE XVIII	INVESTMENTS..... 48
ARTICLE XIX	TOP HEAVY PROVISIONS..... 49

THE RECTORSEAL CORPORATION AND JET-LUBE, INC.  
EMPLOYEE STOCK OWNERSHIP PLAN

(As Revised and Restated Effective April 1, 1989)

THIS AGREEMENT, executed this 31 day of January, 1996, and effective the first day of April, 1989 unless specifically provided elsewhere in the Agreement, by The RectorSeal Corporation, a Delaware corporation, having its principal office in Houston, Texas (hereinafter referred to as the "Company").

W I T N E S S E T H:

WHEREAS, effective June 1, 1976, the Company established The RectorSeal

Corporation Employee Stock Ownership Plan (hereinafter referred to as the "Plan"); and

WHEREAS, the Plan was subsequently amended from time to time and was then amended and restated effective April 1, 1985, except for specific provisions which were effective April 1, 1984, to bring the Plan into compliance with the Tax Equity and Fiscal Responsibility Act of 1982, the Tax Reform Act of 1984 and the Retirement Equity Act of 1984; and

WHEREAS, the Plan was subsequently amended by Amendment No. 1 effective, with respect to specific provisions, on April 1, 1984 and April 1, 1985; and

WHEREAS, Jet-Lube, Inc., a Delaware corporation ("Jet Lube"), and an Affiliated Company (herein defined), established the Jet-Lube, Inc. Employee Stock Ownership Plan (the "Jet Lube Plan") effective June 1, 1976; and

WHEREAS, the Jet Lube Plan was subsequently amended from time to time prior to April 1, 1984, was amended and restated effective April 1, 1985, except for specific provisions which were effective April 1, 1984, to bring the Jet Lube Plan into compliance with the Tax Equity and Fiscal Responsibility Act of 1982, the Tax Reform Act of 1984 and the Retirement Equity Act of 1984, and, due to the merger of the Jet Lube Plan with and into the Plan, was amended to comply with (i) those provisions of the Tax Reform Act of 1986 that were technical corrections to the Retirement Equity Act of 1984 and (ii) the temporary Treasury Regulations issued with respect to those provisions in the Internal Revenue Code of 1986 enacted by the Retirement Equity Act of 1984 or the subsequent technical correction provisions thereto; and

WHEREAS, Jet Lube approved (i) the merger of the Jet Lube Plan, effective as of April 1, 1989, with and into the Plan and (ii) the transfer of assets from the Jet Lube Plan to the Plan as soon as practicable after the valuation of accounts in the Jet Lube Plan at March 31, 1990; and

WHEREAS, the Company now desires to amend and restate the Plan (i) effective April 1, 1989, except for certain provisions for which another effective date is subsequently provided otherwise in the terms of the Plan, to bring the Plan into compliance with the Tax Reform Act of 1986 as well as all other applicable laws, rules and regulations enacted or promulgated since the prior plan restatement and (ii) effective April 1, 1994, to change the name of the Plan to "The RectorSeal Corporation and Jet-Lube, Inc. Employee Stock Ownership Plan."

NOW, THEREFORE, in consideration of the premises and the mutual covenants herein contained, the parties hereto agree as follows:

## ARTICLE I

### DEFINITIONS

Unless by the context hereof a different meaning is clearly indicated, whenever used in this Plan, the following words shall have the meanings hereinafter set forth:

Sec. 1.1 Administrator for the purposes of ERISA means the Company; provided, that the Company, by action of its governing body, may designate another person or entity, including the Trustee, as Administrator of the Plan.

Sec. 1.2 Affiliated Company means the Company and any other entity which is, along with the Company, a member of a controlled group of corporations or a controlled group of trades or businesses [as defined in Section 414(b) or (c) of the Code], any entity which along with the Company is included in an affiliated service group as defined in Section 414(m) of the Code, and any other entity which is required to be aggregated with the Company pursuant to Section 414(o) of the Code.

Sec. 1.3 Allocation Date means the Anniversary Date and each additional date designated by the Named Fiduciary on which allocations are made.

Sec. 1.4 Anniversary Date means the last day of each Year.

Sec. 1.5 Annual Compensation means the sum of (i) the amounts actually paid to an Employee by the Employer for services rendered, as reported on the Employee's Federal income tax withholding statement (Form W-2 or its subsequent equivalent) for the Year, exclusive, however, of reimbursements and other expense allowances, fringe benefits (cash and noncash), including but not limited to automobile allowances, taxable group life insurance and amounts that are paid to the Employee in cash in lieu of being contributed on his behalf to the Plan or any other qualified defined contribution plan maintained by the Employer, moving expenses, welfare benefits, and all other extraordinary compensation, such as income attributable to phantom stock plans; (ii) amounts applied to

-2-

purchase benefits pursuant to a salary reduction agreement under a cafeteria plan as defined in Section 125 of the Code sponsored by an Employer and amounts deferred pursuant to a salary reduction agreement under any other plan described in Section 401(k) of the Code sponsored by an Employer; and (iii) for Years beginning prior to April 1, 1994, amounts accrued in a Year but not paid until the following Year as a result of the timing of pay periods or pay days or which is deemed to be "de minimus", provided such amounts are paid during the first few weeks of the subsequent Year. For (i) any Year (A) beginning after December 31, 1983 and before January 1, 1989 in which the Plan is a top heavy plan as defined in Section 416(g) of the Code or (B) beginning after December 31, 1988 and before January 1, 1994, only the first \$200,000 of Annual Compensation shall be taken into account [or, beginning April 1, 1988, such other amount as the Secretary of the Treasury may prescribe at the same time and in the same manner as provided under Section 415(d) of the Code for adjusting the dollar limitation in effect under Section 415(b)(1)(A) of the Code] and (ii) beginning after December 31, 1993, only the first \$150,000 of Annual Compensation shall be taken into account [or, beginning April 1, 1995, such other amount as may be determined under Section 401(a)(17)(B) of the Code] (hereinafter referred to as the "Compensation Limitation"). In determining the Annual Compensation of each Participant, who is (i) a more than five percent owner of an Employer or (ii) a highly compensated employee [within the meaning of Section 414(q) of the Code] in the group consisting of the ten highly compensated employees paid the greatest Annual Compensation during the Year (without regard to this sentence), for purposes of applying the Compensation Limitation for a Year after December 31, 1988, the spouse of each such Participant and each of his lineal descendants who have not attained age 19 before the close of the Year shall not be treated as a separate Employee for that Year and the Annual Compensation of each such family member shall be aggregated with the Annual Compensation of the Participant as if it were paid to the Participant. If, as a result of the application of the preceding sentence, the Compensation Limitation for a Year is exceeded, then the Compensation Limitation shall be prorated among the affected individuals in proportion to each such individual's Annual Compensation as determined under this Section 1.5 prior to the application of this limitation.

Sec. 1.6 Beneficiary means any person or fiduciary designated by a Participant or Former Participant to receive benefits hereunder following the death of such Participant or Former Participant. Each Participant and Former Participant may, from time to time, select one or more Beneficiaries to receive benefits pursuant to Section 8.1 in the event of the death of such Participant or Former Participant. Such selection shall be made in writing upon a form provided by the Named Fiduciary. The last such selection filed with the Named Fiduciary shall control. If at the date of death the Participant or Former Participant is married, the Beneficiary shall be the surviving spouse unless the spouse has consented in writing to the designation of some other Beneficiary, which designation may not be changed without spousal consent unless

-3-

the voluntary consent of the spouse (i) expressly permits designations by

the Participant without any requirement of further consent by the spouse and (ii) acknowledges that the spouse has the right to limit the consent to a specific Beneficiary. Such written consent must acknowledge the effect of such selection and such consent must be witnessed by a Plan representative or a notary public. Spousal consent is not required if it is established to the satisfaction of the Plan representative that the consent may not be obtained (i) because the Participant has no spouse, (ii) because the spouse cannot be located or (iii) because of such other circumstances as the Secretary of Treasury may by regulations prescribe. Any consent by a spouse (or establishment that the consent of the spouse may not be obtained) shall be effective only with respect to that spouse. If a selection is not made in compliance with these provisions or if such designated persons shall have died, Beneficiary means the first of the following classes of successive preference beneficiaries then surviving: the Participant's or Former Participant's:

- (a) surviving spouse,
- (b) descendants, per stirpes,
- (c) parents in equal shares,
- (d) brothers and sisters in equal shares, and
- (e) estate.

Sec. 1.7 Code means the Internal Revenue Code of 1986, as it may be amended from time to time. Reference to a section of the Code shall include that section and any comparable section of any future legislation that amends, supplements or supersedes said section.

Sec. 1.8 Committee means the committee appointed under Article XIV to administer the Plan.

Sec. 1.9 Company means The RectorSeal Corporation, a Delaware corporation, or any successor thereto.

Sec. 1.10 Disability means physical or mental incapacity of a Participant which, in the opinion of a physician approved by the Named Fiduciary, will permanently prevent such Participant from performing any of the usual duties of his employment.

Sec. 1.11 Early Retirement Date means the Anniversary Date of the Year coinciding with or next following the later of the date a Participant attains age 55 and has completed at least 10 Years of Service (Vesting), provided the Participant has elected at least 60 days prior to such Anniversary Date to terminate his employment with all Affiliated Companies.

-4-

Sec. 1.12 Employee means any individual in the employ of an Employer who is included on the Federal Insurance Contribution Act rolls of an Employer, and excludes any Leased Employee.

Sec. 1.13 Employer means the Company and any other Affiliated Company, with respect to its Employees, provided such Affiliated Company is designated by the governing body of the Company as an Employer under the Plan and whose designation as such has become effective and has continued in effect. The designation shall become effective only when it shall have been accepted by the governing body of the Employer and shall be effective for the Year determined by the governing body of the Company and the Employer. An Employer may revoke its acceptance of such designation at anytime, but until such acceptance has been revoked, all of the provisions of the Plan and amendments thereto shall apply to the Employees of the Employer. In the event the designation of the Employer as such is revoked by the governing body of the Employer, this will not be deemed a termination of the Plan.

Sec. 1.14 Entry Date means the first day of the Year.

Sec. 1.15 ERISA means the Employee Retirement Income Security Act of 1974, as it may be amended from time to time, and applicable regulations promulgated

thereunder.

Sec. 1.16 Five-Year Break in Service means any five consecutive Years during each of which the Employee or Participant performs for an Affiliated Company 500 or fewer Hours of Service.

Sec. 1.17 Former Participant means any individual who has been a Participant in the Plan (i) who is no longer in the employ of an Affiliated Company and who has not yet received the entire benefit to which he is entitled under the Plan, or (ii) who is still in the employ of an Affiliated Company and who has an interest in the Plan but who is not eligible for Employer contributions and forfeitures.

Sec. 1.18 Hours of Service means hours for which the Employee or Participant is either directly or indirectly paid, or entitled to payment, by an Affiliated Company. Further, the Employee or Participant shall be credited with an Hour of Service for each hour for which back pay, irrespective of mitigation of damages, has been awarded or agreed to by an Affiliated Company. These Hours of Service shall be credited to the Employee for the computation period or periods to which the award or agreement pertains rather than the computation period in which the award, agreement or payment is made. Hours of Service for periods during which no duties are performed shall be calculated and credited pursuant to Section 2530.200b-2(b) and (c) of the Department of Labor regulations which are incorporated herein by reference. No more than 501 Hours of Service shall be credited under the preceding sentence during any computation period. An Employee on a non-hourly payroll whose Annual Compensation is not determined on the basis of certain amounts for each hour worked shall be credited with 45 Hours of Service for each week during which he would

-5-

otherwise have at least one Hour of Service, adjusted pro rata on the basis of 10 hours per day when employment or the Year begins on other than a Monday or ends on other than a Friday. In addition, solely for the purpose of determining a One-Year Break in Service and a Five-Year Break in Service, the Plan shall credit the Participant with the Hours of Service which otherwise would normally have been credited to such individual during the computation period in which an absence from the service of an Affiliated Company occurs for any period by reason of (i) pregnancy of the individual, (ii) birth of a child of the individual, (iii) placement of a child with the individual in connection with the adoption of such child by such individual, or (iv) for purposes of caring for such child for a period beginning immediately following such birth or placement; provided, however, if the Participant has credit for more than 500 Hours of Service without the application of this sentence in the computation period in which the absence from the service of an Affiliated Company occurs for the reasons specified in this sentence, the Plan shall credit the Participant with such Hours of Service in the following computation period. The Plan shall not credit any Participant with any Hours of Service under the preceding sentence unless such Participant timely furnishes the Administrator information establishing (i) that the absence from the service of an Affiliated Company was for one or more reasons specified in the preceding sentence and (ii) the number of days for which there was an absence. Solely for the purpose of determining a One-Year Break in Service and a Five-Year Break in Service, the Plan shall credit each Participant with Hours of Service for each hour in any customary period of work, during which the Participant is on an unpaid leave of absence granted as such by an Affiliated Company in accordance with applicable law and uniformly administered policy. Persons on an unpaid military leave shall receive Hours of Service credit for the period that their employment rights are protected by law, to the extent required by law, provided the Employee returns to the active service of an Affiliated Company within 90 days after discharge from service in such armed forces, or within such longer period of time as may be fixed by law for the protection of his reemployment rights. Should an Employee fail to return to the active employment of an Affiliated Company within the time specified in a written leave of absence, or after such authorized vacation, or after such period of military service, as appropriate, his service will be deemed terminated as of the end of such permitted period of absence. Service with an Affiliated Company or a predecessor thereto prior to the date it became an Affiliated Company may be counted for the purposes of eligibility and vesting to the extent

approved by the Named Fiduciary.

Sec. 1.19 Individual Account means an account or record to be maintained by the Committee showing the amount of the Trust Fund credited to each Participant, each Former Participant and each Beneficiary and shall include the Other Investments Account and Parent Company Stock Account.

-6-

Sec. 1.20 Key Employee means, as of any Determination Date [as defined in Section 19.4(b)], any Employee or former Employee (or Beneficiary of such Employee) who, at any time during the Year which includes the Determination Date, or during the preceding four Years, is:

- (a) an officer of any Employer having Annual Compensation greater than 50% of the amount in effect under Section 415(b)(1)(A) of the Code for any such Year;
- (b) one of the ten Employees having Annual Compensation from any Employer of more than the dollar limitation in effect under Section 415(c)(1)(A) of the Code and owning the largest interests in such Employer;
- (c) a more than five percent owner of any Employer; or
- (d) a more than one percent owner of any Employer having Annual Compensation from all Employers of more than \$150,000.

For purposes of this Section 1.20, Annual Compensation shall mean annual compensation as defined in Section 415(c)(3) of the Code, but including amounts contributed by the Employer pursuant to a salary reduction agreement which are excludable from the Participant's gross income under Sections 125, 402(a)(8), 402(h) or 403(b) of the Code. For purposes of subsection (a) of this Section, no more than 50 Employees (or, if lesser, the greater of three or ten percent of the Employees) shall be treated as officers. For purposes of subsection (b) of this Section, if two Employees have the same interest in an Employer, the Employee having the greater Annual Compensation shall be treated as having the larger interest. The constructive ownership rules of Section 318 of the Code (or the principles of that section, in the case of an unincorporated Employer) will apply to determine ownership in each Employer.

Sec 1.21 Leased Employee means an individual who is not in the employ of an Employer and who, pursuant to a leasing agreement between an Employer and any other person ("leasing organization"), has performed services for an Employer [or for an Employer and any other person related to an Employer within the meaning of Section 144(a)(3) of the Code] on a substantially full-time basis for at least one year and who performs services of a type historically performed by employees in the Employer's business field. Leased Employee shall also include any individual who is deemed to be an employee of an Employer under Section 414(o) of the Code. Notwithstanding the preceding sentence, if individuals described in the preceding sentence constitute less than 20% of an Employer's non-highly compensated work force within the meaning of Section 414(n)(5)(C)(ii) of the Code, the Plan shall not treat an individual as a Leased Employee if the leasing organization covers the individual in a money purchase pension plan providing immediate participation, full and immediate vesting and a non-integrated contribution formula equal to at least ten percent of the

-7-

individual's annual compensation [as defined in Section 415(c)(3) of the Code, but including amounts contributed by an Employer pursuant to a salary reduction agreement which are excludable from the individual's gross income under Sections 125, 402(a)(8), 402(h) or 403(b) of the Code]. If any Leased Employee shall be treated as an Employee of an Employer, however,

contributions or benefits provided by the leasing organization which are attributable to services of the Leased Employee performed for an Employer shall be treated as provided by the Employer.

Sec. 1.22 Named Fiduciary means the Company except to the extent the Company has delegated specific functions to the Committee, if any, appointed by the Company pursuant to Article XIV. If no Committee is appointed, the Trustee will perform the functions of the Committee.

Sec. 1.23 Non-Key Employee means any Employee who is not a Key Employee.

Sec. 1.24 Normal Retirement Date means a Participant's or Former Participant's 65th birthday.

Sec. 1.25 One-Year Break in Service means any Year during which the Employee or Participant performs for an Affiliated Company 500 or fewer Hours of Service.

Sec. 1.26 Other Investments Account means the portion of the Individual Account maintained by the Committee for each Participant showing the monetary value of the Participant's individual interest in the Trust Fund attributable to Employer contributions and forfeitures in cash under this Plan which have not been invested in Parent Company Stock and are to be invested in other assets; it shall be credited with the net income (or debited with the loss) of the Trust Fund attributable to investments in the Other Investments Account.

Sec. 1.27 Parent Company Stock means shares of any class of stock, preferred or common, which are issued by Capital Southwest Corporation, a Texas corporation, or any other qualifying employer security of Capital Southwest Corporation, as defined in ERISA. The shares of Parent Company Stock currently held by the Plan are regularly traded on the Nasdaq National Market.

Sec. 1.28 Parent Company Stock Account means the portion of the Individual Account of a Participant maintained by the Committee to which is credited shares (including fractional shares) of Parent Company Stock which are attributable to Employer contributions and forfeitures under the Plan.

Sec. 1.29 Participant means an Employee who has met the eligibility requirements of the Plan as provided in Article II hereof and who has begun participating in the Plan.

-8-

Sec. 1.30 Plan means the plan embodied herein, as the same may be amended from time to time, and shall be known as "The RectorSeal Corporation and Jet-Lube, Inc. Employee Stock Ownership Plan."

Sec. 1.31 Trust Agreement means the trust agreement entered into between the Company and the Trustee as of June 1, 1976 to carry out the purposes of the Plan and under which the Trust Fund is maintained, provided that if such agreement be amended or supplemented, Trust Agreement, as of a particular date, shall mean such agreement, as amended and supplemented and in force on such date.

Sec. 1.32 Trust Fund means all assets of whatsoever kind and nature from time to time held by the Trustee pursuant to the Trust Agreement without distinction as to income or principal.

Sec. 1.33 Trustee means any institution or individuals designated as Trustee or Trustees by the Board of Directors of the Company and any successor Trustee or Trustees chosen by such Board.

Sec. 1.34 Year means the 12-consecutive month period from April 1 of each year to the next following March 31.

Sec. 1.35 Year of Service (Participation) means the 12- consecutive month period commencing with the employment commencement date of an Employee by an Affiliated Company, which is the date the Employee first performs an Hour

of Service for an Affiliated Company, during which the Employee performs at least 1,000 Hours of Service for an Affiliated Company. If an Employee does not perform 1,000 Hours of Service in the 12-month period beginning with his employment commencement date, Year of Service (Participation) means the Year commencing with the Year immediately following his employment commencement date during which the Employee performs at least 1,000 Hours of Service for an Affiliated Company.

Sec. 1.36 Year of Service (Vesting) means any Year during which the Employee performs at least 1,000 Hours of Service for an Affiliated Company, subject to the following:

(a) if an Employee has a One-Year Break in Service, Years of Service (Vesting) before such break shall not be taken into account until he has completed a Year of Service (Vesting) after his return to employment; and

(b) if an Employee has a Five-Year Break in Service, Years of Service (Vesting) after such break shall not be taken into account for the purposes of determining the nonforfeitable percentage of his accrued benefit derived from Employer contributions which accrued before such break.

Sec. 1.37 Gender and Number. Except as otherwise indicated by the context, any masculine terminology used herein also includes the feminine and neuter, and vice versa, and the definition of any term herein in a singular shall also include the plural, and vice versa.

-9-

## ARTICLE II

### ELIGIBILITY OF EMPLOYEES

Sec. 2.1 Eligibility. Each eligible Employee shall be deemed to have become a Participant (unless he elects otherwise pursuant to Section 2.2) as of the Entry Date which falls within the Employee's completion of one Year of Service (Participation).

Sec. 2.2 Election Not to Participate. An Employee eligible to participate or participating in the Plan may elect not to participate (or elect to withdraw from the Plan if then participating) for a given Year, provided that written notice of such election is given to the Committee in satisfactory form before the end of the Year in question. Upon receipt by the Committee of such notice, the Participant shall become a Former Participant retroactively to the beginning of the particular Year. Such election shall remain in effect unless and until the Employee ceases to be such or elects to participate again. An Employee eligible to participate in the Plan who has elected not to participate (or elected to withdraw) may elect to participate in any Year thereafter by giving written notice in satisfactory form to the Committee. Such election shall be effective immediately, and the Employee shall become an active Participant as of the date of receipt of such election by the Committee or such later date as may be specified in the notice.

Sec. 2.3 Eligibility upon Reemployment. Notwithstanding Section 2.1, each Employee who completes a Year of Service (Participation) in either his first 12 months of employment or a Year, as required in Section 1.35, but is not employed at the expiration of such 12-month period or such Year, shall become a Participant immediately upon his return to the status of Employee, subject to Section 2.6. An Employee who completes 1,000 Hours of Service in the 12-month period or the Year while employed by an Affiliated Company which is not an Employer shall become a Participant as of the Entry Date preceding the date on which he becomes an Employee of an Employer.

Sec. 2.4 Reemployment of Participant. If the employment of a Participant is terminated for any reason and he subsequently is reemployed by an Employer, he shall be eligible to become a Participant (unless he elects otherwise pursuant to Section 2.2) on the date he resumes employment with an Employer.

Sec. 2.5 Exclusion of Employees Covered by Collective Bargaining.

Notwithstanding Section 2.1, an Employee covered by a collective bargaining agreement between the Employer and a collective bargaining representative certified under the Labor Management Relations Act who is otherwise eligible to become a

-10-

Participant under this Article shall be excluded if retirement benefits were the subject of good faith bargaining between the Employee's representative and the Employer and if the agreement does not require the Employer to include such Employee in this Plan. An Employee who is a Participant in this Plan when he is excluded under the provisions of this Section 2.5 shall cease active participation in this Plan on the effective date of that collective bargaining agreement and shall not participate in Employer contributions while a member of the ineligible class but shall not be considered to have terminated employment.

Sec. 2.6 Eligibility Upon Entry or Reentry into Eligible Class of Employees. In the event a Participant is excluded because he is no longer a member of an eligible class of Employees as specified in this Article II, such Employee shall participate as of the Entry Date preceding the date of his return to an eligible class of Employees. In the event that an Employee who is not a Former Participant in the Plan becomes a member of the eligible class, such Employee shall participate as of the Entry Date preceding the date of his becoming an eligible class member if such Employee has satisfied the eligibility requirements of Section 2.1 and would have previously become a Participant had he been in the eligible class.

### ARTICLE III

#### CONTRIBUTIONS, FUNDING POLICY AND WITHDRAWALS

Sec. 3.1 Contributions of the Employer. The governing body of each Employer, in its discretion, shall determine the amount of, and cause to be made, its contribution to the Plan. Each Employer's liability for the amount of its contribution will be established by its governing body, and other actions taken, within the time required by law so as to permit the contributions for a particular Year to be deductible for Federal income tax purposes for the corresponding taxable year, and the amount of such contribution will be communicated to Participants as soon as practicable after the amount thereof has been established.

Sec. 3.2 Form of Employer Contributions. The Employer contribution by each Employer may be paid in cash or in securities, other property, or shares having an equivalent value, or any combination thereof, as the governing body of the Employer may determine. To the extent that the Trust Fund has cash obligations payable in one year from the date the Employer contribution is due, such Employer contribution shall be paid in cash in an amount determined by the Employer or the Committee.

Sec. 3.3 Time of Contributions. Contributions made by an Employer pursuant to Section 3.1 may be made at any time and from time to time, except that the total contribution for any Year shall be paid in full not later than the time prescribed by law to enable the Employer to obtain a deduction therefor on its federal income

-11-

tax return for said Year. Contributions made after the Anniversary Date of the Year but within the time for filing an Employer's federal income tax return (including extensions thereof) shall be deemed made as of the Anniversary Date of that Year if so directed by the Employer, except such contributions shall not share in increases, decreases, or income to the Trust Fund prior to the date actually made. Notwithstanding the foregoing, upon an Employer's request, a contribution which was made upon a mistake of fact or conditioned upon initial qualification of the Plan (application for

which is made by the time prescribed by law for filing the Employer's tax return for the taxable year in which the Plan is adopted, or such later date as the Secretary of the Treasury may prescribe) or upon deductibility of the contribution shall be returned to the Employer within one year after payment of the contribution, denial of the qualification, or disallowance of the deduction (to the extent disallowed), as the case may be; provided, however, the amount returned to an Employer due to mistake of fact or denial of deductibility shall not be increased by any earnings thereon and shall be reduced by any losses attributable to such amount.

Sec. 3.4 Limit on Employer Contributions. Notwithstanding the foregoing provisions of this Article III, the contribution of an Employer for any Year shall in no event exceed an amount which will, under the law then in effect, be deductible by the Employer in computing its federal taxes for the fiscal year of the Employer in which that Year ends.

Sec. 3.5 Withdrawal of Contributions. Except as provided in this Section, no amounts may be withdrawn by a Participant from his Individual Account until the Participant's employment with all Employers has terminated. In the event of financial hardship, a Participant or Former Participant may, with the consent of the Committee, withdraw such portion of his Individual Account as the Committee may approve; provided, however, that no amount in excess of the vested portion of his Individual Account may be withdrawn from such Individual Account. A request for withdrawal under this Section 3.5 shall be made in writing to the Committee, and shall set forth the particular circumstances constituting the financial hardship and the amount requested to be withdrawn. The term "financial hardship" shall mean acute financial necessity resulting from illness or death of members of the family, education of children and casualty losses not covered by insurance. The determination by the Committee as to the existence of financial hardship and the amount permitted to be withdrawn shall be conclusive but shall be made on a consistent and nondiscriminatory basis. All amounts not actually withdrawn shall remain credited to the Individual Account of the Participant or Former Participant. For the purposes of allocating appreciation, depreciation, income, expense, gain and loss of the Trust Fund, any withdrawals shall be subtracted from the Individual Account balance as of the beginning of the Year in which the withdrawal is made.

-12-

#### ARTICLE IV

##### ACCOUNTS AND VALUATION OF TRUST FUND

Sec. 4.1 Participants' Individual Accounts. The assets of the Trust Fund shall constitute a single fund in which each Participant and Former Participant shall have his proportionate interest as provided in this Plan. The Committee shall maintain, or cause to be maintained, with respect to each Employer, an Individual Account for each Participant or Former Participant which shall reflect the credits and charges allocable thereto in accordance with the Plan. The Committee shall maintain, or cause to be maintained, records which will adequately disclose at all times the state of the Trust Fund and of each separate interest therein. The books, forms and methods of accounting shall be entirely in the hands of and subject to the supervision of the Committee.

Sec. 4.2 Valuation of the Trust Fund and of the Interest of Each Participant. Within a reasonable time after each Allocation Date, the Committee shall have the Trustee prepare a statement of the condition of the Trust Fund, setting forth all investments, receipts and disbursements, and other transactions effected by it during the applicable period, and showing all the assets of the Trust Fund and the cost and fair market value thereof. This statement shall be delivered to the Committee. At least annually, the Committee shall cause to be prepared, and shall deliver to each Participant or Former Participant, a report disclosing the status of his Individual Account in the Trust Fund as of the applicable Allocation Date.

For purposes of determining the market value of securities held by the Trustee, such securities shall be valued as of the close of business on the Allocation Date or, if securities shall not have been traded and reported on a national securities exchange or in the over-the-counter market on such

date, then at the last bid price as of the close of business on the Allocation Date.

Notwithstanding any other provision of this Section 4.2, if the Trustee shall determine that the Trust Fund assets consist in whole or in part of property not traded freely on a recognized market, including but not limited to Parent Company Stock, or that information necessary to ascertain the fair market value thereof is not readily available to the Trustee, the Trustee shall request the Committee to instruct the Trustee as to the value of such property for all purposes under the Plan, and the Committee shall comply with such request. The Committee may engage a competent appraiser to assist it in this process. The value placed upon such property by the Committee in its instructions to the Trustee shall be conclusive and binding upon the Trustee subject to the fiduciary provisions of ERISA. If the Committee shall fail or refuse to instruct the Trustee as to the value of such property within a reasonable time after receipt of the Trustee's request to do so, the Trustee may engage a competent appraiser to fix the fair market

-13-

value of such property for all purposes hereunder. The determination of any duly retained appraiser as to the fair market value of such property shall be the value reported hereunder, and neither the Committee nor the Trustee shall have any liability in connection therewith, subject to the fiduciary provisions of ERISA. The reasonable fees and expenses incurred for any such appraisal shall be deemed an expense of the Trustee and paid as provided in Section 15.8.

The determination of the fair market value of the assets of the Trust Fund and the Committee's charges or credits to the Individual Accounts with respect to Participants or Former Participants shall be final and conclusive on all persons ever interested hereunder, subject to Section 11.5 hereof.

Sec. 4.3 Allocations to Individual Accounts. In order that each Participant's interest as provided in this Plan may be determined, the Individual Account of each Participant [or Former Participant, for purposes of Sec. 4.3(c)(iii)] shall be adjusted as follows:

- (a) The Parent Company Stock Account of each Participant will be credited at least once each year with his allocable share of (i) Parent Company Stock purchased and paid for by the Trust Fund from contributions or out of his Other Investments Account or contributed in kind by his Employer, (ii) forfeitures of Parent Company Stock which are attributable to his Employer and (iii) stock dividends of Parent Company Stock on Parent Company Stock held in his Parent Company Stock Account or acquired in exchange for other assets not yet allocated.
- (b) The Other Investments Account of each Participant will be credited with his remaining allocable share of contributions and forfeitures not represented by Parent Company Stock which are attributable to his Employer and with cash dividends on Parent Company Stock in his Parent Company Stock Account; it will also be credited (or debited) with his share of the net income (or loss) of the Trust Fund attributable to it. Each Participant's Other Investments Account may also be debited for any purchases of Parent Company Stock and the Parent Company Stock Account shall then be credited.
- (c) The allocations will be made as follows:
  - (i) Employer Contributions and Other Items. Employer contributions and Parent Company Stock attributable thereto will be allocated as of each Anniversary Date among the Individual Accounts of Participants who are Employees of each Employer at the end of the Year and, for any Year in which the Plan is not a top heavy plan as defined in Section 416(g) of the Code, who completed at least 1,000 Hours of Service during the Year, and to the Individual Accounts of Former Participants whose employment was terminated by reason of death, Disability

or retirement under Article VII during the Year, in the ratio in which the Annual Compensation of each bears to the aggregate Annual Compensation of all.

(ii) Forfeitures. Forfeitures during a Year attributable to the former Participants of each Employer, subject to Section 10.5, shall be allocated as of the Anniversary Date in such Year among the Individual Accounts of the remaining Participants and Former Participants employed by the same Employer in the same proportion that the Employer contributions are (or would be) allocated for such Year.

(iii) Net Income (or Loss) of the Trust Fund. The net income (or loss) of the Trust Fund will be determined as of each Anniversary Date, or more frequently if the Trustee or the Committee so desires. Except as provided herein with respect to certain dividends and tax refunds, the net income (or loss) of the Trust Fund which is attributable to assets held in a Participant's and Former Participant's Other Investments Account shall be allocated to his Other Investments Account in the ratio which the balance of his Other Investments Account on the preceding Anniversary Date bears to the sum of such balances as of the preceding Anniversary Date for all Participants and Former Participants in the Plan on the subsequent Anniversary Date. Dividends (excluding dividends of Parent Company Stock) on Parent Company Stock and tax refunds with respect to Parent Company Stock shall be allocated to the Other Investments Account of each Participant or Former Participant in the ratio that the number of shares of Parent Company Stock held in that Participant's or Former Participant's Parent Company Stock Account bears to the total number of shares of Parent Company Stock held in the Parent Company Stock Accounts of all Participants and Former Participants. Likewise, dividends declared on any other security held by the Trust Fund shall be allocated to the Other Investments Account of each Participant or Former Participant in the ratio that the number of shares of that security to which the dividend relates held in that Participant's or Former Participant's Other Investments Account bears to the total number of shares of that security held in the Other Investments Accounts of all Participants and Former Participants. The net income (or loss) includes the increase (or decrease) in the fair market value of assets of the Trust Fund (other than Parent Company Stock), interest, dividends, tax refunds, other income and expenses since the preceding Anniversary Date.

(d) Equitable Allocation. The Committee may establish accounting procedures for the purpose of making the allocations, valuations and adjustments to Individual Accounts of Participants and Former Participants provided for in this Article IV. Should the Committee determine that the strict

application of its accounting procedures will not result in an equitable and nondiscriminatory allocation among the Other Investments Accounts and Parent Company Stock Accounts of Participants and Former Participants, it may modify its procedures for the purpose of achieving an equitable and nondiscriminatory allocation in accordance with the general concepts of the Plan and the provisions of this Article IV; provided, however, that such adjustments to achieve equity shall not reduce the vested portion of a Participant or Former Participant and shall be consistent with the provisions of the Code.

(e) Computations. All of the computations required to be made under the provisions of this Article IV shall be made in accordance with generally accepted accounting principles and such computations, when

made, shall be conclusive with respect thereto and shall be binding upon all the Participants and Former Participants and all other persons ever having an interest in the Trust Fund, subject to the provisions of Section 8.1.

- (f) Dividends After Anniversary Date. If a Participant or Former Participant is to receive a distribution or withdrawal from the Plan based on the immediately preceding Anniversary Date and prior to the date of such distribution or withdrawal a dividend is declared on any security held by that Participant's or Former Participant's Individual Account, the amount of the distribution to such Participant or Former Participant shall be adjusted to reflect such dividend.

Sec. 4.4 Included Individual Accounts. For the purposes of this Article IV, references to the Individual Accounts of Participants shall include the Individual Accounts of those who die, become disabled, retire, or terminate their services during the Year in question.

Sec. 4.5 Time When Contributions are Allocated. If directed by the Committee, an Employer contribution for a Year may be provisionally allocated as of any Allocation Date prior to the Anniversary Date, but such allocation shall be subject to adjustment as of the Anniversary Date.

## ARTICLE V

### LIMITATION ON ALLOCATIONS

Sec. 5.1 Limitation on Allocations. Notwithstanding any other provision of the Plan, the following provisions shall be applicable to the Plan effective April 1, 1987:

- (a) If this Plan is the only plan maintained by an Employer which covers the class of Employees eligible to participate hereunder and the Participant does not participate in and has

-16-

never participated in a Related Plan or a welfare benefit fund, as defined in Section 419(e) of the Code, maintained by the Employer, or an individual medical account, as defined in Section 415(1)(2) of the Code, maintained by the Employer, which provides an Annual Addition as defined in Section 5.1(o)(i), the Annual Additions which may be allocated under this Plan to a Participant's Individual Account for a Limitation Year shall not exceed the lesser of (i) the Maximum Permissible Amount or (ii) any other limitation contained in this Plan.

- (b) Prior to the determination of the Participant's actual Annual Compensation for a Limitation Year, the Maximum Permissible Amount may be determined on the basis of the Participant's estimated Annual Compensation for such Limitation Year. Such estimated Annual Compensation shall be determined on a reasonable basis and shall be uniformly determined for all Participants similarly situated. Any Employer contributions (including allocation of forfeitures) based on estimated Annual Compensation shall be reduced by any Excess Amounts carried over from prior Years.
- (c) As soon as is administratively feasible after the end of the Limitation Year, the Maximum Permissible Amount for such Limitation Year shall be determined on the basis of the Participant's actual Annual Compensation for such Limitation Year.
- (d) If there is an Excess Amount with respect to a Participant for the Limitation Year, such Excess Amount shall be disposed of as follows:
  - (i) the Excess Amount attributable to the portion of the Employer contribution made pursuant to Section 3.1 which has been allocated to a Participant under the Plan for a Year but which cannot be allocated to his Individual Account because of the limitation imposed by this Section, shall, subject to the

limitations of Section 5.1(a), be allocated and reallocated in the current Limitation Year to Individual Accounts of the other Participants entitled to share in the Employer contributions and forfeitures for that Year in accordance with Section 4.3. Any Excess Amount that cannot be allocated will be held unallocated in a suspense account. All amounts in the suspense account must be allocated and reallocated to the Participants' Individual Accounts, subject to the limitations of Section 5.1(a), in succeeding Limitation Years before any Employer contributions which constitute Annual Additions may be made to the Plan; and

- (ii) in the event of termination of the Plan, the suspense account shall revert to the Employer to the extent it may not then be allocated to any Participant's Individual Account.

-17-

- (e) Notwithstanding any other provision of this Section 5.1, an Employer shall not contribute any amount that would cause an allocation to the suspense account as of the date the contribution is allocated. If the contribution is made prior to the date as of which it is to be allocated, then such contribution shall not exceed an amount that would cause an allocation to the suspense account if the date of the contribution were an Allocation Date.
- (f) If an Employer maintains, in addition to this Plan, (i) a Related Plan which covers the same class of Employees eligible to participate hereunder, (ii) a welfare benefit fund, as defined in Section 419(e) of the Code, or (iii) an individual medical account, as defined in Section 415(l)(2) of the Code, which provides an Annual Addition as defined in Section 5.1(o)(i), the Annual Additions which may be allocated under this Plan to a Participant's Individual Account for a Limitation Year shall not exceed the lesser of:
  - (A) the Maximum Permissible Amount, reduced by the sum of any Annual Additions allocated to the Participant's accounts for the same Limitation Year under this Plan and such other Related Plan and the welfare plans described in clauses (ii) and (iii) above; or
  - (B) any other limitation contained in this Plan.
- (g) Prior to the determination of the Participant's actual Annual Compensation for the Limitation Year, the amount referred to in Section 5.1(f) above may be determined on the basis of the Participant's estimated Annual Compensation for such Limitation Year. Such estimated Annual Compensation shall be determined on a reasonable basis and shall be uniformly determined for all Participants similarly situated. Any Employer contributions (including allocation of forfeitures) based on estimated Annual Compensation shall be reduced by an Excess Amount carried over from prior Years.
- (h) As soon as is administratively feasible after the end of the Limitation Year, the amount referred to in Section 5.1(f) above, shall be determined on the basis of the Participant's actual Annual Compensation for such Limitation Year.
- (i) If the Annual Additions with respect to the Participant under other Related Plans and welfare plans described in Section 5.1(f)(ii) and (iii) are less than the Maximum Permissible Amount and the Employer contribution that otherwise would be contributed or allocated to the Participant's Individual Account under this Plan would cause the Annual Additions for the Limitation Year to exceed the limitation of Section 5.1(f), the amount contributed or allocated under the Related Plans will first be reduced and then the amount contributed or allocated under this Plan will be reduced so that the Annual Additions under all such plans for the

-18-

Limitation Year will equal the Maximum Permissible Amount. If the Annual Additions with respect to the Participant under the Related Plans and welfare plans described in Section 5.1(f)(ii) and (iii) in the aggregate are equal to or greater than the Maximum Permissible Amount, no amount will be contributed or allocated to the Participant's Individual Account under this Plan for the Limitation Year unless the Annual Additions with respect to the Participant under the Related Plans are sufficiently reduced. If a Participant's Annual Additions under this Plan and all Related Plans result in an Excess Amount, such Excess Amount shall be deemed to consist of the amounts last allocated to the Related Plans and Annual Additions attributable to a welfare plan described in Section 5.1(f)(ii) or (iii) will be deemed to have been allocated first regardless of the actual allocation date.

- (j) If an Excess Amount was allocated to a Participant on an allocation date of a Related Plan, the Excess Amount attributed to this Plan will be the product of:
- (i) the total Excess Amount allocated as of such date [including any amount which would have been allocated but for the limitations of Section 5.1(a)],  
  
multiplied by:
  - (ii) the ratio of:
    - (A) the amount allocated to the Participant as of such date under this Plan,  
  
divided by:
    - (B) the total amount allocated as of such date under this Plan and all Related Plans [determined without regard to Section 5.1(a)].
- (k) Any Excess Amounts attributed to this Plan shall be disposed of as provided in Section 5.1(d).
- (l) If an Employer maintains, or has ever maintained, one or more defined benefit plans covering an Employee who is also a Participant in this Plan, the sum of the Defined Contribution Plan Fraction and the Defined Benefit Plan Fraction, cannot exceed 1.0 for any Limitation Year. The Annual Addition for any Limitation Year beginning before January 1, 1987 shall not be recomputed to treat all Employee contributions as an Annual Addition. If the Plan satisfied the applicable requirements of Section 415 of the Code as in effect for all Limitation Years beginning before January 1, 1987, an amount shall be subtracted from the numerator of the Defined Contribution Plan Fraction (not exceeding such numerator) as prescribed by the Secretary of Treasury so that the sum of the Defined Benefit Plan Fraction and the Defined Contribution Plan Fraction computed

-19-

under Section 415(e)(1) of the Code [as revised by this Section 5.1(l)] does not exceed 1.0 for such Limitation Year.

- (m) For the purpose of Section 5.1(l), Employee contributions to a defined benefit plan are treated as a separate defined contribution plan. In addition, any contributions paid or accrued after December 31, 1985 which are attributable to medical benefits allocated under a welfare benefit fund [as defined in Section 419(e) of the Code] during Years ending after December 31, 1985 to a separate account established for any post-retirement medical benefits provided with respect to a Participant, who, at any time, during the Year or any preceding Year, is or was a Key Employee, shall be treated as Annual Additions to a defined contribution plan. Further, all defined contribution plans of an Employer are to be treated as one defined contribution plan and all defined benefit plans of an Employer are to be treated as one defined benefit plan, whether or not such plans have been terminated.

- (n) If the sum of the Defined Contribution Plan Fraction and the Defined Benefit Plan Fraction exceeds 1.0, the sum of the fractions will be reduced to 1.0 as follows:
- (i) voluntary nondeductible Employee contributions made by a Participant to the defined benefit plan which constitute an Annual Addition to a defined contribution plan, to the extent they would reduce the sum of the fractions to 1.0, will be returned to the Participant;
  - (ii) if additional reductions are required for the sum of the fractions to equal 1.0, voluntary nondeductible Employee contributions made by a Participant to this Plan which constitute an Annual Addition to this Plan, to the extent they would reduce the sum of the fractions to 1.0, will be returned to the Participant;
  - (iii) if additional reductions are required for the sum of the fractions to equal 1.0, the Annual Benefit of a Participant under the defined benefit plan will be reduced (but not below zero and not below the amount of the Participant's accrued benefit to date) to the extent necessary to prevent the sum of the fractions, computed as of the close of the Limitation Year from exceeding 1.0; and
  - (iv) if additional reductions are required for the sum of the fractions to equal 1.0, the reductions will then be made to the Annual Additions of this Plan.
- (o) Definitions:
- (i) Annual Additions means the sum of the following amounts allocated to a Participant's Individual Account for a Limitation Year:

-20-

- (A) all Employer contributions;
- (B) all forfeitures;
- (C) all Employee contributions; and
- (D) amounts described in Sections 415(l)(1) and 419A(d)(2) of the Code.

For purposes of this Section 5.1(o)(i), Employee contributions shall be determined without regard to any (i) rollover contribution within the meaning of Section 402(a)(5), 403(a)(4) or 408(d)(3) of the Code [or, on or after January 1, 1993, an eligible rollover contribution as described in Section 402(c)(4) of the Code], (ii) contribution by the Employee to a simplified employee pension, and (iii) contribution to an individual retirement account or individual retirement annuity.

- (ii) Excess Amount means the excess of the Annual Additions allocated to a Participant's Individual Account for the Limitation Year over the Maximum Permissible Amount, less loading and other administrative charges allocable to such excess.
- (iii) Limitation Year means a twelve-consecutive month period ending on the Anniversary Date. All qualified plans maintained by the Employer must use the same Limitation Year. If the Limitation Year is amended to a different 12-consecutive month period, the new Limitation Year must begin on a date within the Limitation Year in which the amendment is made.
- (iv) Maximum Permissible Amount for a Limitation Year with respect to any Participant shall be the lesser of:
  - (A) \$30,000 [or, if greater, one-fourth of the dollar limitation

in effect under Section 415(b)(1)(A) of the Code as it may be adjusted under Section 415(d)(1) of the Code by the Secretary of the Treasury for the Limitation Year]; or

(B) 25% of the Participant's Annual Compensation for the Limitation Year.

(v) Employer means for purposes of this Section 5.1, any Employer and any Affiliated Company that adopts this Plan; provided, however, the determination under Section 414(b) and (c) of the Code shall be made as if the phrase "more than 50 percent" were substituted for the phrase "at least 80 percent" each place it is incorporated into Section 414(b) and (c) of the Code.

-21-

(vi) Annual Compensation means, notwithstanding Section 1.5, for the purposes of this Section 5.1, a Participant's earned income, wages, salaries, fees for professional service and other amounts received (without regard to whether an amount is paid in cash) for personal services actually rendered in the course of employment with an Employer maintaining the Plan to the extent that the amounts are includable in gross income (including, but not limited to, commissions paid salesmen, compensation for services on the basis of a percentage of profits, commissions on insurance premiums, tips, bonuses, fringe benefits, reimbursements, and expense allowances) and excluding the following:

(A) Employer contributions to a plan of deferred compensation to the extent contributions are not included in gross income of the Employee for the taxable year in which contributed, or on behalf of an Employee to a simplified employee pension plan to the extent such contributions are deductible under Section 219(b)(2) of the Code, and any distributions from a plan of deferred compensation whether or not includable in the gross income of the Employee when distributed;

(B) amounts realized from the exercise of a non-qualified stock option, or when restricted stock (or property) held by an Employee becomes freely transferable or is no longer subject to a substantial risk of forfeiture;

(C) amounts realized from the sale, exchange or other disposition of stock acquired under a qualified stock option; and

(D) other amounts which receive special tax benefits, or contributions made by an Employer (whether or not under a salary reduction agreement) towards the purchase of a 403(b) annuity contract under Section 403(b) of the Code (whether or not the contributions are excludable from the gross income of the Employee), contributions made by an Employer for medical benefits [within the meaning of Section 401(h) or 419A(f)(2) of the Code] which is otherwise treated as an Annual Addition, or any amount otherwise treated as an Annual Addition under Section 415(l)(1) or 419A(d)(2) of the Code.

For Limitation Years after December 31, 1991, Annual Compensation for any Limitation Year is the Annual Compensation actually paid or includable in gross income during such Limitation Year.

-22-

(vii) Related Plan means any other defined contribution plan [as

defined in Section 415(k) of the Code] maintained by any Employer as defined in Section 5.1(o) (v).

(viii) Defined Contribution Plan Fraction means for any Limitation Year:

(A) the sum of the Annual Additions to the Participant's account under this Plan and any Related Plan and welfare plans [as described in Section 5.1(f)(ii) and (iii)] as of the close of the Limitation Year,

divided by:

(B) the sum of the lesser of the following amounts determined for the Limitation Year and for each prior Year of his service for an Employer:

(1) the product of 1.25, multiplied by the dollar limitation in effect under Section 415(c)(1)(A) of the Code for the Limitation Year [determined without regard to Section 415(c)(6) of the Code], or

(2) the product of 1.4, multiplied by an amount equal to 25% of the Participant's Annual Compensation for the Limitation Year.

If the Employee was a Participant as of the end of the first day of the first Limitation Year beginning after December 31, 1986, in one or more defined contribution plans maintained by an Employer which were in existence on May 6, 1986, the numerator of the Defined Contribution Plan Fraction will be adjusted if the sum of that fraction and the Defined Benefit Plan Fraction otherwise would exceed 1.0 under the terms of this Plan. Under the adjustment, an amount equal to the product of (i) the excess of the sum of the fractions over 1.0, times (ii) the denominator of this fraction, will be permanently subtracted from the numerator of this fraction. The adjustment is calculated using the fractions as they would be computed under this Section 5.1(o) as of the end of the last Limitation Year beginning before January 1, 1987, and disregarding any changes in the terms and conditions of the Plan made after May 6, 1986, but using the Section 415 limitations applicable to the first Limitation Year beginning on or after January 1, 1987. The Annual Addition for any Limitation Year beginning before January 1, 1987, shall not be recomputed to treat all Employee contributions as Annual Additions. The adjustment also will be made if at the end of the last Limitation Year beginning before January 1, 1984, the sum of the fractions exceeds 1.0 because of accruals or

-23-

additions that were made before the limitations of this Article V became effective to any plans of an Employer in existence on July 1, 1982. With respect to any Limitation Year ending after December 31, 1982, the amount taken into account under Section 5.1(o)(viii)(B) above with respect to each Participant for all Limitation Years ending before January 1, 1983, shall be an amount equal to the product of (C) and (D), where

(C) is the amount determined under Section 5.1(o)(viii)(B) [as in effect for the Limitation Year ending in 1982] for the Limitation Year ending in 1982, multiplied by

(D) a fraction, the numerator of which is the lesser of

(1) \$51,875, or

(2) 1.4, multiplied by 25% of the Annual Compensation of the Participant for the Limitation Year ending in 1981, and

the denominator of which is the lesser of

- (1) \$41,500 or
- (2) 25% of the Annual Compensation of the Participant for the Limitation Year ending in 1981.

(ix) Defined Benefit Plan Fraction means for any Limitation Year:

- (A) the projected Annual Benefit of the Participant under the defined benefit plans maintained by an Employer determined as of the close of the Limitation Year,

divided by:

(B) the lesser of:

- (1) the product of 1.25, multiplied by the dollar limitation in effect under Section 415(b)(1)(A) of the Code for the Limitation Year, or
- (2) the product of 1.4, multiplied by 100% of the Participant's Average Compensation.

If the Employee was a Participant as of the first day of the first Limitation Year beginning after December 31, 1986, in one or more defined benefit plans maintained by

-24-

an Employer which were in existence on May 6, 1986, the denominator of this fraction will not be less than 125% of the sum of the annual benefits under such plans which the Participant had accrued as of the close of the last Limitation Year beginning before January 1, 1987, disregarding any changes in the terms and conditions of the Plan after May 5, 1986. The preceding sentence applies only if the defined benefit plans individually and in the aggregate satisfied the requirements of Section 415 of the Code for all Limitation Years beginning before January 1, 1987.

- (x) Average Compensation means the average Annual Compensation during a Participant's high three years of service, which period is the three consecutive calendar years (or, the actual number of consecutive years of employment for those Employees who are employed for less than three consecutive years with an Employer) during which the Employee had the greatest aggregate Annual Compensation from the Employer, including any adjustments under Section 415(d) of the Code.
- (xi) Annual Benefit means a benefit payable annually in the form of a straight life annuity (with no ancillary benefits) under a plan to which Employees do not contribute and under which no rollover contributions are made.

## ARTICLE VI

### INDIVIDUAL ACCOUNTS

Sec. 6.1 Participant Interest in Individual Accounts. Each Participant and Former Participant shall have such right, title and interest in the balance of his Individual Account except as hereinafter provided. In no event shall his nonforfeitable interest exceed the amount to the credit of his Individual Account as the same may be adjusted from time to time.

Sec. 6.2 Annual Statement to Participant. At least annually the Named Fiduciary shall advise each Participant, Former Participant, and Beneficiary for whom

an Individual Account is held hereunder of the then fair market value of such Individual Account.

## ARTICLE VII

### RETIREMENT

Sec. 7.1 Normal Retirement. A Participant may retire from the employ of the Employer on or after his Normal Retirement Date. A Participant's Individual Account shall become nonforfeitable on his Normal Retirement Date.

-25-

Sec. 7.2 Early Retirement. A Participant may retire from the employ of the Employer on his Early Retirement Date.

Sec. 7.3 Other Retirement. A Participant's retirement will commence on the Anniversary Date coinciding with or next following a Participant's termination of service with all Affiliated Companies if he retires under the provisions of any other qualified retirement plan of his Employer.

Sec. 7.4 Benefits on Retirement. Upon the retirement of a Participant on or after his Normal Retirement Date or his Early Retirement Date, his entire Individual Account shall be held for his benefit. Said Participant shall receive payment from his Individual Account in a single lump sum in accordance with Article XI hereof as soon as administratively practicable after his Individual Account has been credited and adjusted (as provided in Article IV) as of the Anniversary Date concurrent with or next following his retirement. For Participants in the Plan as of March 31, 1994, the Named Fiduciary shall direct the Trustee to begin distribution prior to the time set forth in the preceding sentence if the Participant directs the Named Fiduciary in writing.

Sec. 7.5 Payments to a Participant Who is 70-1/2 or a Five Percent Owner. Notwithstanding Section 7.4, a Participant who attains age 70-1/2 or who is a five percent owner shall begin receiving distributions from the Plan, as provided in Article XI, by his Required Beginning Date as defined in Section 11.4(i)(ii). A Participant is treated as a five percent owner for purposes of this Section 7.5 and Section 11.4(i)(ii) if such Participant is a five percent owner as defined in Section 416(i) of the Code (determined in accordance with Section 416 but without regard to whether the Plan is top heavy) at any time during the Year ending with or within the calendar year in which such owner attains age 66-1/2 or any subsequent Year. Once distributions have begun to a five percent owner after his Required Beginning Date, they must continue to be distributed, even if the Participant ceases to be a five percent owner in a subsequent Year.

Sec. 7.6 Final Contribution After Distribution of Benefits. If a Participant who has already received a distribution of his Individual Account under this Article is entitled to an allocation of an Employer contribution under Section 4.3 for the Year in which such distribution was made, such contributions shall be paid to the Participant as soon as administratively practicable following the completion of the allocations under Article IV for such Year.

## ARTICLE VIII

### DEATH

Sec. 8.1 Benefits on Death. Upon the death of a Participant who is in the service of the Employer, his entire Individual Account shall be held for the benefit of his Beneficiary. Upon the

-26-

death of a Participant whose service with the Employer has terminated, his nonforfeitable interest (determined under Section 10.2) in his Individual Account which has not been distributed at the time of his death under Articles VII-X shall be held for the benefit of his Beneficiary. His Beneficiary shall receive payment from his Individual Account in a single lump sum in accordance with Article XI hereof as soon as administratively practicable after the Participant's Individual Account has been credited and adjusted (as provided in Article IV) as of the Anniversary Date concurrent with or next following the Participant's death. The Named Fiduciary shall direct the Trustee to begin distribution prior to the time set forth in the preceding sentence if the Beneficiary directs the Named Fiduciary in writing. Any Beneficiary who receives a distribution of a portion of a Participant's Individual Account by reason of a Participant's death prior to August 23, 1984 shall be treated as receiving such distribution in accordance with the distribution rules applicable to the Plan prior to its restatement effective April 1, 1985.

Sec. 8.2 Final Contribution After Payment of Benefits. If the Individual Account of a deceased Participant whose Beneficiary has already received a distribution of the Participant's Individual Account under this Article is entitled to an allocation of an Employer contribution under Section 4.3 for the Year in which such distribution was made, such contributions shall be paid to the Beneficiary as soon as administratively practicable following the completion of the allocations under Article IV for such Year.

#### ARTICLE IX

##### DISABILITY

Sec. 9.1 Benefits on Disability. In the event of termination of a Participant's employment due to Disability, his entire Individual Account shall be held for his benefit. If the balance of the Participant's Individual Account exceeds \$3,500, the Participant shall receive payment from his Individual Account in a single lump sum in accordance with Article XI hereof as soon as administratively practicable after the allocations have been completed and his Individual Account has been credited and adjusted (as provided in Article IV) as of the Anniversary Date concurrent with or next following the date his Normal Retirement Date or earlier death occurs. The Named Fiduciary shall direct the Trustee to begin distribution prior to the time set forth in the preceding sentence if the Participant directs the Named Fiduciary in writing. If the balance of the Participant's Individual Account does not exceed \$3,500, the Participant's entire Individual Account shall be distributed to him in a single lump sum as soon as administratively practicable after the allocations have been completed and his Individual Account has been credited and adjusted (as provided in Article IV) as of the Anniversary Date of the Year in which the date of his Disability occurs. The Named Fiduciary shall direct the Trustee to begin distribution prior to the time set forth in

-27-

the preceding sentence if the Participant directs the Named Fiduciary in writing.

Sec. 9.2 Final Contribution After Payment of Benefits. If a Participant who has already received a distribution of his Individual Account under this Article is entitled to an allocation of an Employer contribution under Section 4.3 for the Year in which the distribution was made, such contributions shall be paid to the Participant as soon as administratively practicable following the completion of the allocations under Article IV for such Year.

#### ARTICLE X

##### TERMINATION BENEFITS

Sec. 10.1 Termination Other than by Reason of Death, Disability or Retirement. If a Participant terminates his employment for any reason other than retirement (whether normal or early), death or Disability, such Participant

shall be entitled to such benefits as are hereinafter provided in Section 10.2 at the time specified in Section 10.3.

Sec. 10.2 Vested Interest. A Participant to whom the provisions of Section 10.1 are applicable shall be entitled (as a vested interest) to receive a percentage of the then balance to his credit in his Individual Account, if any, determined in accordance with the following schedule:

Years of Service (Vesting)	Vested Interest
Less than 5	0%
5 or more	100%

A Participant who had no vested interest in the Plan as of April 1, 1989 shall vest under the above schedule. A Participant with a vested interest in the Plan as of April 1, 1989 will retain his vested percentage under the schedule in effect under the Plan as of March 31, 1989 and will continue to have his vested percentage increased under that schedule until he is credited with five Years of Service (Vesting) at which time he will become fully vested. Accordingly, those Participants with 3 or 4 Years of Service (Vesting) as of March 31, 1989 will vest under the following schedule:

Years of Service (Vesting)	Vested Interest
3 but fewer than 4	30%
4 but fewer than 5	40%
5 or more	100%

Sec. 10.3 Time of Distribution. If a Participant's employment terminates for a reason other than retirement (whether normal or early), death or Disability, and the value of the vested portion of

-28-

his Individual Account exceeds \$3,500, the portion of his Individual Account to which he is entitled under Section 10.2 shall be distributed to the Participant with his written consent. The distribution shall be made in a single lump sum in accordance with Article XI hereof as soon as administratively practicable after his Individual Account has been credited and adjusted (as provided in Article IV) as of the earlier of (i) the Anniversary Date immediately following the date the Participant incurs a One-Year Break in Service following his termination of employment, provided the written consent of the Participant to such distribution is received by the Named Fiduciary not later than 60 days after such Anniversary Date, or (ii) the Anniversary Date following the date his Normal Retirement Date or earlier death occurs, but not later than the time specified in Section 11.4. If the Participant does not elect to receive the distribution when he is first eligible under the preceding sentence, he may elect to receive the distribution of his Individual Account in a single lump sum as soon as administratively practicable after his Individual Account has been credited and adjusted (as provided in Article IV) as of any subsequent Anniversary Date if he has provided written consent to such distribution to the Named Fiduciary not later than 60 days after such Anniversary Date. If, however, the vested balance of the terminated Participant's Individual Account does not exceed \$3,500, the vested balance of the Participant's Individual Account shall be distributed to him in a single lump sum as soon as administratively practicable after the allocations have been completed and his Individual Account has been credited and adjusted (as provided in Article IV) as of the Anniversary Date of the Year in which the Participant incurs a One-Year Break in Service. The balance to the credit of a terminated Participant in his Individual Account which is not vested under the schedule in Section 10.2, if not previously forfeited, shall be forfeited as of the earlier of (i) the date his entire vested Individual Account balance has been distributed under Article XI or (ii) the last day of the Year in which such Participant incurs a Five-Year Break in Service. If the Participant is not entitled to any portion of his Individual Account under Section 10.2, he shall be deemed to have received a distribution and shall forfeit the balance of his Individual Account on the date of his incurring a One-Year Break in Service. The forfeited amount under this Section 10.3 shall remain in the Trust Fund and shall be applied as provided in Section 10.5. If a Former Participant is reemployed by an Affiliated Company without incurring a Five-Year Break in Service, the

portion of his Individual Account which was forfeited hereunder shall be restored to his Individual Account in full. If currently unallocated forfeitures are not adequate to effect the restoration, the Company or the Affiliated Company shall make such additional contribution to the Plan as is necessary to restore the forfeited portion of his Individual Account. Any Participant (i) who incurred a termination of employment in a Plan Year beginning prior to January 1, 1985, (ii) who was not 100% vested in his Individual Account upon termination and (iii) who received a distribution of a vested portion of his Individual Account in a Year beginning prior to January 1, 1985 by reason of such termination shall be treated as

-29-

receiving such distribution in accordance with the distribution, vesting and forfeiture rules applicable to the Plan prior to its restatement effective April 1, 1985.

Sec. 10.4 Forfeiture and Return to Service Prior to Complete Distribution. After a Five-Year Break in Service, a Participant to whom this Article X is applicable, other than a Participant described in Section 10.3, shall forfeit that portion of the amount of his Individual Account to which he is not entitled under Section 10.2 and the amount thus forfeited shall remain in the Trust Fund and shall be applied as provided in Section 10.5. The amount forfeited by a Participant hereunder shall be charged to his Individual Account on the Anniversary Date as of which he shall incur a Five-Year Break in Service. If the Participant returns to the service of the Employer after a Five-Year Break in Service, but before the full payment of his Individual Account, Employer contributions after such Five-Year Break in Service shall be allocated to a Parent Company Stock Account and Other Investments Account established on behalf of such Participant which is separate from the Individual Account of such Participant to which is allocated his account balance attributable to service prior to the Five-Year Break in Service.

Sec. 10.5 Application of Forfeitures. The forfeitures occurring as provided in Sections 10.3 and 10.4 shall first be used to restore the account of a Former Participant who has been located as provided in Section 11.8. If additional forfeitures remain after full restorations under Section 11.8, then remaining forfeitures shall be used to restore accounts of Former Participants under Section 10.3. If additional forfeitures remain thereafter, they shall be allocated as provided in Section 4.3(c)(ii) among the appropriate Parent Company Stock Accounts and Other Investments Accounts on the Anniversary Date of the Year the forfeiture occurs.

#### ARTICLE XI

#### DISTRIBUTIONS

Sec. 11.1 Form of Payment. Except as provided in Section 11.4(d), whenever a Participant, Former Participant or Beneficiary is entitled to or required to receive benefits hereunder as provided in Articles VII to X, inclusive, the Named Fiduciary shall direct the Trustee to pay such benefits in a lump sum provided that a life annuity may not be a part of a lump sum distribution. Distribution of the amounts from a Participant's Individual Account will be made entirely in whole shares of Parent Company Stock and the value of any fractional share will be paid in cash. The distribution which a Participant is entitled to receive from his Parent Company Stock Account shall be equal to the number of shares of Parent Company Stock credited to his Parent Company Stock Account as of the immediately preceding Allocation Date plus any

-30-

stock dividends to which he is entitled under Section 4.3(f). Any balance

of his Other Investments Account as of the immediately preceding Allocation Date, plus cash or in-kind dividends to which the Participant is entitled under Section 4.3(f) will be used to purchase for distribution to him the maximum number of whole shares of Parent Company Stock at the fair market value per share as of the date of purchase, and any unexpended balance will be distributed to him in cash.

Sec. 11.2 Consent to Distribution. If the vested balance of the Participant's Individual Account exceeds \$3,500 and any part of the Individual Account could be distributed to the Participant before the Participant attains (or would have attained if not deceased) his Normal Retirement Date, the Participant must consent in writing to any distribution of such Individual Account. The consent must be obtained in writing within the 90-day period prior to the date benefit payment is to commence. The Named Fiduciary shall notify the Participant of the right to defer any distribution until his Normal Retirement Date. Such notification shall be provided no less than 30 days and no more than 90 days before benefit payment is to commence and shall include a general description of the material features, and an explanation of the relative values of, the form of benefit available under Section 11.1 in a manner that would satisfy the notice requirements of Section 417(a)(3) of the Code and a description of his direct rollover rights under Section 11.10. If the vested balance of the Participant's Individual Account does not exceed \$3,500, the Participant, Former Participant, or Beneficiary does not have a right to delay the distribution, but shall be provided with a notice of his direct rollover rights under Section 11.10. A distribution may commence less than 30 days after the notice required under Treas. Reg. ss.1.411(a)-11(c) is given, provided that (i) the Named Fiduciary clearly informs the Participant that the Participant has a right to a period of at least 30 days after receiving the notice to consider the decision of whether or not to elect a distribution (and, if applicable, a particular distribution option), and (ii) the Participant, after receiving the notice, affirmatively elects a distribution. The consent of the Participant is not required to the extent that a distribution is required to satisfy Section 401(a)(9) or Section 415 of the Code.

Sec. 11.3 Minority or Disability of Distributee. During the minority or disability of a person entitled to receive benefits hereunder, the Named Fiduciary may direct the Trustee to make payments due such person directly to him or to his spouse or a relative or to any individual or institution having custody of such person. Neither the Employer, the Named Fiduciary nor the Trustee shall be required to see to the application of any payments so made and the receipt of the payee (including the endorsement of a check or checks) shall be conclusive as to all interested parties.

Sec. 11.4 Time of Payment and Payment on Death. Notwithstanding any other provisions of the Plan, the following provisions shall be applicable to the Plan:

-31-

(a) Payment of benefits shall begin, unless the Participant otherwise elects, not later than the 60th day after the Anniversary Date of the Year in which the latest of the following events occurs:

(i) the Participant reaches the earlier of age 65 or his Normal Retirement Date;

(ii) the tenth anniversary of the date on which the Participant commenced participation in the Plan occurs, but not later than the April 1 of the calendar year following the calendar year in which the Participant attains age 70-1/2; or

(iii) the Participant terminates his service with the Employer, but in no event later than the April 1 of the calendar year following the calendar year in which the Participant attains age 70-1/2.

If the Participant fails to consent to a distribution at a time when any part of the balance of the Individual Account could be distributed prior to the Participant's Normal Retirement Date, such failure shall be deemed to be an election to defer commencement of payment of any

benefit under this Section 11.4(a).

- (b) All distributions required under this Article XI shall be determined and made in accordance with Section 401(a)(9) of the Code and the Treasury Regulations thereunder, including the minimum distribution incidental benefit requirements of Treas. Reg. ss.1.401(a)(9)-2.
- (c) An election of a Participant to defer receipt of benefits shall be made by submitting to the Named Fiduciary a written statement signed by the Participant, describing the benefits and the date on which the Participant requests that the payments commence; provided, however, a Participant may not elect to defer receipt or commencement of receipt of benefits beyond his Required Beginning Date.
- (d) If a Participant is employed by an Employer as of his Required Beginning Date, the following minimum distribution rules shall apply:
  - (i) As of the first Distribution Calendar Year, distributions shall commence to be made over one of the following periods): (A) a period certain equal to the Life Expectancy of the Participant; or (B) a period certain equal to the Joint and Last Survivor Expectancy of the Participant and his spouse, if any;
  - (ii) The amount required to be distributed for each calendar year, beginning with distributions for the first Distribution Calendar Year, shall be equal to the

-32-

quotient obtained by dividing the Participant's Benefit by the Applicable Life Expectancy;

- (iii) The minimum distribution required for the Participant's first Distribution Calendar Year shall be made on or before the Participant's Required Beginning Date; provided that the Participant may elect for the Named Fiduciary to direct the Trustee to make that distribution on or before December 31 of the first Distribution Calendar Year;
- (iv) If distribution of benefits to a Participant has begun under this Section 11.4(d) and the Participant retires, dies, becomes disabled or incurs any other termination of employment before his entire Individual Account has been distributed to him, the remaining portion of such Participant's Individual Account shall be distributed to him or to his Beneficiary in a single lump sum as provided in Section 7.4, 8.1, 9.1 or 10.3, whichever is applicable.
- (e) If a Participant dies before the distribution of benefits to him has begun under Section 11.1, distribution to his Beneficiary of his entire Individual Account must be completed by December 31 of the calendar year containing the fifth anniversary of the death of such Participant. The provisions of this Section 11.4(e) shall not apply to the portion of the Participant's Individual Account which is payable:
  - (i) to a Designated Beneficiary other than the Participant's surviving spouse under Section 11.1 on or before December 31 of the calendar year immediately following the calendar year in which the Participant died; or
  - (ii) under Section 11.1 to a Designated Beneficiary who is the surviving spouse of the Participant at least by the later of (A) the December 31 of the calendar year immediately following the calendar year in which the Participant died and (B) the December 31 of the calendar year in which the Participant would have attained age 70-1/2.

If the Participant has no Designated Beneficiary, distribution of the Participant's entire Individual Account must be completed by December 31 of the calendar year containing the fifth anniversary of the Participant's death.

- (f) If a portion of the Participant's Individual Account is payable to the Participant's surviving spouse and such spouse dies before distributions to such spouse begin, the spouse shall be treated as the Participant under Section 11.4(e) with the exception of the provisions of subsection (ii) thereof.

-33-

- (g) Any portion of a Participant's Individual Account paid to a child shall be treated as if such portion has been paid to the Participant's surviving spouse if such portion will become payable to the surviving spouse upon the date the child reaches majority (or other designated event permitted under regulations prescribed by the Secretary of the Treasury).

- (h) Distribution of a Participant's Individual Account is considered to begin on the Participant's Required Beginning Date or, if Section 11.4(f) is applicable, the date distribution is required to begin to the surviving spouse pursuant to Section 11.4(e) (ii).

- (i) Definitions:

(i) Designated Beneficiary is the individual who is designated as the Beneficiary under the Plan in accordance with Section 401(a)(9) of the Code and the Treasury Regulations thereunder.

(ii) The Required Beginning Date of a Participant shall be determined as follows:

(A) If the Participant attains age 70-1/2 after December 31, 1987, his Required Beginning Date is the April 1 of the calendar year following the calendar year in which the Participant attains age 70-1/2;

(B) If the Participant attains age 70-1/2 before January 1, 1988 and was not a five percent owner within the meaning of Section 7.5, his Required Beginning Date is the April 1 of the calendar year following the calendar year in which the later of the Participant's retirement or attainment of age 70-1/2 occurs;

(C) If a Participant is not a five percent owner within the meaning of Section 7.5 and attains age 70-1/2 during 1988 and has not retired as of January 1, 1989, his Required Beginning Date is April 1, 1990; or

(D) If the Participant was a five percent owner within the meaning of Section 7.5 during any Year beginning after December 31, 1979, his Required Beginning Date is the April 1 of the calendar year following the later of (1) the calendar year in which the Participant attains age 70-1/2 or (2) the earlier of the calendar year with or within which ends the Year in which the Participant becomes a five percent owner, or the calendar year in which the Participant retires.

-34-

(iii) For the first distribution under Section 11.4(d), if any, Applicable Life Expectancy means the Life Expectancy (or Joint and Last Survivor Expectancy) computed (by use of the expected return multiples in Tables V and VI of Section 1.72-9 of the Treasury Regulations) using the attained age of the Participant (or his spouse, if any) as of the Participant's (or his spouse's) birthday in the applicable calendar year. Applicable Life

Expectancy for each subsequent distribution shall be the Life Expectancy (or Joint and Last Survivor Expectancy) as recalculated. The Participant may elect whether the Applicable Life Expectancy [to be used in calculating the required distributions] under Section 11.4(d), if any] is his Life Expectancy or the Joint and Last Survivor Expectancy of him and his spouse; provided, however, that the Participant's spouse must be his Designated Beneficiary in order for the required distributions to be made over the Joint and Last Survivor Expectancy of him and his spouse. If the Participant fails to elect before the Required Beginning Date, the Applicable Life Expectancy shall be the Life Expectancy of the Participant (irrespective of whether the Participant has a spouse) and such Life Expectancy shall be recalculated. The applicable calendar year shall be the first Distribution Calendar Year and each such succeeding calendar year.

- (iv) For purposes of Section 11.4(d), Participant's Benefit means the balance of the Participant's Individual Account as of the last valuation date in the calendar year immediately preceding the Distribution Calendar Year (valuation calendar year) increased by the amount of any contributions or forfeitures allocated to the Individual Account as of dates in the valuation calendar year after the valuation date and decreased by distributions made in the valuation calendar year after the valuation date. For purposes of this Section 11.4(i)(iv), if any portion of the minimum distribution for the first Distribution Calendar Year is made in the second Distribution Calendar Year on or before the Required Beginning Date, the amount of the minimum distribution made in the second Distribution Calendar Year shall be treated as if it had been made in the immediately preceding Distribution Calendar Year.
- (v) Distribution Calendar Year means a calendar year for which a minimum distribution is required. For distributions beginning before the Participant's death, the first Distribution Calendar Year is the calendar year immediately preceding the calendar year which contains the Participant's Required Beginning Date. For distributions beginning after the Participant's death, the first Distribution Calendar Year is the calendar year

-35-

in which distributions are required to begin pursuant to this Section 11.4.

Sec. 11.5 Claims Procedure. The Named Fiduciary shall make all determinations as to the right of any person to receive a benefit. The denial by the Named Fiduciary of a claim for benefits under the Plan shall be stated in a written instrument signed by the Named Fiduciary and delivered to or mailed to the claimant within 60 days after receipt of the claim by the Named Fiduciary, unless special circumstances require an extension of time for processing the claim, in which case a determination shall be made as soon as possible, but in no event later than 120 days after receipt of the claim. Written notice of the extension shall be furnished to the claimant prior to the termination of the initial 60-day period and shall indicate the circumstances requiring the extension and the date by which the Named Fiduciary expects to render its decision. The written decision shall set forth:

- (a) the specific reason or reasons for the denial;
- (b) a specific reference to the pertinent provisions of the Plan on which the denial is based;
- (c) a description of any additional material or information necessary for the claimant to perfect a claim and an explanation of why such material or information is necessary; and
- (d) a statement that the claimant may:

- (i) request a review upon written application to the Named Fiduciary;
- (ii) review pertinent plan documents; and
- (iii) submit issues and comments in writing.

If notice of the denial is not furnished in accordance with the above procedure, the claim shall be deemed denied and the claimant shall be permitted to proceed with the review procedure. A request by the claimant for a review of the denied claim must be delivered to the Named Fiduciary within 60 days after receipt by such claimant of written notification of the denial of such claim. The Named Fiduciary shall, not later than 60 days after receipt of a request for a review, make a determination concerning the claim. If special circumstances require, the Named Fiduciary shall notify the claimant that an extension of time for processing, not in excess of 120 days after receipt of the request for review, is necessary. A written statement stating the decision on review, the specific reasons for the decision, and the specific provisions of the Plan on which the decision is based shall be mailed or delivered to the claimant within such 60 (or 120) day period. If the decision on review is not furnished within the appropriate time, the claim shall be deemed denied on review. All

-36-

communications from the Named Fiduciary to the claimant shall be written in a manner calculated to be understood by the claimant.

Sec. 11.6 Named Fiduciary's Duty to Trustee. The Named Fiduciary will notify the Trustee at the appropriate time of all facts which may be necessary hereunder for the proper allocation of increases, decreases, expenses, and contributions for Participants, the proper payment or distribution of benefits, or the proper performance of any other act required of the Trustee hereunder. The Named Fiduciary will notify the Trustee of such facts as are needed by the Trustee to perform its functions under the Trust Agreement. The Named Fiduciary will secure appropriate elections, directions, and designations for Participants, Former Participants, and Beneficiaries provided for in the Plan.

Sec. 11.7 Duty to Keep Named Fiduciary Informed of Distributee's Current Address. Each Participant and Beneficiary must file with the Named Fiduciary from time to time in writing his post office address and each change of post office address. Any communication, statement or notice addressed to a Participant or Beneficiary at his last post office address filed with the Named Fiduciary or if no address is filed with the Named Fiduciary then at his last post office address as shown on an Employer's records, will be binding on the Participant and his Beneficiary for all purposes of the Plan. Neither the Named Fiduciary nor the Trustee shall be required to search for or locate a Participant or Beneficiary.

Sec. 11.8 Failure to Claim Benefits. In connection with the payment of any benefits, the Named Fiduciary shall mail by registered or certified mail to the Participant or Beneficiary at his last known address his distribution under the Plan. If the Named Fiduciary notifies the Participant or Beneficiary that he is entitled to a distribution and also notifies him of the provisions of Section 11.7 and this Section 11.8 and the Participant or Beneficiary fails to claim his benefits under the Plan or make his current address known to the Named Fiduciary within three years after such distribution or notification, the Named Fiduciary, at the end of such three-year period, will direct that all unpaid amounts which would have been payable to such Participant or Beneficiary will be forfeited as of the next Allocation Date and applied as provided in Section 10.5. In the event that the Participant or Beneficiary is subsequently located, the Participant's Parent Company Stock Account will be restored and credited with the number of whole shares of Parent Company Stock and cash for any fractional share that have an aggregate fair market value equal to the aggregate value of his Individual Account as of the date that account was forfeited. The shares of Parent Company Stock and cash credited to his Parent Company Stock Account shall be distributed to the Participant or Beneficiary, and an Employer shall contribute an amount to the Plan which is equal to the amount distributed under the terms of this Section 11.8 to the extent that such amount cannot be reinstated through forfeitures occurring during the Year of repayment.

Sec. 11.9 Distribution Pursuant to Qualified Domestic Relations Orders. Notwithstanding any other provision of the Plan to the contrary, if the provisions of a "qualified domestic relations order" within the meaning of Section 414(p) of the Code provide that distributions shall be made to an "alternate payee" within the meaning of Section 414(p)(8) of the Code prior to the time that the Participant with respect to whom the alternate payee's benefits are derived attains age 50 or would be entitled to a distribution of assets from the Plan, the Named Fiduciary shall direct the Trustee to commence payments to the alternate payee as soon as administratively practicable following the later of (i) the receipt of such qualified domestic relations order by the Named Fiduciary or (ii) the date the Named Fiduciary receives the alternate payee's written consent to such distribution if the alternate payee's benefits under the Plan as determined by the provisions of the qualified domestic relations order exceed \$3,500. The Named Fiduciary shall determine whether an order constitutes a "qualified domestic relations order" within the meaning of Section 414(p) of the Code.

Sec. 11.10 Tax Withholding and Participant's Direct Rollover. If a Participant, Former Participant or Beneficiary receives a distribution or withdrawal from the Plan consisting of cash or assets other than Parent Company Stock with a combined value (excluding the value of Parent Company Stock) in excess of \$200 (the "Non-Parent Company Stock Distribution"), the Trustee shall withhold the lesser of (a) 100% of the Non-Parent Company Stock Distribution made to that Participant, Former Participant or Beneficiary or (b) 20% of the value of the taxable portion of the entire distribution made after December 31, 1992 which constitutes an eligible rollover distribution within the meaning of Section 402(c)(4) of the Code. Any amount withheld shall be deposited by the Trustee with the Internal Revenue Service for the purpose of paying the distributee's federal income tax liability associated with the distribution or withdrawal. Notwithstanding the foregoing provisions, commencing on and after January 1, 1993, each Participant, each Former Participant and each spouse of a Participant or Former Participant shall be given the right to elect [pursuant to Section 401(a)(31) of the Code] to rollover all or any portion of the taxable amount of such person's distribution or withdrawal directly to an eligible retirement plan as defined in Section 402(c)(8)(B) of the Code as limited by Section 402(c)(9) of the Code and, to the extent a direct rollover is elected by any such person, the withholding requirements of this Section 11.10 will not apply. Each such election shall be in writing on a form prescribed by the Named Fiduciary for such purpose and given to the Participant, Former Participant or spouse within a reasonable period of time prior to the distribution or withdrawal.

## ARTICLE XII

### NOTICES

Sec. 12.1 Notice. As soon as practicable after a Participant, Former Participant or Beneficiary makes a request for payment, the Named Fiduciary shall notify the Trustee of the following information and give such directions as are necessary or advisable under the circumstances:

- (a) name and address of the Participant, Former Participant or Beneficiary,
- (b) amount to be distributed, and
- (c) any other information required by the Trustee for federal or state

income tax withholding and reporting purposes.

Sec. 12.2 Modification of Notice. At any time and from time to time after giving the notice as provided for in Section 12.1, the Named Fiduciary may modify such original notice or any subsequent notice by means of a further notice or notices to the Trustee but any action taken or payments made by the Trustee pursuant to a prior notice shall not be affected by a subsequent notice.

Sec. 12.3 Reliance on Notice. Upon receipt of any notice as provided in this Article XIII, the Trustee shall promptly take whatever action and make whatever payments are called for therein, it being intended that the Trustee may rely upon the information and directions in such notice absolutely and without question. However, the Trustee may call to the attention of the Named Fiduciary any error or oversight which the Trustee believes to exist in any notice.

#### ARTICLE XIII

##### AMENDMENT OR TERMINATION OF PLAN

Sec. 13.1 Amendment or Termination by Company. At any time the Company acting through its governing body may amend or modify the Plan, retroactively or otherwise, or may terminate the Plan, by means of written notice to the Trustee, subject, however, to the other provisions of this Article XIII. Such termination may be made without consent being obtained from the Trustee, any Employer or Affiliated Company, the Committee, the Participants or their Beneficiaries, Employees or any other interested person. Also the Plan shall be considered terminated if the Company ceases business operations or if there is a complete discontinuance of Employer contributions.

Sec. 13.2 Effect of Amendment. No amendment or modification hereof by the Company, unless made to secure the approval of the

-39-

Commissioner of Internal Revenue or other governmental bureau or agency, shall:

- (a) operate retroactively to reduce or divest the then vested interest in any Individual Account or to reduce or divest any benefit then payable hereunder; or
- (b) change the duties or responsibilities of the Trustee without the written consent or approval of the Trustee.

Each such amendment shall be in writing signed by duly authorized officers of the Company with such consents or approval, if any, as provided above and shall become effective when executed by the Company unless a different effective date is specified in the amendment. The Committee shall give written notice to all Participants and to the Trustee of all amendments which are made to this Plan; provided, however, that such notice shall not be a condition of the effectiveness of any such amendment.

Sec. 13.3 Distribution on Termination or Discontinuance of Contributions. Upon termination of the Plan or complete discontinuance of contributions to the Plan, any amount of the Trust Fund previously unallocated, including any amounts in a suspense account established under Section 5.1, shall be allocated (unless such allocation would violate Section 5.1), and the Individual Accounts of all Participants, Former Participants, and Beneficiaries shall thereupon be and become fully vested and nonforfeitable to the extent then funded. The Trustee shall deduct from the Trust Fund all unpaid charges and expenses including those relating to said termination, except as the same may be paid by the Employer. The Named Fiduciary shall then adjust the balance of all Individual Accounts on the basis of the net value of the Trust Fund. The Named Fiduciary shall direct the Trustee to distribute the amount to the credit of each Participant, Former Participant, and Beneficiary when all appropriate administrative procedures have been completed. If any amount in a suspense account shall not be

allocable because of the provisions of Section 5.1, such amount shall be returned to the Employer. Upon any complete discontinuance of contributions, the assets of the Trust Fund shall be held and administered by the Trustee for the benefit of the Participants of the Employer discontinuing contributions in the same manner and with the same powers, rights, duties and privileges herein described until the Trust Fund with respect to such Employer has been fully distributed. Upon the partial termination of the Plan, the Individual Accounts of affected Participants, Former Participants, and Beneficiaries shall thereupon be and become fully vested and nonforfeitable to the extent then funded and shall be distributed to such Participants, Former Participants and Beneficiaries when all appropriate administrative procedures have been completed. Subject to the requirements of Section 11.10 and notwithstanding any other provisions of the Plan, any distribution under this Section 13.3 shall be made in a single lump sum distribution as soon as administratively practicable after the later of (i) the termination of the Plan or (ii) the receipt

-40-

following application of a favorable determination letter from the Internal Revenue Service with respect to the termination of the Plan.

Sec. 13.4 Reversion of Contributions to Employer. Except as provided in Section 3.3 and Section 13.3, under no circumstances or conditions shall the Trust Fund or any portion thereof revert to any Employer or be used for or diverted to the benefit of anyone other than Participants, Former Participants and Beneficiaries, it being understood that the Trust Fund shall be for the exclusive benefit of Participants, Former Participants and Beneficiaries.

Sec. 13.5 Amendment of Vesting Schedule. At any time that the vesting schedule of the Plan is amended, or the Plan is amended in any way that directly or indirectly affects the computation of the Participant's nonforfeitable interest in his Individual Account, each Participant who has completed at least five Years (or, for Years beginning after December 31, 1988 with respect to Participants who complete at least one Hour of Service after April 1, 1989, each Participant who has completed at least three Years), whether or not consecutive, during each of which he has completed not fewer than 1,000 Hours of Service, may elect to have his vested interest in his Individual Account determined under the vesting schedule in effect prior to such amendment. An election made under the preceding sentence may be made at any time within 60 days after the later of the date:

- (a) the amendment is adopted;
- (b) the amendment becomes effective; or
- (c) the Participant is issued written notice of the amendment by the Named Fiduciary.

An election under this Section shall be made in a written instrument delivered to the Named Fiduciary and once made, shall be irrevocable. For the purposes of this Section, a Participant shall be considered to have completed the five Years (or, for Years beginning after March 31, 1989 with respect to certain Participants described above, three Years) described in this Section if he shall have completed such Years prior to the end of the period during which he could make an election hereunder.

Sec. 13.6 Merger or Consolidation of Plan. In the event of any merger or consolidation of the Plan with, or transfer in whole or in part of the assets and liabilities of the Trust Fund to, another trust fund held under any other plan of deferred compensation maintained or to be established for the benefit of all or some of the Participants in this Plan, the assets of the Trust Fund applicable to such Participants shall be transferred to the other trust fund only if:

- (a) each Participant would (if either this Plan or the other plan had then terminated) receive a benefit immediately after

-41-

the merger, consolidation, or transfer which is equal to or greater than the benefit he would have been entitled to receive immediately before the merger, consolidation, or transfer (if this Plan had then terminated); and

- (b) such other plan and trust fund are qualified under Section 401(a) of the Code and exempt from tax under Section 501(a) of the Code.

#### ARTICLE XIV

##### COMMITTEE

Sec. 14.1 Committee Composition. The Company may appoint a Committee consisting of no fewer than one and no more than five members as determined by the Company. The Company may remove any member of the Committee at any time and a member may resign by written notice to the Company. Any vacancy in the membership of the Committee shall be filled by appointment of the governing body of the Company, but pending the filling of any such vacancy the then members of the Committee may act hereunder as though they alone constitute the full Committee.

Sec. 14.2 Committee Actions. Any and all acts and decisions of the Committee shall be by at least a majority of the then members, but the Committee may delegate to any one or more of its members the authority to sign notices or other documents on its behalf or to perform ministerial acts for it, in which event the Trustee and any other person may accept such notice, document or act without question as having been authorized by the Committee.

Sec. 14.3 Committee Procedure. The Committee may, but need not, call or hold formal meetings and any decisions made or action taken pursuant to written approval of a majority of the then members shall be sufficient. The Committee shall maintain adequate records of its decisions which records shall be subject to inspection by the Company, Employer, any Participant, Former Participant, Beneficiary, and any other person to the extent required by law, but only to the extent that they apply to such person. Also the Committee may designate one of its members as Chairman and one of its members as Secretary and may establish policies and procedures governing it as long as the same are not inconsistent with the terms of the Plan.

Sec. 14.4 Delegation to Committee and Company's Duty to Furnish Information. The Committee shall perform the duties and may exercise the powers and discretion given to it in this Plan and its decisions and actions may be relied upon by all persons affected thereby. The Trustee may rely without question upon any notices, directions, or other documents received from the Committee. The Company and each Employer shall furnish the Committee with all data and information available to the Company which the Committee may reasonably require in order to perform its

-42-

duties. The Committee may rely without question upon any such data or information furnished by the Company and each Employer.

Sec. 14.5 Construction of Plan and Trustee's Reliance. Any and all matters involving the Plan, including but not limited to any and all disputes which may arise involving Participants, Former Participants, and Beneficiaries and/or the Trustee shall be referred to the Committee. The Committee has the exclusive discretionary authority to construe the terms of the Plan and the exclusive discretionary authority to determine eligibility for all benefits hereunder. Any such determinations or interpretations of the Plan adopted by the Committee shall be final and conclusive and shall bind all parties. The Trustee may rely upon the decision of the Committee with respect to any question concerning the meaning, interpretation, or

application of any provision of the Plan.

Sec. 14.6 Committee Member's Abstention in Cases Involving Own Rights. Notwithstanding any other provision of this Article XIV, no Committee member shall vote or act upon any matter involving his own rights, benefits, or participation in the Plan.

Sec. 14.7 Counsel to Committee. The Committee may engage agents to assist it and may engage legal counsel who may be legal counsel for the Company. All reasonable expenses incurred by the Committee may be paid from the Trust Fund.

Sec. 14.8 Powers and Duties. In addition to any implied powers and duties which may be needed to carry out the provisions of the Plan, the Committee shall have the following specific powers and duties:

- (a) To direct the Trustee as to investments in Parent Company Stock;
- (b) To make and enforce such rules and regulations as it shall deem necessary or proper for the efficient administration of the Plan;
- (c) To authorize disbursements from the Trust Fund (any instructions of the Committee to the Trustee shall be evidenced in writing and signed by a member of the Committee delegated with such authority by a majority of the Committee); and
- (d) To review the activities of any person designated to carry out the powers or duties of the Committee and to report to the governing body of the Company at least once each Year on the overall administration of the Plan.

-43-

## ARTICLE XV

### MISCELLANEOUS

Sec. 15.1 No Employment or Compensation Agreement. Nothing contained in the Plan shall be construed as giving any person or entity any legal or equitable right against the Company, any Employer, any Affiliated Company, their stockholders or partners, officers or directors, the Named Fiduciary, or the Trustee, except as the same shall be specifically provided in the Plan. Nor shall anything in the Plan give any Participant or other Employee the right to be retained in the service of an Employer. The employment of all persons by an Employer shall remain subject to termination by such Employer to the same extent as if the Plan had never been executed.

Sec. 15.2 Spendthrift Provision. Except as provided by the terms of a domestic relations order which is determined to be qualified under Section 414(p) of the Code, no Participant, Former Participant, or Beneficiary shall have the right to assign or transfer his interest hereunder, nor shall his interest be subject to claims of his creditors or others, it being understood that all provisions of the Plan shall be for the exclusive benefit of those designated herein.

Sec. 15.3 Construction. It is the intention of each Employer that the Plan be qualified under Section 401 of the Code, and all provisions hereof should be construed to that result.

Sec. 15.4 Titles. Titles of Articles and Sections hereof are for convenience only and shall not be considered in construing the Plan.

Sec. 15.5 Texas Law Applicable. The Plan and each of its provisions shall be construed and their validity determined by the laws of the State of Texas.

Sec. 15.6 Successors and Assigns. The Plan shall be binding upon the successors and assigns of the Company and each Employer and the Trustee and upon the heirs and personal representatives of those individuals who become Participants hereunder.

Sec. 15.7 Allocation of Fiduciary Responsibility by Named Fiduciary. The Named Fiduciary may, by written instrument, allocate some or all of its responsibilities to another fiduciary, including the Trustee, or designate another person to carry out some or all of its fiduciary responsibilities. Each fiduciary to whom responsibilities are allocated by the Named Fiduciary will be furnished a copy of the Plan and their acceptance of such responsibility will be made by agreeing in writing to act in the capacity designated. The Named Fiduciary shall not be liable for an act or omission of any person (who is allocated a fiduciary responsibility or who is designated to carry out such responsibility) in carrying out a fiduciary responsibility except

-44-

to the extent that with respect to the allocation or designation, continuation thereof, or implementation or establishment of the allocation or designation procedures the Named Fiduciary (i) did not perform all of his duties and responsibilities and exercise his powers hereunder with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent man acting in like capacity and familiar with such matters would use in the conduct of an enterprise of like character and with like aims, (ii) knowingly participates in or knowingly undertakes to conceal an act or omission of another fiduciary of the Plan, with the knowledge that such act or omission is a breach of fiduciary responsibility, (iii) did not make reasonable efforts under the circumstances to remedy a breach of fiduciary responsibility of which the Named Fiduciary has knowledge, or (iv) did not carry out its specific responsibilities, in accordance with the standard set forth in (i) above, and as a result, it has enabled another fiduciary of the Plan to commit a breach. Any person or group of persons may serve in more than one fiduciary capacity with respect to the Plan.

Sec. 15.8 Expenses of Administration. The reasonable expenses incident to the operation of the Plan, including the compensation of personnel employed pursuant to Section 14.7, but excluding brokerage commissions, taxes and other costs incident to the purchase and sale of securities, shall be paid by the Employer. Except to the extent paid by an Employer, the Named Fiduciary shall cause the Trustee to pay all expenses incurred in the administration of the Plan, including expenses of the Committee and expenses and compensation of the Trustee.

Sec. 15.9 Indemnification of Fiduciaries. The Employer and the Plan shall each indemnify and hold harmless the members of the Committee, members of the respective governing bodies of the Employers, any administrator and any other person who is deemed to be a "fiduciary" under either statutory or common law and who is also an Employee, officer or director of the Company or an Affiliated Company from and against any damages, judgments, settlements, costs, charges or expenses incurred in connection with the defense of any action, suit or proceeding to which they may be a party or with which they may be threatened or in connection with any appeal therefrom by virtue of any act or omission in their respective capacities for the Plan except to the extent that such act or omission arises from the gross negligence or willful misconduct of such fiduciary; provided, however, that notwithstanding anything to the contrary herein, the foregoing indemnification shall extend and be effective only to the extent that the same shall be valid and enforceable under all applicable laws.

-45-

#### ARTICLE XVI

##### ADOPTION BY AFFILIATED COMPANIES

Sec. 16.1 Transfer of Employment to Another Employer. When an Employee's employment with any Employer is terminated, but such Employee continues to

be a Participant by reason of continued employment by another Employer, the Participant concerned shall not be considered to have changed Employers for purposes of determining the Participant's eligibility, vesting rights, participation, and Plan benefits. An Employee who was a Participant when so transferred, and who is otherwise an eligible Employee, shall continue as a Participant in the Plan as adopted by his new Employer (whether the Company or another Employer) and shall continue without any requirement or re-enrollment unless otherwise required by the Plan. In such event, all notices, elections, designations, directions and the like theretofore made shall continue in effect. All interests then credited to the Participant shall constitute interests credited to the Participant under the Plan as adopted by his new Employer (whether the Company or another Employer). Employer contributions shall, subject to the terms and limitations of the Plan, continue to be made by the Participant's new Employer (whether the Company or another Employer). Any portion of his Individual Account which is forfeited shall be allocated to the Individual Accounts of Participants who are Employees of the Employer which originally made the contributions so forfeited.

Sec. 16.2 Contributions and Forfeitures. Each Participant shall have his Individual Account credited with his share of his former Employer's contributions and with his share of his new Employer's contributions. The Annual Compensation received by such Participant from each Employer during the portion of the Year employed by an Employer shall constitute the basis for his allocation of that particular Employer's contribution. Forfeitures shall be applied as provided in Section 10.5 only for the benefit of the Participants employed by the Employer for whom the Participant works or last worked at the time the forfeiture occurs.

Sec. 16.3 Transfers of Employment Between Affiliated Companies. If an Employee of one Affiliated Company transfers to the employment of another Affiliated Company and such Affiliated Company has a comparable plan and trust agreement, the Trustee of each plan and trust shall make suitable arrangements for the transfer of the assets held in his Individual Account from the Plan of the former employer to the plan of the successor employer. The Employee will be granted credit for Years of Service (Vesting) with the former employer and will not be deemed to have terminated his employment. Annual Compensation from the former employer will be considered to be Annual Compensation from the successor employer.

If an Employee participating in this Plan transfers to the employment of an Affiliated Company which does not have a comparable plan in force, he shall not be deemed to have terminated

-46-

employment with the Employer. The value of his Individual Account will be held for his benefit until he terminates employment with all Affiliated Companies, dies or retires in accordance with Article VII, at which time the value of his Individual Account will be distributed to him or his Beneficiary as provided elsewhere herein. No further Employer contributions will be made on his behalf, but he will be granted credit for Years of Service (Vesting) with the Affiliated Company. In the event that he is reemployed by an Employer, he shall immediately become a Participant in this Plan.

Sec. 16.4 Action by Company. The Employers delegate to the Company the authority to amend the Plan, remove the Trustee, or a Committee member, appoint a new or additional Trustee or Committee member, or take all other actions concerning the Plan without joinder or approval of the other Employers.

Sec. 16.5 Termination of Employer's Status as Affiliated Company. Termination of an Employer's status as an Affiliated Company other than by merger or liquidation into the Company shall terminate the Plan and the Trust Agreement as adopted by such Employer unless, and except to the extent that, the governing body of the Company shall adopt a resolution consenting to the continuance of the Plan and the Trust Agreement as adopted by the Employer, specifying conditions therefor, such as amendments to the Plan and the Trust Agreement as adopted by the Employer and the investment in, disposition or distribution of Parent Company Stock, and the governing body of the Employer shall consent to and adopt such conditions, investments and

the like.

## ARTICLE XVII

### THE TRUSTEE

- Sec. 17.1 Trust Fund. A Trust Fund has been created and will be maintained for the purposes of the Plan, and the monies thereof will be invested in accordance with the terms of the Trust Agreement which forms a part of the Plan. All Employer contributions will be paid into the Trust Fund, and all benefits under the Plan will be paid from the Trust Fund.
- Sec. 17.2 Trustee's Duties. Except as otherwise specifically provided in the Trust Agreement, the Trustee's obligations, duties and responsibilities are governed solely by the terms of the Trust Agreement, reference to which is hereby made for all purposes.
- Sec. 17.3 Benefits Only from Trust. Any person having any claim under the Plan will look solely to the assets of the Trust Fund for satisfaction. In no event will any Employer or any of its officers, Employees, agents, members of its board of directors, the Trustee, any successor trustee, or any member of the Committee, be liable in their individual capacities to any person whomsoever, under the provisions of the Plan or Trust Agreement, absent a

-47-

breach of fiduciary responsibility determined pursuant to the applicable provisions of ERISA.

- Sec. 17.4 Trust Fund Applicable Only to Payment of Benefits. The Trust Fund will be used and applied only in accordance with the provisions of the Plan, to provide the benefits thereof, except as provided in Section 15.8 regarding payment of administrative expenses, and no part of the corpus or income of the Trust Fund will be used for, or diverted to, purposes other than for the exclusive benefit of Participants and other persons thereunder entitled to benefits.
- Sec. 17.5 Texas Trust Code. Although it is intended that the foregoing powers of the Trustee be applicable hereunder, it is also intended that all provisions of the Texas Trust Code, and any amendments thereto, not inconsistent with the above enumerated powers or other provisions of the Plan, shall be applicable in the administration of the Trust Fund.
- Sec. 17.6 Voting Rights. At each annual or special meeting of the stockholders of Capital Southwest Corporation or by actions taken without a meeting, the Trustee may vote or refrain from voting any and all shares of Parent Company Stock held in the Trust Fund in such manner as deemed, in the Trustee's sole discretion, to be in the best interest of Participants and Beneficiaries. The Committee may from time to time direct the Trustee as to the manner of voting such shares, and the Trustee shall follow such instructions and shall bear no responsibility for the propriety of the decisions of the Committee.

## ARTICLE XVIII

### INVESTMENTS

- Sec. 18.1 Investment of Contributions and Trust Assets. All Employer contributions in cash and any other cash received by the Trust Fund attributable to Employer contributions under the Plan, including dividends, will first be used to pay current obligations of the Trust Fund, and any excess will be used either to pay other obligations of the Trust Fund, to buy Parent Company Stock from holders of outstanding stock or newly issued or treasury stock or to make other prudent investments; provided, however, that at all times the Trustee shall attempt to invest 100% of the Trust Fund assets in Parent Company Stock consistent with market availability or other conditions. The Committee may from time to time direct the Trustee as to the extent of investment in Parent Company Stock and the Trustee shall

follow such instructions and shall bear no responsibility for the propriety of the investment decision of the Committee. All purchases of Parent Company Stock shall be made at a price, or at prices, which in the judgment of the Trustee do not exceed the fair market value of such shares of Parent Company Stock, which may be above the quoted market price on a national securities exchange or in the over-the-counter market. If no

-48-

current obligations of the Trust Fund are outstanding and unpaid and the Trustee determines that it is in the best interest of the Trust Fund, the Trustee may invest funds of the Trust Fund temporarily in securities issued or guaranteed by the United States of America or any agency thereof, in certificates of deposit, or in short-term commercial paper, or such funds may be held temporarily in cash.

#### ARTICLE XIX

##### TOP HEAVY PROVISIONS

Sec. 19.1 Minimum Allocation Requirements. Notwithstanding the provisions of Section 4.3, for any Year in which the Plan is a Top Heavy Plan, the requirement for 1,000 Hours of Service shall not apply and Employer contributions and forfeitures which are allocated to any Participant who on the last day of the Year is a Non-Key Employee who has satisfied the eligibility requirements of Section 2.1 shall not be less than the lesser of (i) three percent of such Participant's Annual Compensation [as defined in Section 5.1(o)(vi)] or (ii) the largest percentage of Employer contributions, as a percentage of the first \$200,000 (or, beginning April 1, 1988, such other amount equal to the Compensation Limitation as defined in Section 1.5) of the Annual Compensation [as defined in Section 5.1(o)(vi)] of Participants who are Key Employees, allocated to any such Participant who is a Key Employee for that Year; provided, however, if an Employer maintains a defined benefit plan which designates this Plan to satisfy Section 401 or 410 of the Code, (ii) above shall not apply.

Sec. 19.2 Adjustment to Limitation on Allocations. Notwithstanding the provisions of Sections 5.1(o)(viii)(B)(1) and 5.1(o)(ix)(B)(1), beginning with the first Year beginning after December 31, 1983 in which the Plan is a Top Heavy Plan, the following provisions shall be applicable to Section 5.1 of the Plan:

- (a) Section 5.1(o)(viii)(B)(1) shall be revised by substituting "1.0" for "1.25" and the numerator of the fraction described in Section 5.1(o)(viii)(D)(1) shall be revised by substituting "\$41,500" for "\$51,875" unless (i) the Plan would not be a Top Heavy Plan as defined in Section 20.4(a) if "90%" were substituted for 60% in such definition, and (ii) the minimum allocation requirements of Section 20.1 for a Participant who is a Non-Key Employee are satisfied and, in applying such provisions, "four percent" is substituted for "three percent;" and
- (b) Section 5.1(o)(ix)(B)(1) shall be revised by substituting "1.0" for "1.25" unless (i) the Plan would not be a Top Heavy Plan as defined in Section 20.4(a) if "90%" were substituted for 60% in such definition, and (ii) the minimum benefit requirements of Section 416(h)(2)(A) of the Code are satisfied

-49-

for all participants in the defined benefit pension plan who are Non-Key Employees.

Sec. 19.3 Vesting Schedule. Notwithstanding the provisions of Section 10.2, beginning with the first Year in which the Plan is a Top Heavy Plan, the following provisions shall be applicable to Section 10.2 of the Plan.

- (a) Except as provided in Section 19.3(b) below, each Participant shall be entitled (as a vested interest) to receive the greater of the vested interest calculated pursuant to Article X or a percentage of the then combined balance to his credit in his Parent Company Stock Account and Other Investments Account determined in accordance with the following schedule:

Years of Service (Vesting)	Vested Interest
-----	-----
Less than 3	0%
3 or more	100%

- (b) The schedule in Section 19.3(a) above shall not apply to the Individual Account of any Participant who does not perform an Hour of Service after the Determination Date on which the Plan first became a Top Heavy Plan; any such Participant's vested interest in his Parent Company Stock Account and Other Investments Account shall be determined by applying the schedule in Section 10.2 of the Plan as applicable to the Plan prior to the Determination Date on which the Plan first became a Top Heavy Plan.

Sec. 19.4 Definitions.

- (a) "Top Heavy Plan" means the Plan for a Year beginning after December 31, 1983, if the Plan is the only plan maintained by an Employer and the top heavy ratio as of the Determination Date exceeds 60%. The top heavy ratio is a fraction, the numerator of which is the sum of the present value of the Individual Accounts of all Key Employees as of the Determination Date, the contributions due as of the Determination Date, and distributions made within the five-year period immediately preceding the Determination Date (including distributions under a terminated plan which if it had not been terminated would have been required to be included in an aggregation group), and the denominator of which is a similar sum determined for all Employees. The top heavy ratio shall be calculated without regard to (i) the Individual Account of a Participant who is not a Key Employee but who was a Key Employee in a prior Year, (ii) the Individual Account of any individual who has not performed any services for an Employer at any time during the five-year period ending on the Determination Date, and (iii) voluntary deductible Employee contributions, if any. The top heavy ratio, including distributions, rollover and transfers, to the

extent such items must be taken into account, shall be calculated in accordance with Section 416 of the Code and the regulations thereunder. If an Employer maintains other qualified plans (including a simplified employee pension plan) or has ever maintained one or more defined benefit plans which have covered or could cover a Participant in this Plan, this Plan is top heavy for a Year beginning after December 31, 1983 only if it is part of the Required Aggregation Group, and the top heavy ratio for both the Required Aggregation Group and the Permissive Aggregation Group exceeds 60%. The top heavy ratio shall be calculated as described above, taking into account all plans within the aggregation group and with reference to Determination Dates that fall within the same calendar year; provided that if a defined benefit plan is included in the aggregation group, the present value of accrued benefits (instead of account balances) of participants in that plan shall be computed for purposes of calculating the top heavy ratio. The accrued benefit under a defined benefit plan in both the numerator and the denominator of the top heavy ratio are increased for any distribution of an accrued benefit made in the five-year period ending on the Determination Date. The accrued benefit of a Participant other than a Key Employee shall be determined under (i) the method, if any, that uniformly applies for accrual purposes under all defined benefit plans maintained by the Employer, or (ii) if there is no such method, as if such benefit accrued not more rapidly than the slowest accrual rate permitted under the fractional rule of Section 411(b)(1)(C) of the Code. The value of account balances and the present value of accrued benefits will be determined as of the most

recent Allocation Date that falls within or ends with the 12-month period ending on the Determination Date, except as provided in Section 416 of the Code and the Treasury Regulations thereunder for the first and second plan years of a defined benefit plan. The actuarial assumptions (interest rate and mortality only) used by the actuary under the defined benefit plan shall be used to calculate the present value of accrued benefits from the defined benefit plan.

- (b) "Determination Date" means for any Year the Anniversary Date of the preceding Year, or in the case of the first Year of the Plan, the Anniversary Date of that Year.
- (c) "Required Aggregation Group" means (1) each qualified plan of an Employer in which at least one Key Employee participates, and (2) any other qualified plan of an Employer which enables a plan described in (1) to meet the requirements of Sections 401(a)(4) or 410 of the Code.
- (d) "Permissive Aggregation Group" means the Required Aggregation Group plus any other qualified plans maintained by an Employer which, when considered as a group with the Required Aggregation Group, would continue to satisfy the requirements of Sections 401(a)(4) and 410 of the Code.

-51-

IN WITNESS WHEREOF, the Company, acting by and through its duly authorized officers, has caused this restated Plan to be executed as of the day and year first above written.

THE RECTORSEAL CORPORATION

By

-52-

Twelve Largest Investments--March 31, 1996

PALM HARBOR HOMES, INC. \$71,086,000

Palm Harbor Homes, Dallas, Texas, is an integrated manufactured housing company, building, retailing and financing homes produced in 14 plants in Alabama, Arizona, Florida, North Carolina, Ohio, Oregon and Texas and sold in 34 states through over 500 independent dealers and 44 company-owned or affiliated retail superstores. Palm Harbor manufactures high-quality, energy efficient, site-delivered homes designed to meet the need for affordable housing, particularly among retirees and newly-formed families.

During the year ended March 31, 1996, Palm Harbor reported earnings of \$14,978,000 (\$1.47 per share) on net sales of \$417,214,000, compared with earnings of \$11,225,000 (\$1.16 per share) on net sales of \$330,547,000 in the previous year. The March 29, 1996 closing Nasdaq bid price of Palm Harbor's common stock was \$25.25 per share.

At March 31, 1996, the \$10,931,955 investment in Palm Harbor by Capital Southwest and its subsidiary was valued at \$71,086,000 (\$17.68 per share) consisting of 4,021,820 restricted shares of common stock, representing a fully-diluted equity interest of 37.0%.

SKYLAWN CORPORATION \$45,000,000

Skylawn Corporation owns and operates cemeteries, mausoleums and mortuaries. Skylawn's operations, all of which are in California, include a mausoleum and an adjacent mortuary in Oakland and cemeteries and mausoleums in San Mateo, Hayward, Sacramento and Napa, the latter three of which also have mortuaries at the cemetery sites. All of these entities are well established and have provided funeral services to their respective communities for many years.

For the fiscal year ended March 31, 1996 Skylawn Corporation earned \$4,462,000 on revenues of \$22,939,000. In the previous year, Skylawn earned \$3,292,000 on revenues of \$21,005,000.

At March 31, 1996, Capital Southwest owned 100% of Skylawn Corporation's common stock, which had a cost of \$4,510,400 and was valued at \$45,000,000.

ALAMO GROUP INC. \$38,209,000

Alamo Group Inc. is a leading designer, manufacturer and marketer of heavy-duty, tractor-mounted mowing and growth maintenance equipment. Founded in 1969, Alamo Group operates 10 manufacturing facilities and serves agricultural, governmental and commercial markets in the U.S. and Europe.

For the year ended December 30, 1995, Alamo reported consolidated earnings of \$11,615,000 (\$1.34 per share) on net sales of \$163,852,000, compared with earnings of \$9,166,000 (\$1.20 per share) on net sales of \$119,643,000 in the previous year. The March 29, 1996 closing NYSE market price of Alamo's common stock was \$17.875 per share.

At March 31, 1996, the \$575,000 investment in Alamo by Capital Southwest and its subsidiary was valued at \$38,209,000, consisting of 2,660,000 restricted shares of common stock valued at \$38,038,000 (\$14.30 per share) and warrants valued at \$171,000, representing a fully-diluted equity interest of 26.8% at an anticipated cost of \$1,575,000.

THE RECTORSEAL CORPORATION \$28,000,000

The RectorSeal Corporation, with plants in Houston and Mount Vernon, New York, manufactures specialty chemical products including pipe thread sealants, firestop sealants, plastic solvent cements and other formulations for plumbing and industrial applications. These products are distributed through over 6,000 supply firms. RectorSeal's subsidiary, Jet-Lube, Inc., with plants in Houston, England and Canada, produces anti-seize compounds, specialty lubricants and other products used in industrial and oil field applications. RectorSeal also owns a 20% equity interest in The Whitmore Manufacturing Company (described subsequently).

During the fiscal year ended March 31, 1996, The RectorSeal Corporation

reported consolidated earnings of \$3,014,000 on revenues of \$29,290,000, compared with earnings of \$2,423,000 on revenues of \$25,121,000 in the previous year. RectorSeal's earnings do not reflect its 20% equity in The Whitmore Manufacturing Company.

At March 31,1996, Capital Southwest owned 100% of RectorSeal's common stock having a cost of \$52,600 and a value of \$28,000,000.

5

PETSMART, INC. \$11,857,737

-----  
PETSMART Inc., Phoenix, Arizona, is the nation's leading operator of superstores specializing in pet food, pet supplies and pet services, including full scale veterinary care. PETSMART currently operates 283 superstores in 33 states.

For the year ended January 28,1996, PETSMART reported a net loss of \$2,803,000 (\$0.07 per share) on net sales of \$1,030,663,000, compared with a net loss of \$9,830,000 (\$0.22 per share) on net sales of \$817,555,000 in the previous year. The March 29,1996 closing Nasdaq bid price of PETSMART's common stock was \$36.25 per share.

At March 31,1996, Capital Southwest and its subsidiary owned 327,110 unrestricted shares of PETSMART common stock, having a cost of \$2,878,733 and a market value of \$11,857,737 (\$36.25 per share).

AMERICAN HOMESTAR CORPORATION \$7,961,210

-----  
American Homestar Corporation, Webster, Texas, builds, retails and finances manufactured housing, producing homes from its three plants in the Dallas-Fort Worth area and retailing its products through 43 company-owned retail sales centers and more than 100 independently-owned retail centers in Texas, New Mexico, Oklahoma, Louisiana, Colorado, Arkansas and Kansas.

For the year ended May 31,1995, American Homestar reported net income of \$7,188,000 (\$0.98 per share) on net sales of \$187,653,000. Unaudited earnings for the nine months ended February 29, 1996 were \$6,423,000 (\$0.83 per share) compared with \$4,721,000 (\$0.66 per share) during the same period in the preceding year. The March 29,1996 closing Nasdaq bid price of American Homestar's common stock was \$19.875 per share.

At March 31,1996, Capital Southwest and its subsidiary owned 400,564 unrestricted shares of American Homestar common stock, having a cost of \$3,405,824 and a market value of \$7,961,210 (\$19.875 per share), representing a fully-diluted equity interest of 4.3%.

ENCORE WIRE CORPORATION \$6,599,000

-----  
Encore Wire Corporation, McKinney, Texas, manufactures a broad line of copper electrical wire and cable including non-metallic sheathed cable, underground feeder cable and THHN cable for residential, commercial and industrial construction. Encore's products are sold through large-volume distributors and building materials retailers.

For the year ended December 31, 1995, Encore reported a net loss of \$545,000 (\$0.08 per share) on net sales of \$151,308,000, compared with net income of \$6,670,000 (\$0.98 per share) on net sales of \$122,698,000 in the previous year. The March 29,1996 closing Nasdaq bid price of Encore's common stock was \$9.00 per share.

At March 31,1996, the \$4,100,000 investment in 1,122,000 shares of Encore's restricted common stock by Capital Southwest and its subsidiary was valued at \$6,599,000 (an average of \$5.88 per share), representing a fully diluted equity interest of 14.8%.

SDI Holding Corp. \$6,000,000

-----  
SDI Holding Corp., Glasgow, Delaware, through its wholly-owned subsidiary, Sterling Diagnostic Imaging, Inc., manufactures and markets on a worldwide basis, x-ray medical imaging film, intensifying screens, cassettes, film development chemicals and related equipment and services. A subsidiary, Direct

Radiography Corp., is developing a direct radiography system, scheduled for 1998 introduction, which will capture, store and transmit conventional x-ray images in a digital format.

In March 1996, Capital Southwest invested \$6,000,000 in the common stock of SDI Holding Corp., which purchased the assets of the Diagnostic Imaging business from E.I. DuPont de Nemours for approximately \$396 million. The operations acquired by SDI recorded 1995 sales of \$539 million.

At March 31, 1996, Capital Southwest's \$6,000,000 investment in common stock of SDI Holding Corp. was valued at cost and represents a fully-diluted equity interest of 12.0%.

6

THE WHITMORE MANUFACTURING COMPANY \$5,728,000

---

The Whitmore Manufacturing Company, with plants in Rockwall, Texas and Cleveland, Ohio, manufactures specialty lubricants for extreme-pressure, lubrication of heavy equipment used in surface mining and in other industries and produces transit coatings for the automobile industry. Whitmore's subsidiary, Hanson-Loran Company, Inc., Buena Park, California, produces floor finishing compounds, supplies and equipment for supermarkets.

During the fiscal year ended March 31, 1996, Whitmore reported a net loss of \$611,000 on net sales of \$16,829,000, compared with net income of \$471,000 on net sales of \$17,861,000 in the previous year. The company is owned 80% by Capital Southwest and 20% by Capital Southwest's subsidiary, The RectorSeal Corporation (described on a previous page).

At March 31, 1996, the direct investment in Whitmore by Capital Southwest was valued at \$5,728,000 and had a cost of \$2,528,000, consisting of \$928,000 in 10% subordinated notes and \$1,600,000 in common stock. Our Company's direct and indirect equity in Whitmore's loss for the year ended March 31, 1996 was \$611,000.

CHEROKEE COMMUNICATIONS, INC. \$5,000,000

---

Cherokee Communications, Inc., Jacksonville, Texas, is one of the largest private payphone companies in the United States, owning and servicing approximately 11,700 payphones installed in convenience stores and other high-traffic areas located primarily in Texas, New Mexico, Montana and Utah.

For the year ended September 30, 1995, Cherokee reported net income of \$2,220,000, including a non-recurring gain of \$651,000 on net sales of \$31,592,000, compared with net income of \$603,000 on net sales of \$27,865,000 in the previous year.

At March 31, 1996, the \$2,400,000 investment in 6% cumulative convertible preferred stock by Capital Southwest and its subsidiary was valued at \$5,000,000 and represents a fully-diluted equity interest of 21.0%.

Mail-Well, Inc. \$4,136,000

---

Mail-Well, Inc., Englewood, Colorado, is a leading envelope manufacturer and printer in the United States and Canada, specializing in customized envelopes and high-impact color printing. Mail-Well operates 43 plants and numerous sales offices throughout North America.

For the year ended December 31, 1995, Mail-Well reported earnings of \$10,373,000 (\$1.36 per share) on net sales of \$596,792,000. The March 29, 1996 closing Nasdaq bid price of Mail-Well's common stock was \$7.75 per share.

At March 31, 1996, the \$2,889,010 investment in Mail-Well by Capital Southwest was valued at \$4,136,000 (an average of \$5.96 per share) consisting of 694,063 restricted shares of common stock, representing a fully-diluted equity interest of 5.3%.

TELE-COMMUNICATIONS, INC.--TCI GROUP \$3,330,000

---

Tele-Communications, Inc.--TCI Group, Englewood, Colorado, is principally engaged in the construction, acquisition, ownership and operation of

cable television systems end the provision of satellite-delivered video entertainment information and home shopping programming services to various video distribution media, principally cable television systems in 49 states.

For the year ended December 31, 1995, Tele-Communications, Inc.--TCI Group reported a net loss of \$178,000,000 (\$0.16 per share) on revenues of \$5,384,000,000, compared with net income of \$99,000,000 on revenues of \$4,269,000,000 in the previous year. The March 29, 1996 closing Nasdaq bid price of TeleCommunications, Inc.--TCI Group Series A common stock was \$18.50 per share.

At March 31, 1996, Capital Southwest owned 180,000 unrestricted shares of Series A common stock of Tele-Communications, Inc.--TCI Group having a cost of \$68 and a market value of \$3,330,000 (\$18.50 per share).

7

Portfolio of Investments--March 31, 1996

Company	Equity (a)	Investment (b)	Cost	Value (c)
*ALAMO GROUP INC. (d) San Antonio, Texas Heavy-duty, tractor-mounted mowing and growth maintenance equipment for agricultural and governmental markets.	26.8%	2,660,000 shares common stock (acquired 4-1-73 and (7-18-78) Warrant to purchase 62,500 shares of common stock at \$16.00 per share, expiring 2000 (acquired 11-25-91)	\$ 575,000 - 575,000	\$38,038,000 171,000 38,209,000
ALL COMPONENTS, INC. (d) Addison, Texas Distributor of memory and other components to personal computer manufacturers, retailers and value-added resellers.	30.0%	14% subordinated debenture, due 1999 (acquired 9-16-94) 150,000 shares Series A convertible preferred stock (acquired 9-16-94) 450,000 shares Series B preferred stock (acquired 9-16-94)	600,000 150,000 450,000 1,200,000	600,000 150,000 450,000 1,200,000
**AMERICAN HOMESTAR CORPORATION (d) Webster, Texas Manufacturing, retailing and financing of manufactured housing sold in a seven-state market area.	4.3%	400,564 shares common stock (acquired 8-31-93, 7-12-94 and 3-28-96)	3,405,824	7,961,210
BALCO, INC. (d) Wichita, Kansas Specialty architectural products used in the construction and remodeling of commercial and institutional buildings.	83.9%	14% subordinated debentures, payable 1997 to 2001 (acquired 8-13-91) 14% subordinated debenture, payable 1997 to 2001, last maturing \$250,000 convertible into 250,000 shares of common stock at \$1.00 per share (acquired 6-1-91) 110,000 shares common stock and 60,920 shares Class B non-voting stock (acquired 10-25-83) Warrants to purchase 85,000 shares of common stock at \$2.40 per share, expiring 2001 (acquired 8-13-91)	400,000 800,000 170,920 - 1,370,920	400,000 800,000 170,920 - 1,370,920
CHEROKEE COMMUNICATIONS, INC. (d) Jacksonville, Texas Owns and services approximately 11,700 payphones.	21.0%	240,000 shares 6% cumulative preferred stock, convertible into 2,218,000 shares of common stock at \$1.08 per share (acquired 12-31-92)	2,400,000	5,000,000
*DATA RACE, INC. (d) San Antonio, Texas Statistical multiplexers, custom data/fax/voice modems and local and wide area network connectivity products.	8.0%	475,950 shares common stock (acquired 10-7-92) Option to purchase 35,507 shares of common stock at \$.67 per share, expiring 2000 (acquired 12-31-91)	1,699,485 71,015 1,770,500	1,011,000 52,000 1,063,000

\* Publicly-owned company

\*\* Unrestricted securities as defined in Note (b)

Company	Equity (a)	Investment (b)	Cost	Value (c)
DENNIS TOOL COMPANY (d) Houston, Texas Polycrystalline diamond compacts (PDCs) used in oil field drill	46.1%	98,687 shares common stock (acquired 3-7-94)	\$ 330,000	\$1,200,000

bits and in mining and industrial applications.

DYMETROL COMPANY, INC. (d) Hockessin, Delaware Nylon strapping for packaging applications and copolyester elastomeric tape used in automobiles.	33.8%	15% subordinated notes, payable quarterly 1998 to 1999 (acquired 5-27-93) 19,912 shares common stock, non-voting (acquired 5-27-93)	774,379 199,115	774,379 199,115
-----				
*ENCORE WIRE CORPORATION (d) McKinney, Texas Electrical wire and cable for residential and commercial use.	14.8%	1,122,000 shares common stock (acquired 7-16-92, 3-15-94 and 4-28-94)	4,100,000	6,599,000
-----				
*FMC CORPORATION (d) Chicago, Illinois Machinery and chemicals in diversified product areas.	(1%)	**6,430 shares common stock (acquired 6-6-86)	123,777	483,053
-----				
*FRONTIER CORPORATION (d) Rochester, New York Diversified telecommunications company.	(1%)	**31,338 shares common stock (acquired 12-20-95)	78,346	987,147
-----				
LIL' THINGS, INC. (d) Arlington, Texas Retail chain of superstores selling products for children from birth to six years.	7.3%	2,250,000 shares Class A cumulative preferred stock, convertible into 2,250,000 shares of common stock at \$1.00 per share (acquired 2-12-93 and 12-1-93) 666,666 shares Class B cumulative preferred stock, convertible into 746,268 shares of common stock at \$1.34 per share (acquired 9-15-94) 617,410 shares Class C cumulative preferred stock, convertible into 617,410 shares of common stock at \$1.20 per share (acquired 12-4-95) Warrants to purchase 58,842 shares of common stock at \$.01 per share, expiring 2000, (acquired 11-6-95)	2,250,000 1,000,000 740,894 -	1,125,000 373,134 308,706 28,832
-----				
			3,990,894	1,835,672
-----				
*MAIL-WELL, INC. Englewood, Colorado Customized envelopes and high-impact color printing.	5.3%	694,063 shares common stock (acquired 2-18-94, 12-14-94, and 7-27-95)	2,889,010	4,136,000

\* Publicly-owned company

\*\* Unrestricted securities as defined in Note (b)

Company	Equity (a)	Investment (b)	Cost	Value (c)
*MYLAN LABORATORIES INC. (d) Pittsburgh, Pennsylvania Proprietary and generic pharmaceutical products.	(1%)	**128,286 shares common stock (acquired 11-20-91)	\$ 400,000	\$2,694,006
-----				
PTS HOLDINGS, INC. Anaheim, California Power systems for military and commercial applications.	21.6%	200,000 shares Class B non-voting common stock (acquired 11-21-94)	2,000,000	2,000,000
-----				
*PALM HARBOR HOMES, INC. (d) Dallas, Texas Integrated manufacturing, retailing and financing of manufactured housing sold in 34 states.	37.0%	4,021,820 shares common stock (acquired 1-3-85, 3-31-88, and 7-31-95)	10,931,955	71,086,000
-----				
*PETSMART, INC. (d) Phoenix, Arizona Retail chain of superstores selling pet foods, supplies and services.	(1%)	**327,110 shares common stock (acquired 6-1-95)	2,878,733	11,857,737
-----				
THE RECTORSEAL CORPORATION Houston, Texas Chemical specialty products for industrial, construction and oil field applications; owns 20% of Whitmore Manufacturing.	100.0%	27,907 shares common stock (acquired 1-5-73 and 3-31-73)	52,600	28,000,000
-----				
SDI HOLDING CORP. Glasgow, Delaware Owns Sterling Diagnostic Imaging, a manufacturer of x-ray medical imaging film and direct radiography systems.	12.0%	60,000 shares common stock (acquired 3-26-96)	6,000,000	6,000,000
-----				
SKYLAWN CORPORATION Hayward, California	100.0%	1,449,026 shares common stock (acquired 7-16-69)	4,510,400	45,000,000

Cemeteries, mausoleums and mortuaries located in northern California.

Company	Equity (a)	Investment (b)	Cost	Value (c)
*SPRINT CORPORATION (d) Westwood, Kansas Provider of long-distance and local telephone service.	(1%	**36,000 shares common stock (acquired 6-20-84)	503,645	1,368,000

\* Publicly-owned company

\*\* Unrestricted securities as defined in Note (b)

Company	Equity (a)	Investment (b)	Cost	Value (c)
*TECNOL MEDICAL PRODUCTS, INC. Fort Worth, Texas Disposable medical products marketed to health-care facilities.	(1%	**183,764 shares common stock (acquired 2-7-92 and 5-11-94)	\$2,396,926	\$3,215,870
*TELE-COMMUNICATIONS, INC.-TCI Group Englewood, Colorado Operation of the nation's largest cable television system.	(1%	**180,000 shares Series A common stock (acquired 6-3-69)	68	3,330,000
*TELE-COMMUNICATIONS, INC.-Liberty Media Group Englewood, Colorado Production and distribution of cable television programming services.	(1%	**45,000 shares Series A common stock (acquired 8-4-95)	-	1,175,625
TEXAS SHREDDER, INC. (d) San Antonio, Texas Design and manufacture of heavy-duty shredder systems for recycling steel and other materials from junk automobiles.	45.7%	14% subordinated debentures, payable 1997 to 1999 (acquired 3-6-91) 3,000 shares Series A preferred stock (acquired 3-6-91) 750 shares Series B preferred stock, convertible into 7,500 shares of common stock at \$10.00 per share (acquired 3-6-91)	1,125,000 300,000 75,000	1,125,000 300,000 1,250,000
			1,500,000	2,675,000
*TRITON ENERGY CORPORATION (d) Dallas, Texas Oil and gas exploration and development.	(1%	**6,022 shares common stock (acquired 12-15-86)	144,167	335,727
VARIX CORPORATION (d) Richardson, Texas Formerly developed software for computer-aided design of electronic circuits.	100.0%	12% promissory notes due 1997 (acquired 12-5-86, 3-21-88 and 1-31-90) 1,514,566 shares preferred stock, convertible into 3 shares of common stock at \$171,667 per share (acquired 6-1-84 and 3-21-88) 37 shares common stock (acquired 6-2-86, 3-21-88 and 1-31-90)	566,486 515,000 100,000	300,000 - -
			1,181,486	300,000
WESTMARC COMMUNICATIONS, INC. Denver, Colorado Cable television systems and microwave relay systems.	-	21 shares Series C preferred stock (acquired 1-3-90)	-	508,000

\* Publicly-owned company

\*\* Unrestricted securities as defined in Note (b)

Company	Equity (a)	Investment (b)	Cost	Value (c)
THE WHITMORE MANUFACTURING COMPANY (d) Rockwall, Texas Specialized mining and industrial lubricants; automotive transit coatings; floor-finishing compounds and equipment.	80.0%	10% subordinated note payable 1997 to 1998 (acquired 8-31-79) 80 shares common stock (acquired 8-31-79)	\$ 928,000 1,600,000	\$ 928,000 4,800,000
			2,528,000	5,728,000
MISCELLANEOUS	40.0%	Amfibe, Inc. (d)-2,000 shares Class B non-voting common stock (acquired 6-15-94)	200,000	200,000
	98.8%	Humac Company-1,041,000 shares common stock (acquired 1-31-75 and 12-31-75)	-	150,000
	(1%	*360 Communications Company		

	(d) - **12,000 shares common stock (acquired 3-7-96)	108,355	288,000
-----			
TOTAL INVESTMENTS OF CAPITAL SOUTHWEST CORPORATION		\$41,172,565	\$178,183,590
TOTAL INVESTMENTS OF CAPITAL SOUTHWEST VENTURE CORPORATION		17,371,535	78,746,871
-----			
TOTAL INVESTMENTS		\$58,544,100	\$256,930,461
-----			

\* Publicly-owned company

\*\* Unrestricted securities as defined in Note (b)

#### Notes to Portfolio of Investments

(a) The percentages in the "Equity" column express the potential equity interests held by the Company and Capital Southwest Venture Corporation ("CSVC") in each issuer. Each percentage represents the amount of the issuer's common stock the Company and CSVC own or can acquire as a percentage of the issuer's total outstanding common shares, plus shares reserved for all outstanding warrants, convertible securities and employee stock options. The symbol "(1%" indicates that the Company and CSVC hold a potential equity interest of less than one percent.

(b) Unrestricted securities (indicated by \*) are freely marketable securities having readily available market quotations. All other securities are restricted securities which are subject to one or more restrictions on resale and are not freely marketable. At March 31, 1996, restricted securities represented approximately 87% of the value of the consolidated investment portfolio (78% of CSVC's portfolio).

(c) Under the valuation policy of the Company and CSVC, unrestricted securities are valued at the closing sale price for listed securities and at the closing bid price for over-the-counter securities on the valuation date. Restricted securities, including securities of publicly-owned companies which are subject to restrictions on resale, are valued at fair value as determined by the Board of Directors. Fair value is considered to be the amount which the Company or CSVC may reasonably expect to receive for portfolio securities if such securities were sold on the valuation date. Valuations as of any particular date, however, are not necessarily indicative of amounts which may ultimately be realized as a result of future sales or other dispositions of securities.

Among the factors considered by the Board of Directors in determining the fair value of restricted securities are the financial condition and operating results of the issuer, the long-term potential of the business of the issuer, the market for and recent sales prices of the issuer's securities, the values of similar securities issued by companies in similar businesses, the proportion of the issuer's securities owned by the Company and CSVC, the nature and duration of resale restrictions and the nature of any rights enabling the Company or CSVC to require the issuer to register restricted securities under applicable securities laws. In determining the fair value of restricted securities, the Board of Directors considers the inherent value of such securities without regard to the restrictive feature and adjusts for any diminution in value resulting from restrictions on resale.

12

#### Notes to Portfolio of Investments (continued)

(d) Investments of CSVC, excluding the following which are owned directly by the Company and listed with those owned by CSVC:

Company	Security	Cost	Value
-----			
Alamo Group, Inc.	Warrant	\$ 0	171,000
American Homestar Corp.	124,289 common shares	1,658,000	2,470,244
Balco, Inc.	14% subordinated debenture	116,000	116,000
Balco, Inc.	55,000 common shares	55,000	55,000
Balco, Inc.	Warrant	0	0
Cherokee Communications, Inc	110,000 preferred shares	1,100,000	2,291,667
Data Race, Inc	176,105 common shares	480,116	374,000
Data Race, Inc	Option	71,015	52,000

Dennis Tool Company	4,199 common shares	30,000	51,058
Dymetrol Company, Inc.	15% subordinated note	77,448	77,448
Dymetrol Company, Inc.	1,991 common shares	19,911	19,911
Encore Wire Corporation	300,000 common shares	3,500,000	2,160,000
LiL'Things, Inc.	1,125,000 CI A preferred shares	1,125,000	562,500
LiL'Things, Inc.	333,333 CI B preferred shares	500,000	186,567
LiL'Things, Inc.	308,705 CI C preferred shares	370,447	154,353
LiL' Things, Inc.	Warrant	0	14,416
Palm Harbor Homes, Inc	3,642,303 common shares	10,820,624	64,378,000
PETsmART Inc.	171,005 common shares	1,500,000	6,198,931
Texas Shredder, Inc.	14% subordinated debenture	225,000	225,000
Texas Shredder, Inc.	750 preferred shares	75,000	310,000
The Whitmore Mfg. Co.	80 common shares	1,600,000	4,800,000

(e) Agreements between certain issuers and the Company or CSVC provide that the issuers will bear substantially all costs in connection with the disposition of common stocks, including those costs involved in registration under the Securities Act of 1933 but excluding underwriting discounts and commissions. These agreements, which cover common stocks owned at March 31, 1996 and common stocks which may be acquired thereafter through exercise of warrants and conversion of debentures and preferred stocks, apply to restricted securities of all issuers in the investment portfolio of the Company and CSVC except securities of the following issuers, which are not obligated to bear registration costs: Humac Company, Skylawn Corporation and The Whitmore Manufacturing Company.

(f) The descriptions of the companies and ownership percentages shown in the portfolio of investments were obtained from published reports and other sources believed to be reliable, are supplemental and are not covered by the report of independent auditors. Acquisition dates indicated are the dates specific securities were acquired. Certain securities were received in exchange for or upon conversion or exercise of other securities previously acquired.

#### Portfolio Changes During the Year

##### New Investments and Additions to Previous Investments

	Amount
	-----
American Homestar Corporation	\$ 1,428,000
Frontier Corporation	78,346
LiL' Things, Inc	1,023,338
Mail-Well, Inc	479,072
Palm Harbor Homes, Inc	10,398,060
SDI HoldingCorp	6,000,000
- - - - -	-----
	\$19,406,816
	=====

##### Dispositions

	Cost	Amount Received
	-----	-----
CrossTies Software Company	\$1,100,000	\$ 0
General Communication, Inc	0	105,098
Intelligent Electronics, Inc	1,217,667	478,375
MESC Holdings, Inc	2,500,000	20,454,600
PETsmART, Inc	121,266	432,100
	-----	-----
	\$4,938,933	\$21,470,173
	=====	=====
Repayments Received . . . . .		\$ 5,515,824
		=====

[GRAPHIC OMITTED]

Capital Southwest Corporation and Subsidiary  
Consolidated Statements of Financial Condition

March 31

	1996	1995
Assets		
Investments at market or fair value (Notes 1 and 2)		
Companies more than 25% owned (Cost: 1996 - \$21,480,361, 1995 - \$15,147,834) .....	\$191,043,920	\$143,715,000
Companies 5% to 25% owned (Cost: 1996 - \$18,750,404, 1995 - \$17,030,438) .....	19,633,672	31,459,238
Companies less than 5% owned (Cost: 1996 - \$18,313,335, 1995 - \$17,551,303) .....	46,252,869	27,586,335
Total investments (Cost: 1996 - \$58,544,100, 1995 - \$49,729,575) .....	256,930,461	202,760,573
Cash and cash equivalents .....	67,045,185	8,372,976
Receivables .....	285,002	243,633
Other assets (Note 8) .....	2,711,802	2,434,231
Totals	\$326,972,450	\$213,811,413

March 31

	1996	1995
Liabilities and Shareholders' Equity		
Note payable to bank (Note 4)	\$ 50,000,000	\$ -
Accrued interest and other liabilities (Note 8) . . .	1,669,839	1,490,506
Income taxes payable	6,050,730	-
Deferred income taxes (Note 3)	69,204,128	53,951,003
Subordinated debentures (Note 5)	11,000,000	11,000,000
Total liabilities	137,924,697	66,441,509
Shareholders' equity (Notes 3 and 6)		
Common stock, \$1 par value: authorized, 5,000,000 shares; issued, 4,204,416 shares at March 31, 1996, and 4,172,416 shares at March 31, 1995 . . . . .	4,204,416	4,172,416
Additional capital . . . . .	4,813,121	4,270,371
Undistributed net investment income . . .	4,490,374	3,889,288
Undistributed net realized gain on investments . . . . .	53,307,782	42,287,133
Unrealized appreciation of investments--net of deferred income taxes . . . . .	129,265,362	99,783,998
Treasury stock--at cost (437,365 shares). . . . .	(7,033,302)	(7,033,302)
Net assets at market or fair value, equivalent to \$50.18 per share on the 3,767,051 shares outstanding at March 31, 1996, and \$39.46 per share on the 3,735,051 shares outstanding at March 31, 1995	189,047,753	147,369,904
Totals	\$326,972,450	\$213,811,413

See Notes to Consolidated Financial Statements

Capital Southwest Corporation and Subsidiary  
Consolidated Statements of Operations

	Years Ended March 31		
	1996	1995	1994
Investment income (Note 9):			
Interest	\$ 2,018,308	\$ 1,952,557	\$ 2,096,346
Dividends	3,597,004	2,629,384	2,909,389
Management and directors' fees	561,950	523,750	498,000
	6,177,262	5,105,691	5,503,735
Operating expenses:			
Interest	1,700,003	1,394,266	1,444,609
Salaries	1,112,640	913,555	857,132
Net pension expense (benefit) (Note 8)	(208,701)	(241,430)	(239,532)
Other operating expenses	642,955	541,243	483,636
	3,246,897	2,607,634	2,545,845
Income before income taxes	2,930,365	2,498,057	2,957,890
Income tax expense (Note 3)	75,448	51,404	88,293
Net investment income	\$ 2,854,917	\$ 2,446,653	\$ 2,869,597
Proceeds from disposition of investments	\$21,470,173	\$ 1,702,276	\$ 333,571
Cost of investments sold (Note 1)	4,938,933	1,483,194	1,004,592
Realized gain (loss) on investments before income taxes (Note 9)	16,531,240	219,082	(671,021)
Income tax expense (benefit)	5,357,215	76,679	(196,418)
Net realized gain (loss) on investments	11,174,025	142,403	(474,603)
Increase in unrealized appreciation of investments before income taxes and distributions	54,619,668	20,898,731	18,979,514
Increase in deferred income taxes on appreciation of investments (Note 3)	15,874,000	7,315,000	7,820,000
Net increase in unrealized appreciation of investments before distributions	38,745,668	13,583,731	11,159,514
Net realized and unrealized gain on investments before distributions	\$49,919,693	\$ 13,726,134	\$ 10,684,911
Increase in net assets from operations before distributions	\$52,774,610	\$ 16,172,787	\$ 13,554,508

See Notes to Consolidated Financial Statements

Capital Southwest Corporation and Subsidiary  
Consolidated Statements of Changes in Net Assets

Year Ended March 31

	1996 -----	1995 -----	1994 -----
Operations			
Net investment income.....	\$ 2,854,917	\$ 2,446,653	\$ 2,869,597
Net realized gain (loss) on investments	11,174,025	142,403	(474,603)
Net increase in unrealized appreciation of investments before distributions ..	38,745,668	13,583,731	11,159,514
	-----	-----	-----
Increase in net assets from operations before distributions .....	52,774,610	16,172,787	13,554,508
Distributions from:			
Undistributed net investment income....	(2,253,831)	(2,241,031)	(2,227,631)
Undistributed net realized gain on investments.....	(153,376)	-	-
Unrealized appreciation of investments.	(9,264,304)	-	-
Capital share transactions			
Exercise of employee stock options.....	574,750	384,750	272,000
	-----	-----	-----
Increase in net assets	41,667,849	14,316,506	11,598,877
Net assets, beginning of year.....	147,369,904	133,053,398	121,454,521
	-----	-----	-----
Net assets, end of year.....	\$189,047,753	\$147,369,904	\$133,053,398
	=====	=====	=====

See Notes to Consolidated Financial Statements

Capital Southwest Corporation and Subsidiary  
Consolidated Statements of Cash Flows

	Years Ended March 31 -----		
	1996 ----	1995 ----	1994 ----
Cash flows from operating activities			
Increase in net assets from operations before distributions.....	\$ 52,774,610	\$16,172,787	\$13,554,508
Adjustments to reconcile increase in net assets from operations before distributions to net cash provided by operating activities:			
Depreciation and amortization.....	33,439	42,623	40,392
Net pension benefit.....	(208,701)	(241,430)	(239,532)
Net realized and unrealized gain on investments.....	(49,919,693)	(13,793,624)	(10,764,777)
(Increase) decrease in receivables.....	(41,369)	63,301	(15,270)
(Increase) decrease in other assets.....	28,950	(18,354)	(54,849)
Increase in accrued interest and other liabilities.....	48,075	7,092	23,995
Deferred income taxes.....	72,640	84,500	89,460
	-----	-----	-----
Net cash provided by operating activities.....	2,787,951	2,316,895	2,633,927
Cash flows from investing activities			
Proceeds from disposition of investments.....	21,470,173	1,611,976	333,571
Purchases of securities.....	(19,406,816)	(9,556,876)	(10,679,997)
Maturities of securities.....	5,515,824	574,625	1,635,500
	-----	-----	-----
Net cash provided (used) by investing activities.....	7,579,181	(7,370,275)	(8,710,926)
Cash flows from financing activities			
Increase (decrease) in note payable to bank.....	50,000,000	(75,000,000)	75,000,000
Repayment of subordinated debentures.....	-	(4,000,000)	-
Distributions from undistributed net investment income.....	(2,253,831)	(2,241,031)	(2,227,631)
Distributions from undistributed net realized gain on investments.....	(15,842)	-	-
Proceeds from exercise of employee stock options.....	574,750	384,750	272,000
	-----	-----	-----
Net cash provided (used) by financing activities .....	48,305,077	(80,856,281)	73,044,369
Net increase (decrease) in cash and cash equivalents.....	58,672,209	(85,909,661)	66,967,370
Cash and cash equivalents at beginning of year .....	8,372,976	94,282,637	27,315,267
	-----	-----	-----
Cash and cash equivalents at end of year .....	\$ 67,045,185	\$ 8,372,976	\$94,282,637
	=====	=====	=====
Supplemental disclosure of cash flow information:			
Cash paid during the year for:			
Interest.....	\$ 1,653,277	\$ 1,419,883	\$ 1,410,800
Income taxes.....	\$ 483	\$ 15,049	51,000

Supplemental disclosure of investing and financing activities:  
On July 31, 1995, Capital Southwest Corporation distributed to its shareholders

752,147 shares of common stock of Palm Harbor Homes, Inc., which had a cost of \$137,534 and a fair market value of \$12.50 per share, or \$9,401,838.

See Notes to Consolidated Financial Statements

Capital Southwest Venture Corporation  
(wholly-owned subsidiary of Capital Southwest Corporation)

Statement of Financial Condition  
March 31, 1996

Assets

Investments at market or fair value (Notes 1 and 2)	
Companies more than 25% owned (Cost--\$4,295,737)	\$48,322,862
Companies 5% to 25% owned (Cost--\$3,814,816)	5,993,836
Companies less than 5% owned (Cost--\$9,260,982)	24,430,173
	-----
Total investments (Cost--\$17,371,535)	78,746,871
Cash and cash equivalents	9,975,795
Interest and dividends receivable	103,282
Other assets	61,750
	-----
Total	\$88,887,698
	=====

Liabilities and Shareholder's Equity

Accrued interest and other liabilities	\$ 340,218
Deferred income taxes (Note 3)	21,116,000
Subordinated debentures (Note 5)	11,000,000
	-----
Total liabilities	32,456,218
	-----
Shareholder's equity (Notes 3 and 5)	
Common stock, \$1 par value: authorized, 5,000,000 shares; issued and outstanding, 1,000,000 shares	1,000,000
Additional capital	15,606,949
Undistributed net investment income	731,662
Accumulated net realized loss on investments	(816,467)
Unrealized appreciation of investments- net of deferred income taxes	39,909,336
	-----
Shareholder's equity	56,431,480
	-----
Total	\$88,887,698
	=====

See Notes to Consolidated Financial Statements

Capital Southwest Venture Corporation  
(wholly-owned subsidiary of Capital Southwest Corporation)

Statement of Operations  
Year Ended March 31, 1996

Investment income:	
Interest.....	\$1,465,974
Dividends.....	1,346,890
	-----
	2,812,864
	-----
Operating expenses (Note 1):	
Interest.....	980,333
Management fee .....	311,487
Miscellaneous .....	12,340
	-----

	1,304,160
	-----
Net investment income (Note 3).....	\$1,508,704
	=====
Proceeds from disposition of investments .....	\$ 432,100
Cost of investments sold (Note 1) .....	1,221,267
	-----
Realized loss on investments before income taxes.....	(789,167)
Income tax benefit .....	(236,927)
	-----
Net realized loss on investments .....	(552,240)
Net increase in unrealized appreciation of investments before distribution (net of increase in deferred income taxes of \$1,821,000) (Note 3) .....	12,662,525
	-----
Net realized and unrealized gain on investments.....	\$12,110,285
	=====
Increase in shareholder's equity from operations.....	\$13,618,989
	=====

Statement of Changes in Shareholder's Equity

	Years Ended March 31	
	1996	1995
	----	----
Net investment income .....	\$ 1,508,704	\$ 784,699
Net realized gain (loss) on investments.....	(552,240)	15,097
Net increase in unrealized appreciation of investments before distribution .....	12,662,525	5,412,310
	-----	-----
Increase in shareholder's equity from operations before distribution .....	13,618,989	6,212,106
Capital contribution by Capital Southwest Corporation .....	2,500,000	-
Distributions to Capital Southwest Corporation from:		
Undistributed net investment income .....	(1,089,251)	(718,146)
Accumulated net realized loss on investments.....	(137,765)	-
Unrealized appreciation of investments .....	(9,279,873)	-
	-----	-----
Increase in shareholder's equity .....	5,612,100	5,493,960
Shareholder's equity, beginning of year .....	50,819,380	45,325,420
	-----	-----
Shareholder's equity, end of year .....	\$56,431,480	\$50,819,380
	=====	=====

See Notes to Consolidated Financial Statements

Capital Southwest Venture Corporation  
(wholly-owned subsidiary of Capital Southwest Corporation)

Statement of Cash Flows  
Year Ended March 31, 1996

Cash flows from operating activities	
Increase in shareholder's equity from operations before distribution \$ .....	\$ 13,618,989
Adjustments to reconcile increase in shareholder's equity from operations before distribution to net cash provided by operating activities:	
Net realized and unrealized gain on investments. ....	(12,110,285)
Decrease in interest and dividends receivable .....	77,982
Decrease in other assets. ....	20,041
Increase in accrued interest and other liabilities. ....	22,698
	-----
Net cash provided by operating activities. ....	1,629,425
	-----

Cash flows from investing activities	
Proceeds from disposition of investments. . . . .	432,100
Purchases of securities. . . . .	(667,682)
Maturities of securities. . . . .	5,244,037
	-----
Net cash provided by investing activities. . . . .	5,008,455
	-----
Cash flows from financing activities	
Dividend to Capital Southwest Corporation. . . . .	(1,089,251)
	-----
Net increase in cash and cash equivalents. . . . .	5,548,629
Cash and cash equivalents at beginning of year. . . . .	4,427,166
	-----
Cash and cash equivalents at end of year. . . . .	\$ 9,975,795
	=====
Supplemental disclosure of cash flow information:	
Cash paid during the year for:	
Interest. . . . .	\$ 959,251
Income taxes. . . . .	\$ 155

Supplemental disclosure of investing and financing activities:  
On July 31,1995, Capital Southwest Venture Corporation distributed to Capital Southwest Corporation 753,411 shares of common stock of Palm Harbor Homes. Inc., which had a cost of \$ 137,765 and a fair market value of \$ 12.50 per share, or \$9,417,638.

See Notes to Consolidated Financial Statements

Notes to Consolidated Financial Statements

1. Summary of Significant Accounting Policies

Capital Southwest Corporation (the"Company") is a business development company subject to regulation under the Investment Company Act of 1940. Capital Southwest Venture Corporation ("CSVC"), a wholly-owned subsidiary of the Company, is a Federal licensee under the Small Business Investment Act of 1958. The following is a summary of significant accounting policies followed in thr preparation of the financial statements of the Company and CSVC:

PRINCIPLES OF CONSOLIDATION. The consolidated financial statements, which include the accounts of the Company and CSVC, have been prepared on the value method of accounting in accordance with generally accepted accounting principles for investment companies. All significant intercompany accounts and transactions have been eliminated in consolidation.

CASH AND CASH EQUIVALENTS. All temporary cash investments having a maturity of three months or less when purchased are considered to be cash equivalents.

PORTFOLIO SECURITY VALUATIONS. Investments are stated at market or fair value determined by the Board of Directors as described in the Notes to Portfolio of Investments and Note 2 below. The average cost method is used in determining cost of investments sold.

OPERATING EXPENSES. Expenses directly related to the activities of the Company or CSVC have been charged directly as appropriate. General operating expenses of the Company and CSVC are allocated between the companies based upon the respective fair values of the portfolios of investments. Such allocation to CSVC is recorded in its statement of operations as a management fee.

2. Valuation of Investments

The consolidated financial statements of the Company as of March 31, 1996 and 1995 include securities valued at \$223,234,086 (87% of the value of the consolidated investment portfolio) and \$187,791,413 (93% of the value of the consolidated investment portfolio), respectively, whose values have been determined by the Board of Directors in the absence of readily ascertainable market values. The Financial statements of Capital Southwest Venture Corporation as of March 31, 1996 include \$61,441,166 (78% of the value of its investment portfolio) of such securities. Because of the inherent uncertainty of valuation,

these values may differ significantly from the values that would have been used had a ready market for the securities existed, and the differences could be material.

### 3. Income Taxes

Effective April 1, 1993, the Company and CSVC adopted the provisions of the Financial Accounting Standards Board's Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes". There was no cumulative effect of the change in the method of accounting for income taxes as a result of adopting Statement 109.

For the tax years ended December 31, 1995, 1994 and 1993, the Company and CSVC qualified to be taxed as regulated investment companies ("RICs") under applicable provisions of the Internal Revenue Code. As RICs, the Company and CSVC must distribute at least 90% of their taxable net investment income (investment company taxable income) and may either distribute or retain their taxable net realized gain on investments (capital gains). Both the Company and CSVC intend to meet the applicable qualifications to be taxed as RICs in future years; however, either company's ability to meet certain portfolio diversification requirements of RICs in future years may not be controllable by such company.

No provision was made for Federal income taxes on the investment company taxable income of the Company and CSVC for the 1996, 1995 and 1994 fiscal years. Such income was distributed to shareholders in the form of cash dividends for which the Company and CSVC receive a tax deduction. With respect to net investment income, the tax provision for each of the three years ended March 31, 1996 includes a deferred tax provision related to the net pension benefit.

With respect to the net increase in unrealized appreciation of investments before distributions of the Company and CSVC during fiscal 1996, the expected increase in deferred income taxes on appreciation of investments at the Federal statutory rate of 35% differs from the amounts reported in the financial statements due to the distribution of appreciated securities with no associated tax liability. With respect to the net increase in unrealized appreciation of investments of the Company during fiscal 1994, the expected increase in deferred income taxes on appreciation of investments at the Federal statutory rate of 35% differs from the amounts reported in the financial statements due to an increase in deferred income taxes of \$1,140,000 arising from the increase in the Federal statutory tax rate from 34% to 35% during the year.

The Company and CSVC may not qualify or elect to be taxed as RICs in future years. Therefore, consolidated deferred Federal income taxes of \$69,121,000 and

\$53,247,000 have been provided on net unrealized appreciation of investments of \$198,386,361 and \$153,030,998 at March 31, 1996 and 1995, respectively. For CSVC, deferred Federal income taxes of \$21,466,000 have been provided on net unrealized appreciation of investments of \$61,375,336 at March 31, 1996. Such appreciation is not included in taxable income until realized. Deferred income taxes on net unrealized appreciation of investments have been provided at the then currently effective maximum Federal corporate tax rate on capital gains of 35% at March 31, 1996 and 1995, respectively.

### 4. Notes Payable to Bank

The note payable to bank at March 31, 1996 is an unsecured note with interest payable at 6.24%. The note was paid in full on April 1, 1996. The Company also has an unsecured \$15,000,000 revolving line of credit, all of which was available at March 31, 1996. The revolving line of credit bears interest at the bank's base rate less .50%, and matures on July 31, 1997.

### 5. Subordinated Debentures

CSVC's subordinated debentures, payable to others and guaranteed by the Small Business Administration ("SBA"), are as follows:

	March 31	
	----- 1996 -----	----- 1995 -----
8.750%, due in 1996. . . . .	\$ 6,000,000	\$ 6,000,000
8.000%, due in 2002. . . . .	5,000,000	5,000,000
	-----	-----

TOTAL. . . . .	\$11,000,000	\$11,000,000
	=====	=====

SBA regulations prohibit any loans or advances by CSVC to the Company and permit dividend payments only with the prior approval of the SBA.

6. Employee Stock Option Plan

Under the 1984 Incentive Stock Option Plan, options to purchase 90,000 shares at prices ranging from \$23.25 to \$39.1875 per share (the adjusted market prices at the time of grant) were outstanding at March 31, 1996. Options on 37,025 shares were exercisable at March 31, 1996. During the year ended March 31, 1996, options for 32,000 shares were exercised. Outstanding options expire 2000 through 2003. The 1984 Incentive Stock Option Plan expired in 1994 and no options have been authorized or granted since that date.

At March 31, 1996 and 1995, the dilution of net assets per share arising from options outstanding was not material.

7. Employee Stock Ownership Plan

The Company and one of its wholly-owned subsidiaries sponsor a qualified employee stock ownership plan ("ESOP") in which certain employees participate. Contributions to the plan, which are invested in Company stock, are made at the discretion of the Company's Board of Directors. A participant's interest in contributions to the ESOP fully vests after five years of active service. During the three years ended March 31, the Company made contributions to the ESOP which were charged against net investment income, of \$76,341 in 1996, \$19,338 in 1995 and \$13,844 in 1994.

8. Retirement Plan

The Company sponsors a defined benefit pension plan which covers substantially all of its employees and employees of certain of its wholly-owned subsidiaries. The following information about the plan only represents amounts and information related to the Company's participation in the plan and is presented as though the Company sponsored a single-employer plan. Benefits are based on years of service and an average of the highest five consecutive years of compensation during the last ten years of employment. The funding policy of the plan is to contribute annual amounts that are currently deductible for tax reporting purposes. No contribution was made to the plan during the three years ended March 31, 1996.

Components of net pension benefit related to the qualified plan include the following:

	Years Ended March 31		
	1996	1995	1994
	-----	-----	-----
Service cost--benefits earned during the year. . . . .	\$ 42,184	\$ 36,661	\$ 35,559
Interest cost on projected benefit obligation . . . . .	165,906	148,318	154,556
Actual return on assets . . . . .	(1,421,745)	(94,881)	(411,876)
Net amortization and deferral. . .	873,696	(469,483)	(133,130)
	-----	-----	-----
Net pension expense (benefit) from qualified plan. . . . .	\$ (339,959)	\$ (379,385)	\$ (354,891)
	=====	=====	=====

The following table sets forth the plan's funded status and amounts recognized in the Company's consolidated statements of financial condition:

	March 31	
	1996	1995
Actuarial present value of benefit obligations: Accumulated benefit obligation, including vested benefits of \$2,002,992 in 1996 and \$1,813,673 in 1995. . . . .	\$ (2,056,275)	\$ (1,861,920)
Projected benefit obligation for service rendered to date. . . . .	\$ (2,289,114)	\$ (2,047,431)
Plan assets at fair value*. . . . .	6,927,656	5,574,997
Excess of plan assets over the projected benefit obligation. . . . .	4,638,542	3,527,566
Unrecognized net gain from past experience different from that assumed and effects of changes in assumptions . . . . .	(1,418,507)	(570,380)
Prior service costs not yet recognized. . .	(42,998)	(46,277)
Unrecognized net assets being amortized over 19 years. . . . .	(664,463)	(738,294)
Prepaid pension cost included in other assets. . . . .	\$ 2,512,574	\$ 2,172,615

\*Primarily equities and bonds including approximately 29,200 shares of common stock of the Company.

The weighted-average discount rate and rate of increase in future compensation levels used in determining the actuarial present value of the projected benefit obligation were 7.75% and 5.25%, respectively, at March 31, 1996, 8.0% and 5.5%, respectively, at March 31, 1995 and 7.5% and 5.0%, respectively, at March 31, 1994. The expected long-term rate of return used to project estimated earnings on plan assets was 8.5% for the years ended March 31, 1996, 1995 and 1994. The calculations also assume retirement at age 65, the normal retirement age.

The Company also sponsors an unfunded Retirement Restoration Plan, which is a nonqualified plan that provides for the payment, upon retirement, of the difference between the maximum annual payment permissible under the qualified retirement plan pursuant to Federal limitations and the amount which would otherwise have been payable under the qualified plan.

The following table sets forth the status of the plan and the amounts recognized in the Company's consolidated statements of financial condition:

	March 31	
	1996	1995
Projected benefit obligation. . . . .	\$ (1,465,570)	\$ (1,484,811)
Unrecognized net loss from past experience different from that assumed and effects of changes in assumptions. . . . .	91,477	222,143
Unrecognized net obligation. . . . .	99,155	118,988
Accrued pension cost included in other liabilities. . . . .	\$ (1,274,938)	\$ (1,143,680)

The expenses recognized during the years ended March 31, 1996, 1995 and 1994 of \$131,258, \$137,955 and \$115,359, respectively, are offset against the net pension benefit from the qualified plan.

9. Sources of Income

Income was derived from the following sources:

Investment Income	Realized Gain
-------------------	---------------

Years Ended March 31 1996	Interest	Dividends	Other Income	(Loss) on Investments Before Income Taxes
Companies more than 25% owned	\$ 755,146	\$3,101,219	\$545,200	\$ -
Companies 5% to 25% owned	2,730	-	16,750	17,954,600
Companies less than 5% owned	568,915	495,785	-	(1,423,360)
Other sources, including temporary investments	691,517	-	-	-
	<u>\$2,018,308</u>	<u>\$3,597,004</u>	<u>\$561,950</u>	<u>\$16,531,240</u>
1995				
Companies more than 25% owned	\$ 661,252	\$2,269,312	\$501,500	\$ -
Companies 5% to 25% owned	2,083	-	22,250	774,943
Companies less than 5% owned	618,073	360,072	-	(408,506)
Other sources, including temporary investments	671,149	-	-	(147,355)
	<u>\$1,952,557</u>	<u>\$2,629,384</u>	<u>\$523,750</u>	<u>\$ 219,082</u>
1994				
Companies more than 25% owned	\$ 750,541	\$2,411,290	\$493,500	\$ -
Companies 5% to 25% owned	526	-	4,500	(815,964)
Companies less than 5% owned	566,208	498,099	-	144,943
Other sources, including temporary investments	779,071	-	-	-
	<u>\$2,096,346</u>	<u>\$2,909,389</u>	<u>\$498,000</u>	<u>\$ (671,021)</u>

#### 10. Summarized Financial Information of Unconsolidated Subsidiaries

The Company has three significant wholly-owned subsidiaries--The RectorSeal Corporation, The Whitmore Manufacturing Company and Skylawn Corporation--which are neither investment companies nor business development companies. Accordingly, the accounts of such subsidiaries are not included with those of the Company. Summarized combined financial information of the three subsidiaries is as follows:

(all figures in thousands)

Condensed Balance Sheet Data	March 31	
	1996	1995
Assets		
Cash and temporary investments	\$11,444	\$14,638
Receivables	20,517	18,748
Inventories	30,907	25,150
Property, plant and equipment	15,910	14,745
Other assets	12,713	11,953
	<u>-----</u>	<u>-----</u>
Totals	<u>\$91,491</u>	<u>\$85,234</u>
	<u>=====</u>	<u>=====</u>

Liabilities and Shareholder's Equity		
Long-term debt	\$ 2,092	\$ 2,505
Other liabilities	10,533	9,427
Shareholder's equity	78,866	73,302
	-----	-----
Totals	\$91,491	\$85,234
	=====	=====

Condensed Statements of Income	1996	1995	1994
	----	----	----
Revenues	\$69,058	\$63,987	\$59,198
Costs and operating expenses	\$60,050	\$56,373	\$50,812
Net income	\$ 6,865	\$ 6,186	\$ 6,664

#### 11. Commitments and Contingencies

The Company leases office space under an operating lease which requires base annual rentals of \$42,700 through February 1998 and provides one five-year renewal option subject to certain rental escalations. For the three years ended March 31, total rental expense charged to investment income was \$43,449 in 1996, \$42,754 in 1995 and \$42,275 in 1994.

#### Selected Per Share Data and Ratios

	Years Ended March 31				
	1996	1995	1994	1993	1992
	----	----	----	----	----
Investment income.....	\$ 1.64	\$ 1.37	\$ 1.48	\$ 1.34	\$ 1.35
Operating expenses.....	(.41)	(.32)	(.30)	(.37)	(.31)
Interest expense.....	(.45)	(.37)	(.39)	(.37)	(.39)
Income taxes.....	(.02)	(.01)	(.02)	(.01)	-
	----	----	----	----	----
Net investment income .....	.76	.67	.77	.59	.65
Distributions from undistributed net investment income.....	(.60)	(.60)	(.60)	(.60)	(.60)
Net realized gain(loss) on investments.....	2.97	.04	(.13)	1.39	3.93
Distributions from undistributed net realized gain on investments.....	(.04)	-	-	-	-
Net increase (decrease) in unrealized appreciation of investments before distributions.....	10.28	3.64	3.00	2.32	(1.25)
Distributions from unrealized appreciation of investments.....	(2.46)	-	-	-	-
Exercise of employee stock options*.....	(.19)	(.10)	(.22)	(.22)	(.08)
	----	----	----	----	----
Increase in net asset value.....	10.72	3.65	2.82	3.48	2.65
Net asset value:					
Beginning of year.....	39.46	35.81	32.99	29.51	26.86
	----	----	----	----	----
End of year .....	\$50.18	\$39.46	\$35.81	\$32.99	\$29.51
	=====	=====	=====	=====	=====
Ratio of operating expenses to average net assets.....	.9%	.9%	.9%	1.2%	1.1%
Ratio of net investment income to average net assets.....	1.7%	1.8%	2.3%	1.9%	2.3%
Portfolio turnover rate.....	4.5%	1.3%	1.3%	5.2%	6.5%

Shares outstanding at end of period (000s omitted)..... 3,767 3,735 3,715 3,681 3,644

\* Net decrease is due to exercise of employee stock options at less than beginning of period net asset value.

#### Independent Auditors' Report

The Board of Directors and Shareholders  
of Capital Southwest Corporation:

We have audited the accompanying: (a) consolidated statements of financial

condition of Capital Southwest Corporation and subsidiary as of March 31, 1996 and 1995, the portfolio of investments as of March 31, 1996, the related consolidated statements of operations, changes in net assets and cash flows for each of the years in the three-year period ended March 31, 1996 and the selected per share data and ratios for each of the years in the four-year period ended March 31, 1996; (b) statement of financial condition of Capital Southwest Venture Corporation as of March 31, 1996, and the related statements of operations and cash flows for the year then ended and the statements of changes in shareholder's equity for each of the years in the two-year period ended March 31, 1996. These financial statements and per share data and ratios are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and per share data and ratios based on our audits. Capital Southwest Corporation and subsidiary selected per share data and ratios for the year ended March 31, 1992 was audited by other auditors whose report thereon dated May 1, 1992 expressed an unqualified opinion on the selected per share data and ratios.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and per share data and ratios are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. Our procedures included verification of securities owned as of March 31 1996 and 1995, by examination of such securities held by the custodian. An audit also includes 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 (a) the consolidated financial statements and selected per share data and ratios referred to above present fairly, in all material respects, the financial position of Capital Southwest Corporation and subsidiary as of March 31, 1996 and 1995, and the results of their operations, the changes in their net assets, their cash flows for each of the years in the three-year period ended March 31, 1996 and the selected per share data and ratios for each of the years in the four-year period ended March 31, 1996; and (b) the financial statements referred to above present fairly, in all material respects, the financial position of Capital Southwest Venture Corporation as of March 31, 1996, and the results of its operations and its cash flows for the year then ended and the changes in its shareholder's equity for each of the years in the two-year period ended March 31, 1996, in conformity with generally accepted accounting principles.

KPMG PEAT MARWICK LLP

Dallas, Texas  
April 19, 1996

Management's Discussion and Analysis of  
Financial Condition and Results of Operations

Results of Operations

The composite measure of the Company's financial performance in the Consolidated Statements of Operations is captioned "Increase in net assets from operations before distributions" and consists of three elements. The first is "Net investment income", which is the difference between the Company's income from interest, dividends and fees and its combined operating and interest expenses, net of applicable income taxes. The second element is "Net realized gain (loss) on investments", which is the difference between the proceeds received from disposition of portfolio securities and their stated cost, net of applicable income tax expense (or benefit). The third element is the "Net increase in unrealized appreciation of investments before distributions", which is the net change in the market or fair value of the Company's investment portfolio, compared with stated cost, net of an increase or decrease in deferred income taxes which would become payable if the unrealized appreciation were realized through the sale or other disposition of the investment portfolio. It should be noted that the "Net realized gain (loss) on investments" and "Net increase in unrealized appreciation of investments before distributions" are directly related in that when an appreciated portfolio security is sold to realize a gain, a corresponding decrease in net unrealized appreciation occurs by transferring the gain associated with the transaction from being "unrealized" to being "realized." Conversely, when a loss is realized on a depreciated portfolio security, an increase in net unrealized appreciation occurs.

Net Investment Income

The Company's principal objective is to achieve capital appreciation. Therefore, a significant portion of the investment portfolio is structured to maximize the potential return from equity participation and provides minimal current yield in the form of interest or dividends. The Company also earns interest income from the short-term investment of cash funds, and the annual amount of such income varies based upon the average level of funds invested during the year and fluctuations in short-term interest rates. During the three years ended March 31, the Company had interest income from temporary cash investments of \$687,000 in 1996, \$667,000 in 1995 and \$779,000 in 1994. The Company also receives management fees from its wholly-owned subsidiaries which aggregated \$523,200 in the year ended March 31, 1996 and \$480,000 in the years ended March 31, 1995 and 1994. During the three years ended March 31, 1996, the Company recorded dividend income from the following sources:

	Years Ended March 31		
	1996	1995	1994
Alamo Group Inc.....	\$1,064,000	\$ 984,200	\$ 877,800
Cherokee Communications, Inc.....	144,000	180,000	144,000
Humac Company .....	208,200	-	-
The RectorSeal Corporation .....	1,529,019	1,285,112	1,533,490
Skylawn Corporation .....	300,000	-	-
Texas Shredder, Inc.....	178,125	-	-
Other .....	173,660	180,072	354,099
	-----	-----	-----
	\$3,597,004	\$2,629,384	\$2,909,389
	=====	=====	=====

Total operating expenses, excluding interest expense, increased by \$333,526 and \$112,132 or 27.5% and 10.2% during the years ended March 31, 1996 and 1995, respectively. Due to the nature of its business, the majority of the Company's operating expenses are related to employee and director compensation, office expenses, legal and accounting fees and the net pension benefit. Interest expense, the majority of which is related to the SBA- guaranteed subordinated debentures of CSVC, increased by \$305,737 and decreased by \$50,343 during the years ended March 31, 1996 and 1995, respectively.

Net Realized Gain or Loss on Investments

Net realized gain on investments was \$11,174,025 (after income tax expense of \$5,357,215) during the year ended March 31, 1996, compared with a gain of \$142,403 (after income tax expense of \$76,679) during 1995 and a loss of \$474,603 (after income tax benefit of \$196,418) during 1994. Management does not attempt to maintain a comparable level of realized gains from year to year, but instead attempts to maximize total investment portfolio appreciation. This strategy often dictates the long-term holding of portfolio securities in pursuit of increased values and increased unrealized appreciation, but may at opportune times dictate realizing gains through the disposition of certain portfolio investments.

Net Increase in Unrealized Appreciation of Investments

For the three years ended March 31, the Company recorded an increase in unrealized appreciation of investments before income taxes and distributions of \$54,619,668, \$20,898,731 and \$18,979,514 in 1996, 1995 and 1994, respectively. As explained in the first paragraph of this discussion and analysis, the realization of gains or losses results in a corresponding decrease or increase in unrealized appreciation of investments. Set forth in the following table are the significant increases and decreases in unrealized appreciation (before the related change in deferred income taxes and distributions and excluding the effect of gains or losses realized during the year) by portfolio company for securities held at the end of each year.

	Years Ended March 31		
	1996	1995	1994
Alamo Group Inc. ....	\$ 3,652,000	\$ 103,000	\$ 7,766,500
American Homestar Corporation ....	3,834,276	921,434	-

Cherokee Communications, Inc.....	1,000,000	1,600,000	-
Data Race, Inc.....	(1,905,300)	920,600	(5,805,000)
Dennis Tool Company .....	(500,000)	-	1,370,000
Encore Wire Corporation .....	(5,812,000)	358,250	3,094,250
LiL'Things, Inc.....	(2,155,222)	-	-
Mail-Well, Inc.....	1,246,990	-	-
Mylan Laboratories, Inc.....	(21,381)	1,218,717	(983,526)
Palm Harbor Homes, Inc.....	39,931,777	14,096,600	8,201,600
PETsMART, Inc.....	7,059,004	1,639,320	-
The RectorSeal Corporation .....	3,000,000	5,300,000	3,500,000
Skylawn Corporation .....	5,000,000	(7,000,000)	-
Tecnol Medical Products, Inc.....	(275,646)	1,017,758	(216,819)
Texas Shredder, Inc.....	1,175,000	749,998	(375,000)
The Whitmore Manufacturing Company .....	(1,200,000)	(400,000)	-

A description of the investments listed above and other material components of the investment portfolio is included elsewhere in this report under the caption "Portfolio of Investments- March 31, 1996"

#### Deferred Taxes on Unrealized Appreciation of Investments

The Company provides for deferred Federal income taxes on net unrealized appreciation of investments. Such taxes would become payable at such time as unrealized appreciation is realized through the sale or other disposition of those components of the investment portfolio which would result in taxable transactions. At March 31, 1996, consolidated deferred Federal income taxes of \$69,121,000 were provided on net unrealized appreciation of investments of \$198,386,361 compared with deferred taxes of \$53,247,000 on net unrealized appreciation of \$153,030,998 at March 31, 1995. Deferred income taxes at March 31, 1996 and 1995 were provided at the then currently effective maximum Federal corporate tax rate on capital gains of 35%.

#### Portfolio Investments

During the year ended March 31, 1996, the Company invested \$19,406,816 in various portfolio securities listed elsewhere in this report under the caption "Portfolio Changes During the Year," which also lists dispositions of portfolio securities. During the 1995 and 1994 fiscal years, the Company invested a total of \$9,556,876 and \$10,679,997, respectively.

#### Financial Liquidity and Capital Resources

At March 31, 1996, the Company and CSVC had consolidated net cash equivalent assets (cash and cash equivalents less the note payable to bank) of \$17.0 million, \$10.0 million of which was held by CSVC. Pursuant to Small Business Administration ("SBA") regulations, net cash equivalent assets held by CSVC may not be transferred or advanced to the Company without first obtaining the consent of the SBA.

The Company, on a separate basis, had \$7.0 million in net cash equivalent assets at March 31, 1996. The Company also has an unsecured \$15,000,000 revolving line of credit, all of which was available at March 31, 1996. Approximately \$16.4 million of the Company's separate investment portfolio is represented by unrestricted publicly-traded securities, which have an ascertainable market value and represent a primary source of liquidity.

Funds to be used by the Company for operating or investment purposes may be transferred in the form of dividends, management fees or loans from Skylawn Corporation, The RectorSeal Corporation and The Whitmore Manufacturing Company, wholly-owned subsidiaries of the Company, to the extent of their available cash reserves and borrowing capacities.

Under current SBA regulations and subject to SBA's approval of its credit application, CSVC would be entitled to borrow up to \$34.5 million in addition to the \$11 million presently outstanding. Management believes that the net cash equivalent assets available at year end and additional borrowing capacity available through the issuance of SBA-guaranteed debentures will provide adequate funds for CSVC's venture investment activities.

Management believes that the Company's consolidated net cash equivalent assets are adequate to meet its expected requirements. Consistent with the long-term strategy of the Company and CSVC, the disposition of investments from time to time may also be an important source of funds for future investment

activities.

#### Impact of Inflation

The Company does not believe that its business is materially affected by inflation, other than the impact which inflation may have on the securities markets, the valuations of business enterprises and the relationship of such valuations to underlying earnings, all of which will influence the value of the Company's investments.

#### Risks

Pursuant to Section 64(b)(1) of the Investment Company Act of 1940, a business development company is required to describe the risk factors involved in an investment in the securities of such company due to the nature of the company's investment portfolio. Accordingly the Company states that:

The Company's objective is to achieve capital appreciation through investments in businesses believed to have favorable growth potential. Such businesses are often undercapitalized small companies which lack management depth and have not yet attained profitability. The Company's venture investments often include securities which do not yield interest or dividends and are subject to legal or contractual restrictions on resale, which restrictions adversely affect the liquidity and marketability of such securities.

Because of the speculative nature of the Company's investments and the lack of any market for the securities initially purchased by the Company, there is a significantly greater risk of loss than is the case with traditional investment securities. The high-risk, long-term nature of the Company's venture investment activities may prevent shareholders of the Company from achieving price appreciation and dividend distributions.

#### Selected Consolidated Financial Data (all figures in thousands except per share data)

	1986	1987	1988	1989	1990
	----	----	----	----	----
Financial Position (as of March 31)					
Investments at cost	\$ 24,033	\$ 21,241	\$ 28,478	\$ 29,665	\$ 32,212
Unrealized appreciation	45,930	65,290	89,512	97,134	99,903
	-----	-----	-----	-----	-----
Investments at market or fair value	69,963	86,531	117,990	126,799	132,115
Total assets	74,211	137,520	183,941	131,365	185,231
Subordinated debentures	10,000	16,000	15,000	15,000	15,000
Deferred taxes on unrealized appreciation	12,581	21,837*	30,073	32,619	33,608
Net assets	51,048	66,367*	78,376	83,124	94,610
Shares outstanding**	3,955	3,776	3,563	3,563	3,617
Changes in Net Assets (years ended March 31)					
Net investment income	\$ 87	\$ 45	\$ 22	\$ 716	\$ 1,737
Net realized gain (loss) on investments	(190)	8,157	497	27	12,722
Net increase (decrease) in unrealized appreciation before distributions	7,764	10,105*	15,986	5,075	1,780
	-----	-----	-----	-----	-----
Increase in net assets from operations before distributions	7,661	18,307*	16,505	5,818	16,239
Cash dividends paid	(316)	(425)	(378)	(1,069)	(5,197)
Securities dividends	-	-	-	-	-
Treasury stock acquired	-	(2,563)	(4,118)	-	-
Employee stock options exercised	-	-	-	-	444
	-----	-----	-----	-----	-----

Increase in net assets	7,345	15,319*	12,009	4,749	11,486
------------------------	-------	---------	--------	-------	--------

Per Share Data (as of March 31)\*\*

Deferred taxes on unrealized appreciation	\$ 3.18	\$ 5.78*	\$ 8.44	\$ 9.15	\$ 9.29
Net assets	12.91	17.58*	22.00	23.33	26.16
% Increase	16.8%	36.2%	25.1%	6.0%	12.1%
Closing market price	9.875	17.50	16.75	18.25	21.375
Cash dividends paid	0.08	0.1075	0.10	0.30	1.44
Securities dividends	-	-	-	-	-

Selected Consolidated Financial Data  
(all figures in thousands except per share data)  
(continued)

	1991	1992	1993	1994	1995	1996
	----	----	----	----	----	----
Financial Position (as of March 31)						
Investments at cost	\$ 31,593	\$ 34,929	\$ 33,953	\$ 41,993	\$ 49,730	\$ 58,544
Unrealized appreciation	107,120	100,277	113,153	132,212	153,031	198,386
	-----	-----	-----	-----	-----	-----
Investments at market or fair value	138,713	135,206	147,106	174,205	202,761	256,930
Total assets	149,975	208,871	176,422	270,874	213,811	326,972
Subordinated debentures	15,000	11,000	15,000	15,000	11,000	11,000
Deferred taxes on unrealized appreciation	36,063	33,761	38,112	45,932	53,247	69,121
Net assets	97,139	107,522	121,455	133,053	147,370	189,048
Shares outstanding**	3,617	3,644	3,681	3,715	3,735	3,767

Changes in Net Assets (years ended March 31)

Net investment income	\$ 2,090	\$ 2,363	\$ 2,189	\$ 2,870	\$ 2,447	\$ 2,855
Net realized gain (loss) on investments	(2,515)	14,313	5,099	(475)	142	11,174
Net increase (decrease) in unrealized appreciation before distributions	4,762	(4,541)	8,524	11,160	13,584	38,746
	-----	-----	-----	-----	-----	-----
Increase in net assets from operations before distributions	4,337	12,135	15,812	13,555	16,173	52,775
Cash dividends paid	(1,809)	(2,181)	(2,202)	(2,228)	(2,241)	(2,270)
Securities dividends	-	-	-	-	-	(9,402)
Treasury stock acquired	-	-	-	-	-	-
Employee stock options exercised	-	429	322	272	385	575
	-----	-----	-----	-----	-----	-----
Increase in net assets	2,528	10,383	13,932	11,599	14,317	41,678

Per Share Data (as of March 31)\*\*

Deferred taxes on unrealized appreciation	\$ 9.97	\$ 9.27	\$ 10.35	\$ 12.36	\$ 14.26	\$ 18.35
Net assets	26.86	29.51	32.99	35.81	39.46	50.18
% Increase	2.7%	9.9%	11.8%	8.5%	10.2%	27.2%
Closing market price	20.75	24.25	36.50	38.125	38.00	60.00
Cash dividends paid	0.50	0.60	0.60	0.60	0.60	0.60
Securities dividends	-	-	-	-	-	2.50

\* Restated on a pro forma basis to reflect a change in method of accounting for deferred income taxes.

\*\* Shares outstanding and per share amounts have been restated to give effect to a two-for-one stock split in September 1987.

## Shareholder Information

### Stock Transfer Agent

KeyCorp Shareholder Services, Inc., 1201 Elm Street, Suite 5050, Dallas, TX 75270-2014 (Telephone (800) 527-7844) serves as transfer agent for the Company's common stock. Certificates to be transferred should be mailed directly to the transfer agent, preferably by registered mail.

### Shareholders

The Company had approximately 880 record holders of its common stock at March 31, 1996. This total does not include an estimated 1,400 shareholders with shares held under beneficial ownership in nominee name or within clearinghouse positions of brokerage firms or banks.

### Market Prices

The common stock of Capital Southwest Corporation is traded in the over-the-counter market through the National Association of Securities Dealers Automated Quotation ("Nasdaq") National Market System under the symbol CSWC. The following high and low selling prices for the shares during each quarter of the last two fiscal years were taken from quotations provided to the Company by the National Association of Securities Dealers, Inc.

Quarter Ended	High	Low
- - - - -	----	---
June 30, 1994 .....	\$40	\$37 3/4
September 30, 1994.....	40 3/4	39
December 31, 1994 .....	39 1/2	34
March 31, 1995 .....	38 3/4	36

Quarter Ended	High	Low
- - - - -	----	---
June 30, 1995 .....	\$45	\$37 3/4
September 30, 1995.....	45 3/4	41 1/2
December 31, 1995 .....	51 1/2	44 1/4
March 31, 1996 .....	60	50 1/2

### Dividends

The payment dates and amounts of cash dividends per share since April 1, 1994, are as follows:

Payment Date	Cash Dividend
- - - - -	-----
May 31, 1994 .....	\$0.20
November 30, 1994 .....	0.40
May 31, 1995 .....	0.20
November 30, 1995 .....	0.40
May 31, 1996 .....	0.20

The amounts and timing of cash dividend payments have generally been dictated by requirements of the Internal Revenue Code regarding the distribution of taxable net investment income of regulated investment companies.

A dividend of one share of Palm Harbor Homes, Inc. common stock for each five shares of Capital Southwest common stock was paid on July 31, 1995. Cash payments were made in lieu of Palm Harbor stock to record holders of fewer than 50 shares of Capital Southwest and in lieu of fractional shares.

### Automatic Dividend Reinvestment and Optional Cash Contribution Plan

As a service to its shareholders, the Company offers an Automatic Dividend Reinvestment and Optional Cash Contribution Plan for shareholders of record who own a minimum of 25 shares. The Company pays all costs of administration of the Plan except brokerage transaction fees. Upon request, shareholders may obtain information on the Plan from the Company, 12900 Preston Road, Suite 700, Dallas, Texas 75230. Telephone (214) 233-8242.

Annual Meeting

The Annual Meeting of Shareholders of Capital Southwest Corporation will be held on Monday, July 15, 1996, at 10:00 a.m. in the North Dallas Bank Tower Meeting Room (first floor), 12900 Preston Road, Dallas, Texas.

INDEPENDENT AUDITORS' CONSENT

The Board of Directors  
Capital Southwest Corporation:

We consent to incorporation by reference in the registration statement (No. 33-43881) on Form S-8 of Capital Southwest Corporation of our report dated April 19, 1996, relating to the consolidated statements of financial condition of Capital Southwest Corporation and subsidiary as of March 31, 1996 and 1995, the portfolio of investments as of March 31, 1996, and the related consolidated statements of operations, changes in net assets and cash flows for each of the years in the three-year period ended March 31, 1996 and the selected per share data and ratios for each of the years in the four-year period ended March 31, 1996, which report appears in the annual report to shareholders for the year ended March 31, 1996 and is incorporated by reference in the annual report on Form 10-K of Capital Southwest Corporation.

KPMG Peat Marwick L.L.P.  
-----

Dallas, Texas  
June 21, 1996

<ARTICLE> 6

<LEGEND>

This schedule contains summary financial information extracted from the Consolidated Statement of Financial Condition at March 31, 1996 and the Consolidated Statement of Operations for the year ended March 31, 1996 and is qualified in its entirety by refernece to such financial statements.

</LEGEND>

<PERIOD-TYPE>	12-MOS	
<FISCAL-YEAR-END>		MAR-31-1996
<PERIOD-START>		APR-01-1995
<PERIOD-END>		MAR-31-1996
<INVESTMENTS-AT-COST>		58,544,100
<INVESTMENTS-AT-VALUE>		256,930,461
<RECEIVABLES>		285,002
<ASSETS-OTHER>		2,711,802
<OTHER-ITEMS-ASSETS>		67,045,185
<TOTAL-ASSETS>		326,972,450
<PAYABLE-FOR-SECURITIES>		0
<SENIOR-LONG-TERM-DEBT>		11,000,000
<OTHER-ITEMS-LIABILITIES>		126,924,697
<TOTAL-LIABILITIES>		137,924,697
<SENIOR-EQUITY>		0
<PAID-IN-CAPITAL-COMMON>		9,017,537
<SHARES-COMMON-STOCK>		3,767,051
<SHARES-COMMON-PRIOR>		3,735,051
<ACCUMULATED-NII-CURRENT>		4,490,374
<OVERDISTRIBUTION-NII>		0
<ACCUMULATED-NET-GAINS>		53,307,782
<OVERDISTRIBUTION-GAINS>		0
<ACCUM-APPREC-OR-DEPREC>		129,265,362
<NET-ASSETS>		189,047,753
<DIVIDEND-INCOME>		3,597,004
<INTEREST-INCOME>		2,018,308
<OTHER-INCOME>		561,950
<EXPENSES-NET>		3,246,897
<NET-INVESTMENT-INCOME>		2,854,917
<REALIZED-GAINS-CURRENT>		11,174,025
<APPREC-INCREASE-CURRENT>		38,745,668
<NET-CHANGE-FROM-OPS>		52,774,610
<EQUALIZATION>		

	0	
<DISTRIBUTIONS-OF-INCOME>		2,253,831
<DISTRIBUTIONS-OF-GAINS>		153,376
<DISTRIBUTIONS-OTHER>		9,264,304
<NUMBER-OF-SHARES-SOLD>		32,000
<NUMBER-OF-SHARES-REDEEMED>		0
<SHARES-REINVESTED>		0
<NET-CHANGE-IN-ASSETS>		41,667,849
<ACCUMULATED-NII-PRIOR>		3,889,288
<ACCUMULATED-GAINS-PRIOR>		42,287,133
<OVERDISTRIB-NII-PRIOR>		0
<OVERDIST-NET-GAINS-PRIOR>		0
<GROSS-ADVISORY-FEES>		0
<INTEREST-EXPENSE>		1,700,003
<GROSS-EXPENSE>		3,246,897
<AVERAGE-NET-ASSETS>		0
<PER-SHARE-NAV-BEGIN>		39.46
<PER-SHARE-NII>		.76
<PER-SHARE-GAIN-APPREC>		13.25
<PER-SHARE-DIVIDEND>		(0.60)
<PER-SHARE-DISTRIBUTIONS>		(0.04)
<RETURNS-OF-CAPITAL>		(2.46)
<PER-SHARE-NAV-END>		50.18
<EXPENSE-RATIO>		0
<AVG-DEBT-OUTSTANDING>		0
<AVG-DEBT-PER-SHARE>		0

