SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

(Mark One)
[X] 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, 2001 Commission File Number: 814-61

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)

(972) 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 X 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. [X]

The aggregate market value of the voting stock held by non-affiliates of the registrant as of May 1, 2001 was $115,062,421, 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 15, 2001 was 3,815,051.

Documents Incorporated by Reference	Part of Form 10-K
(1) Annual Report to Shareholders for the Year Ended March 31, 2001	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 16, 2001	Part III

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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 ("CSVC"), certain of its assets and its license as a small business investment company ("SBIC"). CSVC is a closed-end, non-diversified investment company of the management type registered under the Investment Company Act of 1940 (the "1940 Act"). Prior to March 30, 1988, the Company was registered as a closed-end, non-diversified investment company under 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's investments are focused on early-stage financings, expansion financings, management buyouts and recapitalizations in a broad range of industry segments. The portfolio is a composite of 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 $50,379,546 and a value of $274,620,768, representing 86.9% of the value of the Company's consolidated investment portfolio at March 31, 2001. For a narrative description of the twelve largest investments, see "Twelve Largest Investments - March 31, 2001" on pages 7 through 9 of the Company's Annual Report to Shareholders for the Year Ended March 31, 2001 (the "2001 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 is unaudited.

The Company competes for attractive investment opportunities with venture capital partnerships and corporations, venture capital affiliates of industrial and financial companies, SBICs and wealthy individuals.

The number of persons employed by the Company at March 31, 2001 was seven.

Item 2. Properties

The Company maintains its offices at 12900 Preston Road, Suite 700, Dallas, Texas, 75230, where it rents approximately 3,700 square feet of office space pursuant to a lease agreement expiring in February 2003. 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, 2001.

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 32 of the 2001 Annual Report is herein incorporated by reference.

Item 6. Selected Financial Data

"Selected Consolidated Financial Data" on page 31 of the 2001 Annual Report is herein incorporated by reference.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Pages 28 through 30 of the Company's 2001 Annual Report are herein incorporated by reference.

Item 7A. Quantitative and Qualitative Disclosure About Market Risk

The Company is subject to financial market risks, including changes in marketable equity security prices. The Company does not use derivative financial instruments to mitigate any of these risks. The return on the Company's investments is not materially affected by foreign currency fluctuations.

The Company's investment in portfolio securities consists of fixed rate debt securities which totaled $12,432,971 at March 31, 2001, equivalent to 3.94% of the value of the Company's total investments. Since these debt securities usually have relatively high fixed rates of interest, minor changes in market yields of publicly-traded debt securities have little or no effect on the values of debt securities in the Company's portfolio and no effect on interest income. On the other hand, significant changes in the market yields of publicly-traded debt securities may have a material effect on the values of debt securities in our portfolio. The Company's investments in debt securities are generally held to maturity and their fair values are determined on the basis of the terms of the debt security and the financial condition of the issuer.

A portion of the Company's investment portfolio consists of debt and equity securities of private companies. The Company anticipates little or no effect on the values of these investments from modest changes in public market equity valuations. Should significant changes in market valuations of comparable publicly-owned companies occur, there would be a corresponding effect on valuations of private companies, which would affect the value and the amount and timing of proceeds eventually realized from these investments. A portion of the Company's investment portfolio also consists of restricted common stocks and warrants to purchase common stocks of publicly-owned companies. The fair values of these restricted securities are influenced by the nature of applicable resale restrictions, the underlying earnings and financial condition of the issuer, and the market valuations of comparable publicly-owned companies. A portion of the Company's investment portfolio also consists of unrestricted, freely marketable common stocks of publicly-owned companies. These freely marketable investments are directly exposed to equity price risks, in that a change in an issuer's public market equity price would result in an identical change in the fair value of the Company's investment in such security.

Item 8. Financial Statements and Supplementary Data

Pages 10 through 27 of the Company's 2001 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, 2001 and 2000.

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total
	(In thousands, except per share amounts)				
2001					
Net investment income	$ 25	$ 987	$ 434	$ 277	$ 1,723
Net realized gain (loss) on investments	1,442	--	(768)	(3,905)	(3,231)
Net increase (decrease) in unrealized appreciation of investments	(1,463)	(2,678)	(9,821)	7,492	(6,470)
Net increase (decrease) in net assets from operations	4	(1,691)	(10,155)	3,864	(7,978)
Net increase (decrease) in net assets from operations per share	--	(0.44)	(2.66)	1.01	(2.09)
2000					
Net investment income	$ 547	$ 723	$ 121	$ 272	$ 1,663
Net realized gain on investments	5,090	910	16	4	6,020
Net increase (decrease) in unrealized appreciation of investments	239	(25,423)	3,976	(3,542)	(24,750)
Net increase (decrease) in net assets from operations	5,876	(23,790)	4,113	(3,266)	(17,067)
Net increase (decrease)in net assets from operations per share	1.54	(6.23)	1.08	(0.86)	(4.47)

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 caption "Election of Directors" in the Company's definitive Proxy Statement for Annual Meeting of Shareholders to be held July 16, 2001, filed pursuant to Regulation 14A under the Securities Exchange Act of 1934, on or about June 8, 2001 (the "2001 Proxy Statement") is herein incorporated by reference.

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:

Patrick F. Hamner, age 45, 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 54, 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 40, 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 72, 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, subject to earlier termination by the Company's board of directors.

Item 11. Executive Compensation

The information set forth under the caption "Compensation of Directors and Executive Officers" in the 2001 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 2001 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, 2001 or proposed for the fiscal year ending March 31, 2002.

PART IV

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

(a)(1) The following financial statements included in pages 10 through 27 of the Company's 2001 Annual Report are herein incorporated by reference:

(A) Portfolio of Investments - March 31, 2001
Consolidated Statements of Financial Condition - March 31, 2001 and 2000
Consolidated Statements of Operations - Years Ended March 31, 2001, 2000 and 1999
Consolidated Statements of Changes in Net Assets - Years Ended March 31, 2001, 2000 and 1999
Consolidated Statements of Cash Flows - Years Ended March 31, 2001, 2000 and 1999

(B) Notes to Consolidated Financial Statements

(C) Notes to Portfolio of Investments

(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 6.

(b) The Company filed no reports on Form 8-K during the three months ended March 31, 2001.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(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 15, 2001

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 15, 2001
/s/ Gary L. Martin (Gary L. Martin)	Director	June 15, 2001
/s/ Graeme W. Henderson (Graeme W. Henderson)	Director	June 15, 2001
/s/ James M. Nolan (James M. Nolan)	Director	June 15, 2001
/s/ John H. Wilson (John H. Wilson)	Director	June 15, 2001
/s/ Tim Smith (Tim Smith)	Vice President and Secretary-Treasurer (Financial and Accounting Officer)	June 15, 2001

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 debenture of CSVC guaranteed by the Small Business Administration (filed as 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 (filed as Exhibit 10.1 to Form 10-K for the fiscal year ended March 31, 1996).
10.2	Amendment No. I to 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	Amendments One and Two to Retirement Plan for Employees of Capital Southwest Corporation and Its Affiliates as amended and restated effective April 1, 1989.
10.5	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).
10.6	Amendment One to Capital Southwest Corporation and Its Affiliates Restoration of Retirement Income Plan for certain highly-compensated superceded plan participants effective April 1, 1993.

10.7	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).
10.8	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).
10.9	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).
10.10	Capital Southwest Corporation 1999 Stock Option Plan.

Exhibit No.	Description
13. *	Annual Report to Shareholders for the fiscal year ended March 31, 2001.
21.	List of subsidiaries of the Company.
23. *	Independent Auditors' Consent.

Twelve Largest Investments - March 31, 2001

Palm Harbor Homes, Inc. — $78,551,000

Palm Harbor Homes, Dallas, Texas, is an integrated manufactured housing company, building, retailing, financing and insuring homes produced in 15 plants in Alabama, Arizona, Florida, Georgia, North Carolina, Ohio, Oregon and Texas and sold in 28 states by over 150 independent dealers and 145 company-owned retail superstores. Palm Harbor manufactures high-quality, energy-efficient homes designed to meet the need for affordable housing, particularly among retirees and newly-formed families.

During the year ended March 30, 2001, Palm Harbor earned $19,829,000 ($0.87 per share) on net sales of $650,451,000, compared with earnings of $38,596,000 ($1.66 per share) on net sales of $777,471,000 in the previous year. The March 30, 2001 closing Nasdaq bid price of Palm Harbor's common stock was $15.188 per share.

At March 31, 2001, the $10,931,955 investment in Palm Harbor by Capital Southwest and its subsidiary was valued at $78,551,000 ($10.00 per share), consisting of 7,855,121 restricted shares of common stock, representing a fully-diluted equity interest of 34.5%.

The RectorSeal Corporation — $47,500,000

The RectorSeal Corporation, Houston, Texas, with two plants in Texas and a plant in New York, manufactures chemical specialty products including pipe thread sealants, firestop sealants, plastic solvent cements and other formulations for plumbing and industrial applications. RectorSeal's major subsidiary, Jet-Lube, Inc., with plants in Texas, England and Canada, produces anti-seize compounds, specialty lubricants and other products used in industrial and oil field applications. Another subsidiary, Cargo Chemical, produces a limited line of automotive chemical products. RectorSeal also owns a 20% equity interest in The Whitmore Manufacturing Company (described subsequently).

During the year ended March 31, 2001, RectorSeal earned $5,669,000 on revenues of $56,240,000, compared with earnings of $4,988,000 on revenues of $53,858,000 in the previous year. RectorSeal's earnings do not reflect its 20% equity in The Whitmore Manufacturing Company.

At March 31, 2001, Capital Southwest owned 100% of RectorSeal's common stock having a cost of $52,600 and a value of $47,500,000.

Skylawn Corporation — $38,000,000

Skylawn Corporation, Hayward, California 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. These entities have provided cemetery and funeral services to their respective communities for many years. A captive insurance company and funeral and cemetery trusts enable Skylawn's clients to make pre-need arrangements.

For the fiscal year ended March 31, 2001, Skylawn, earned $4,120,000 on revenues of $25,799,000. In the previous year, Skylawn, after adopting a change in accounting principle, earned $2,940,000 on revenues of $24,574,000. Before this change, fiscal 2000 earnings were $4,163,000.

At March 31, 2001, Capital Southwest owned 100% of Skylawn Corporation's common stock, which had a cost of $4,510,400 and was valued at $38,000,000.

Alamo Group Inc. — $28,213,000

Alamo Group Inc., Seguin, Texas, is a leading designer, manufacturer and distributor of heavy-duty, tractor-mounted mowing and other vegetation maintenance equipment, power-sweeping equipment and replacement parts. Founded in 1969, Alamo Group operates 11 manufacturing facilities and serves governmental, industrial and agricultural markets in the U.S. and Europe.

For the year ended December 31, 2000, Alamo reported consolidated earnings of $10,770,000 ($1.11 per share) on net sales of $215,874,000, compared with earnings of $6,102,000 ($0.63 per share) on net sales of $176,608,000 in the previous year. The March 30, 2001 closing NYSE market price of Alamo's common stock was $14.30 per share.

At March 31, 2001, the $2,065,047 investment in Alamo by Capital Southwest and its subsidiary was valued at $28,213,000 ($10.00 per share), consisting of 2,821,300 restricted shares of common stock, representing a fully-diluted equity interest of 27.2%.

Media Recovery, Inc. $18,000,000

Media Recovery, Inc., Graham, Texas, distributes computer and office automation supplies and accessories to corporate customers through its direct sales force with 25 offices in 18 states. Its Shockwatch division manufactures impact and tilt monitoring devices used to detect mishandled shipments. Media Recovery's subsidiary, The Damage Prevention Company, Denver, Colorado, manufactures dunnage products used to prevent damage in trucking, rail and export container shipments.

During the year ended September 30, 2000, Media Recovery reported net income of $3,139,000 on net sales of $92,705,000, compared with net income of $2,418,000 on net sales of $88,707,000 in the previous year.

At March 31, 2001, the $5,415,000 investment in Media Recovery by Capital Southwest and its subsidiary was valued at $18,000,000, consisting of 4,800,000 shares of Series A convertible preferred stock, representing a fully-diluted equity interest of 68.2%.

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Encore Wire Corporation $13,623,000

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, 2000, Encore reported net income of $8,050,000 ($0.52 per share) on net sales of $283,689,000, compared with net income of $6,594,000 ($0.42 per share) on net sales of $229,670,000 in the previous year. The March 30, 2001 closing Nasdaq bid price of Encore's common stock was $7.813 per share.

At March 31, 2001, the $5,800,000 investment in 2,724,500 shares of Encore's restricted common stock by Capital Southwest and its subsidiary was valued at $13,623,000 ($5.00 per share), representing a fully-diluted equity interest of 17.1%.

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Concert Industries Ltd. $11,162,000

Concert Industries Ltd., Vancouver, British Columbia, manufactures latex, thermal and multi-bonded air-laid materials produced in state-of-the-art facilities in Thurso, Quebec; Falkenhagen, Germany; Charleston, South Carolina; and Gatineau, Quebec (to be launched in 2001). Its air-laid materials are used as absorbent cores in feminine hygiene, specialty diapers and adult incontinence products. Other applications are wet wipes, industrial wipes, food packaging pads and disposable medical products.

During the year ended December 31, 2000, Concert reported net income of C$7,375,000 (C$0.31 per share) on net sales of C$86,606,000, compared with net income of C$5,388,000 (C$0.30 per share) on net sales of C$47,658,000 in the previous year. The March 30, 2001 closing Toronto Stock Exchange market price of Concert's common stock was C$6.30 (US$4.00) per share.

At March 31, 2001, the US$10,867,649 investment by Capital Southwest and its subsidiary in a junior secured note, exchangeable subordinated debentures, 787,286 shares of common stock and a warrant to acquire 83,643 shares of common stock was valued at US$11,162,000, representing a fully-diluted equity interest of 9.8%.

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AT&T Corp. - Liberty Media Group $9,483,768

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AT&T Corp. - Liberty Media Group, New York, New York, acquired by AT&T as part of Tele-Communications, Inc. in March 1999, produces, acquires and distributes entertainment, sports and informational programming services and electronic retailing services, which are delivered via cable television and other technologies to viewers in the United States and overseas.

For the year ended December 31, 2000, Liberty Media Group reported net income of $1.488 billion ($0.58 per share) on net sales of $1.526 billion compared with a net loss of $2.081 billion ($0.80 per share) on net sales of $1.011 billion in the previous year. The March 30, 2001 closing NYSE market price of Series A Liberty Media Group common (tracking) stock was $14.00 per share.

At March 31, 2001, Capital Southwest owned 677,412 unrestricted shares of Series A Liberty Media Group tracking stock, having a total cost of $25 and a market value of $9,483,768 ($14.00 per share).

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All Components, Inc. $8,750,000

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All Components, Inc., Farmers Branch, Texas, distributes and produces memory and other components for personal computer manufacturers, retailers and value-added resellers. Through its Dallas-based sales and distribution center and its contract manufacturing plants in Austin, Texas and Boise, Idaho, the company serves over 2,000 customers throughout the United States.

During the year ended August 31, 2000, All Components reported net income of $4,025,000 on net sales of $220,835,000, compared with net income of $2,542,000 on net sales of $157,932,000 in the previous year.

At March 31, 2001, the $150,000 investment in All Components by Capital Southwest's subsidiary was valued at $8,750,000 consisting of 150,000 shares of Series A convertible preferred stock, representing a 29.0% fully-diluted equity interest.

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The Whitmore Manufacturing Company $8,000,000

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The Whitmore Manufacturing Company, with plants in Rockwall, Texas and Cleveland, Ohio, manufactures specialty lubricants for heavy equipment used in surface mining, railroads and other industries, and produces water-based coatings for the automotive and primary metals industries. Whitmore's subsidiary, Fluid Protection Corporation, manufactures fluid contamination control devices.

During the year ended March 31, 2001, Whitmore reported net income of $41,000 on net sales of $11,536,000, compared with a net loss of $10,600 on net sales of $13,176,000 in the previous year. The company is owned 80% by Capital Southwest and 20% by Capital Southwest's subsidiary, The RectorSeal Corporation (described on page 7).

At March 31, 2001, the direct investment in Whitmore by Capital Southwest was valued at $8,000,000 and had a cost of $1,600,000.

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Mail-Well, Inc. $7,338,000

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Mail-Well, Inc., Englewood, Colorado, is a consolidator of companies engaged in producing envelopes and labels and in printing for commercial applications and for distributors. Mail-Well has approximately 15,000 employees and operates more than 140 plants and numerous sales offices throughout North America and the United Kingdom.

For the year ended December 31, 2000, Mail-Well reported earnings of $27,618,000 ($0.56 per share) on net sales of $2,425,215,000, compared with earnings of $64,482,000 ($1.20 per share) on net sales of $1,887,230,000 in the previous year. The March 30, 2001 closing NYSE market price of Mail-Well's common stock was $4.87 per share.

At March 31, 2001, the $2,986,870 investment in Mail-Well by Capital Southwest was valued at $7,338,000 ($3.50 per share), consisting of 2,096,588 restricted shares of common stock, representing a fully-diluted equity interest of 3.5%.

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Organized Living, Inc. $6,000,000

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Organized Living, Inc., Lenexa, Kansas, is a leading specialty retailer of high quality products designed to provide storage and organization solutions for customers' home and office needs. The company's superstores provide a one-stop shopping destination for storage and organization products for every area of the home including closets, kitchens, laundry rooms, pantries, bathrooms, bedrooms, playrooms, garages and offices. Organized Living currently operates 14 superstores in retail areas in 12 states.

During the year ended March 31, 2001, Organized Living reported a net loss of $3,483,000 on net sales of $49,408,000, compared with a net loss of $4,141,000 on net sales of $31,261,000 in the previous year.

At March 31, 2001, the investment by Capital Southwest in 2,500,001 shares of Series D convertible preferred stock, was valued at its cost of $6,000,000 and represented a fully-diluted equity interest of 10.0% to 12.7%.

Portfolio of Investments - March 31, 2001

Company	Equity (a)	Investment (b)	Cost	Value (c)
+AT&T CORP. New York, New York Major provider of telecommunications services in four segments: business long distance, consumer long distance, broadband (cable) and wireless.	<1%	++133,245 shares Series A common stock (acquired 3-9-99)	$ 43	$ 2,838,119
+AT&T CORP. - Liberty Media Group New York, New York Production and distribution of cable television programming services and wireless and wireline communications services.	<1%	++677,412 shares Series A common stock (acquired 3-9-99)	25	9,483,768
+ALAMO GROUP INC. Seguin, Texas Tractor-mounted mowing and vegetation maintenance equipment for governmental, industrial and agricultural markets; power-sweeping equipment for municipalities.	27.2%	2,821,300 shares common stock (acquired 4-1-73, 7-18-78 and 9-9-99 thru 10-4-99)	2,065,047	28,213,000
ALL COMPONENTS, INC. Farmers Branch, Texas Distribution and production of memory and other components for personal computer manufacturers, retailers and value-added resellers.	29.0%	150,000 shares Series A convertible preferred stock, convertible into 600,000 shares of common stock at $0.25 per share (acquired 9-16-94)	150,000	8,750,000
+ALLTEL CORPORATION Little Rock, Arkansas Wireline and wireless communications and information services.	<1%	++8,880 shares common stock (acquired 7-1-98)	108,355	465,845
BALCO, INC. Wichita, Kansas Specialty architectural products used in the construction and remodeling of commercial and institutional buildings.	89.7%	14% subordinated debentures, payable 2001 to 2002 (acquired 8-13-91)	160,000	160,000
		14% subordinated debenture, payable 2001 to 2002, last maturing $250,000 convertible into 250,000 shares of common stock at $1.00 per share (acquired 6-1-91)	320,000	820,000
		110,000 shares common stock and 60,920 shares Class B non-voting common stock (acquired 10-25-83)	170,920	512,760
		Warrants to purchase 85,000 shares of common stock at $2.40 per share, expiring 2001 (acquired 8-13-91)	-	51,000
			650,920	1,543,760

+Publicly-owned company

++Unrestricted securities as defined in Note (b)

Company	Equity (a)	Investment (b)	Cost	Value (c)
BOXX TECHNOLOGIES, INC.	9.6%	10% convertible promissory notes due		
Austin, Texas		2001 (acquired 4-26-00)	$ 500,000	$ 500,000
Workstations for computer graphics		1,000,000 shares Series B convertible		
imaging and design.		preferred stock, convertible into		
		1,000,000 shares of common stock at		
		$0.50 per share (acquired 8-20-99)	500,000	-
		Warrants to purchase 80,000 shares of		
		series B preferred stock at $0.50		
		per share, expiring 2005		
		(acquired 4-26-00)	-	-
			1,000,000	500,000
+CISCO SYSTEMS, INC.	<1%	++17,217 shares common stock		
(distributed by STARTech Seed Fund I)		(acquired 3-19-01)	257,400	272,252
San Jose, California				
Networking hardware, software and				
services for the Internet.				
+CONCERT INDUSTRIES LTD.	9.8%	Junior secured note, due 2004		
Vancouver, British Columbia		(acquired 5-31-00)	1,500,000	1,500,000
Manufacture and sale of latex, thermal		8% subordinated debentures due 2008,		
and multi-bonded air-laid nonwoven fabrics		$8,471,263 principal amount,		
having superabsorbent properties.		exchangeable for 2,046,199 shares of		
		common stock at $4.14 (C$6.525) per		
		share (acquired 5-31-00)	7,143,000	6,785,000
		++365,000 shares common stock		
		(acquired 11-10-00, 11-14-00 and		
		12-1-00)	1,299,649	1,459,000
		422,286 shares common stock		
		(acquired 5-31-00)	877,475	1,350,000
		Warrant to purchase 83,643 shares of		
		common stock at C$6.00 (U$3.807) per		
		share, expiring 2002 (acquired		
		5-31-00)	47,525	68,000
			10,867,649	11,162,000
+CYBERSOURCE CORPORATION	<1%	++138,027 shares common stock		
Mountain View, California		(acquired 7-9-00)	1,000,000	241,547
Provides traditional and e-commerce				
businesses with systems for processing				
electronic payments.				
DENNIS TOOL COMPANY	66.2%	20,725 shares 5% convertible preferred		
Houston, Texas		stock, convertible into 20,725		
Polycrystalline diamond compacts (PDCs)		shares of common stock at $48.25 per		
used in oil field drill bits and in		share (acquired 8-10-98)	999,981	500,000
mining and industrial applications.		140,137 shares common stock (acquired		
		3-7-94 and 8-10-98)	2,329,963	2,830,000
			3,329,944	3,330,000
+DREW SCIENTIFIC GROUP PLC	<1%	++539,925 shares common stock		
(formerly CDC Technologies, Inc.)		(acquired 3-21-01)	3,139,161	546,620
Cumbria, England				
Diagnostic medical equipment and				
consumables.				

+Publicly-owned company ++Unrestricted securities as defined in Note (b)

Company	Equity (a)	Investment (b)	Cost	Value (c)
+ENCORE WIRE CORPORATION McKinney, Texas Electrical wire and cable for residential and commercial use.	17.1%	2,724,500 shares common stock (acquired 7-16-92, 3-15-94, 4-28-94 and 10-7-98)	$ 5,800,000	$ 13,623,000
+FMC CORPORATION Chicago, Illinois Machinery and chemicals in diversified product areas.	<1%	++6,430 shares common stock (acquired 6-6-86)	123,777	473,505
+GLOBAL CROSSING LTD. Hamilton, Bermuda Diversified telecommunications company.	<1%	++64,242 shares common stock (acquired 9-28-99)	78,346	866,625
HEELING, INC. Carrollton, Texas Heelys stealth skate shoes ("one wheel in the heel") sold through specialty skate, lifestyle and sporting goods stores, footwear chains and over the Internet at Heelys.com.	43.0%	10% subordinated debenture due 2006 (acquired 10-30-00, 11-10-00 and 12-7-00)	1,800,000	1,800,000
		1,745,455 shares Series A preferred (acquired 5-26-00)	480,000	480,000
		436,364 shares Series B convertible preferred stock, convertible into 436,364 shares of common stock at $0.275 per share (acquired 5-26-00)	120,000	120,000
			2,400,000	2,400,000
+HOLOGIC, INC. Bedford, Massachusetts Medical instruments including bone densitometers, mammography devices and digital radiography systems.	<1%	++158,205 shares common stock (acquired 8-27-99)	220,000	632,820
INTELLIGENT REASONING SYSTEMS, INC. Austin, Texas Automated optical inspection systems used in the production of printed wired assemblies and high density interconnects.	4.4%	705,128 shares Series B convertible preferred stock, convertible into 705,128 shares of common stock at $0.60 per share (acquired 5-28-97)	423,077	-
		1,513,081 shares Series C convertible preferred stock, convertible into 1,513,081 shares of common stock at $0.74 per share (acquired 6-11-98)	1,119,679	2
		Warrant to purchase 70,513 shares of Series B convertible preferred stock at $0.60 per share, expiring 2004 (acquired 11-21-97)	-	-
			1,542,756	2
+KIMBERLY-CLARK CORPORATION Irving, Texas Manufacturer of tissue, personal care and health care products.	<1%	++77,180 shares common stock (acquired 12-18-97)	2,396,926	5,235,119

+Publicly-owned company

++Unrestricted securities as defined in Note (b)

Company	Equity (a)	Investment (b)	Cost	Value (c)
+MAIL-WELL, INC. Englewood, Colorado Envelopes, labels and commercial printing.	3.5%	2,096,588 shares common stock (acquired 2-18-94, 12-14-94, 7-27-95 and 11-10-98)	$ 2,986,870	$ 7,338,000
MEDIA RECOVERY, INC. Graham, Texas Computer and office automation supplies and accessories; impact and tilt monitoring devices to detect mishandled shipments; dunnage for protecting shipments.	68.2%	4,800,000 shares Series A convertible preferred stock, convertible into 4,800,000 shares of common stock at $1.00 per share (acquired 11-4-97)	5,415,000	18,000,000
+MYLAN LABORATORIES, INC. Pittsburgh, Pennsylvania Proprietary and generic pharmaceutical products.	<1%	++128,286 shares common stock (acquired 11-20-91)	400,000	3,316,193
ORGANIZED LIVING, INC. Lenexa, Kansas Specialty retailer of products designed to provide home and office storage and organization solutions.	10.0%-12.7%	2,500,001 shares Series D convertible preferred stock, convertible into 2,500,000 to 3,333,334 shares of common stock at $1.80 to $2.40 per share (acquired 1-7-00 and 10-30-00)	6,000,000	6,000,000
+PALM HARBOR HOMES, INC. Dallas, Texas Integrated manufacturing, retailing, financing and insuring of manufactured housing produced in 15 plants.	34.5%	7,855,121 shares common stock (acquired 1-3-85, 3-31-88 and 7-31-95)	10,931,955	78,551,000
+PETSMART, INC. Phoenix, Arizona Retail chain of more than 500 stores selling pet foods, supplies and services.	<1%	++654,220 shares common stock (acquired 6-1-95)	2,878,733	2,616,880
THE RECTORSEAL CORPORATION Houston, Texas Chemical specialty products for industrial, construction, oil field and automotive applications; owns 20% of Whitmore Manufacturing.	100.0%	27,907 shares common stock (acquired 1-5-73 and 3-31-73)	52,600	47,500,000
REWIND HOLDINGS, INC. Sugar Land, Texas Owns Bill Young Productions, Texas Video and Post, and Extreme Communications, which produce radio and television commercials and corporate communications videos.	37.5%	12% subordinated notes, payable 2001 to 2004 (acquired 10-21-96, 8-13-97, 8-11-98 and 2-15-01)	3,948,750	1,000,000
		375 shares 8% Series A convertible preferred stock, convertible into 1,500,000 shares of common stock at $0.25 per share (acquired 10-21-96)	375,000	-
		Warrants to purchase 723,750 shares of common stock at $0.25 per share, expiring 2005 and 2008 (acquired 8-11-98 and 2-15-01)	-	-
			4,323,750	1,000,000

+Publicly-owned company

++Unrestricted securities as defined in Note (b)

Company	Equity (a)	Investment (b)	Cost	Value (c)
SKYLAWN CORPORATION Hayward, California Cemeteries, mausoleums and mortuaries located in northern California.	100.0%	1,449,026 shares common stock (acquired 7-16-69)	$ 4,510,400	$ 38,000,000
+SPRINT CORPORATION - FON Group Westwood, Kansas Diversified telecommunications company.	<1%	++72,000 shares common stock (acquired 6-20-84)	449,654	1,583,280
+SPRINT CORPORATION - PCS Group Overland Park, Kansas Domestic wireless telephony services.	<1%	++36,000 shares common stock (acquired 11-23-98)	53,991	684,000
SPROCKETS.COM, INC. Boston, Massachusetts Provides web-based file transfer and collaboration platforms to facilitate the creation of visual media from multiple locations.	7.0%	10% subordinated convertible promissory notes due 2001 and 2002 (acquired 9-15-00, 11-3-00 and 3-20-01)	544,371	1
		2,192,982 shares Series A-2 redeemable convertible preferred stock, convertible into 2,192,982 shares of common stock at $0.342 per share (acquired 5-11-00)	750,000	-
		Warrants to purchase 562,866 shares of common stock at $0.342 per share, expiring 2005 and 2006 (acquired 9-15-00, 11-3-00 and 3-20-01)	5,629	-
			1,300,000	1
TCI HOLDINGS, INC. Denver, Colorado Cable television systems and microwave relay systems.	-	21 shares 12% Series C cumulative compounding preferred stock (acquired 1-30-90)	-	677,250
TEXAS CAPITAL BANCSHARES, INC. Dallas, Texas Owns both Texas Capital Bank, NA, which serves middle market clients, and Bank Direct, an Internet bank.	3.3%	344,828 shares common stock (acquired 5-1-00)	5,000,006	5,000,006
TEXAS PETROCHEMICAL HOLDINGS, INC. Houston, Texas Butadiene for synthetic rubber, MTBE for gasoline octane enhancement and butylenes for varied applications.	5.0%	30,000 shares common stock (acquired 6-27-96)	3,000,000	1

+Publicly-owned company

++Unrestricted securities as defined in Note (b)

Company	Equity (a)	Investment (b)	Cost	Value (c)
TEXAS SHREDDER, INC. San Antonio, Texas Design and manufacture of heavy-duty shredder systems for recycling steel and other materials from junk automobiles.	53.3%	14% subordinated debentures, payable 2001 (acquired 3-6-91 and 6-1-98)	$ 617,970	$ 617,970
		3,296 shares Series A preferred stock (acquired 3-6-91 and 6-1-98)	329,600	329,600
		750 shares Series B convertible preferred stock, convertible into 750,000 shares of common stock at $0.10 per share (acquired 3-6-91)	75,000	3,187,500
			1,022,570	4,135,070
VOCALDATA, INC. Richardson, Texas Hardware and software for customer premises telephony equipment based on Voice Over Internet Protocol.	2.8%	650,001 shares Series A convertible preferred stock, convertible into 1,300,002 shares of common stock at $0.875 per share (acquired 11-4-99 and 12-3-99)	1,137,500	1,290,918
		200,287 shares Series B convertible preferred stock, convertible into 200,287 shares of common stock at $1.759 per share (acquired 10-26-00)	352,305	198,887
			1,489,805	1,489,805
THE WHITMORE MANUFACTURING COMPANY Rockwall, Texas Specialized mining and industrial lubricants; automotive transit coatings.	80.0%	80 shares common stock (acquired 8-31-79)	1,600,000	8,000,000
MISCELLANEOUS	-	Diamond State Ventures, L.P. - 1.9% limited partnership interest (acquired 10-12-99)	119,196	119,196
	-	First Capital Group of Texas III, L.P. - 3.3% limited partnership interest (acquired 12-26-00)	100,000	100,000
	100.0%	Humac Company - 1,041,000 shares common stock (acquired 1-31-75 and 12-31-75)	-	136,000
	<1%	+Liberty Satellite & Technology, Inc. - ++18,000 shares Series A common stock (acquired 12-4-96)	-	29,812
	-	STARTech Seed Fund I - 12.6% limited partnership interest (acquired 4-17-98)	242,600	500,000
	-	STARTech Seed Fund II - 3.1% limited partnership interest (acquired 4-28-00)	450,000	450,000
	<1%	+Triton Energy Limited - ++6,022 shares common stock (acquired 12-15-86)	144,167	113,033
TOTAL INVESTMENTS			$87,601,646	$315,917,509

+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 Capital Southwest Corporation and Capital Southwest Venture Corporation (together, the "Company") in each issuer. Each percentage represents the amount of the issuer's common stock the Company owns 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 holds 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, 2001, restricted securities represented approximately 90% of the value of the consolidated investment portfolio.

(c) Under the valuation policy of the Company, unrestricted securities are valued at the closing sale price for listed securities and at the closing bid price for Nasdaq 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 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, the nature and duration of resale restrictions and the nature of any rights enabling the Company 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.

(d) Agreements between certain issuers and the Company 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, 2001 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 except securities of the following issuers, which are not obligated to bear registration costs: Humac Company, Skylawn Corporation and The Whitmore Manufacturing Company.

(e) 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
Airformed Composites, Inc.	$ 500,000
Amfibe, Inc.	5,210
BOXX Technologies, Inc.	500,000
CDC Technologies, Inc.	40,003
Concert Industries Ltd.	3,799,649
Diamond State Ventures, L.P.	47,321
Dyntec, Inc.	3,835
First Capital Group of Texas III, L.P.	100,000
Heeling, Inc.	2,700,000
Organized Living, Inc.	1,000,000
Rewind Holdings, Inc.	123,750
Sprockets.com, Inc.	1,300,000
STARTech Seed Fund II	450,000
Texas Capital Bancshares, Inc.	5,000,006
VocalData, Inc.	352,305
	$ 15,922,079

Dispositions and Write-offs

	Cost	Amount Received
All Components, Inc.	$ 450,000	$ 450,000
American Homestar Corporation	3,405,824	12,922
Amfibe, Inc.	205,210	6,179,200
Dyntec, Inc.	4,503,835	174,000
iChoose, Inc.	1,100,001	-
SDI Investments Liquidating Trust	118,000	841,255
Vonova Corporation (formerly International Talk.com, Inc.)	3,000,000	-
	$ 12,782,870	$ 7,657,377

Repayments Received		$ 540,000

Capital Southwest Corporation and Subsidiary
Consolidated Statements of Financial Condition

Assets	March 31 2001	March 31 2000
Investments at market or fair value (Notes 1, 2 and 10)		
Companies more than 25% owned (Cost: 2001 - $23,140,865, 2000 - $23,380,865)..................	$205,273,759	$200,608,759
Companies 5% to 25% owned (Cost: 2001 - $17,642,756, 2000 - $22,579,414)..................	19,623,004	22,760,506
Companies less than 5% owned (Cost: 2001 - $46,818,025, 2000 - $39,042,158)..................	91,020,746	100,259,870
Total investments (Cost: 2001 - $87,601,646, 2000 - $85,002,437)..................	315,917,509	323,629,135
Cash and cash equivalents..................	1,137,767	63,986,715
Receivables................................	264,377	238,594
Other assets (Note 8)......................	5,348,315	4,731,360
Totals.................................	$322,667,968	$392,585,804

Liabilities and Shareholders' Equity	March 31 2001	March 31 2000
Note payable to bank (Note 4)	$ 5,000,000	$ 60,000,000
Notes payable to portfolio companies (Note 4)	6,000,000	5,000,000
Accrued interest and other liabilities (Note 8)	2,135,052	2,220,753
Deferred income taxes (Note 3)............	77,924,303	83,489,085
Subordinated debenture (Note 5)...........	5,000,000	5,000,000
Total liabilities	96,059,355	155,709,838
Shareholders' equity (Notes 3 and 6)		
Common stock, $1 par value: authorized, 5,000,000 shares; issued, 4,252,416 shares at March 31, 2001 and March 31, 2000.......................	4,252,416	4,252,416
Additional capital.....................	6,450,747	6,450,747
Undistributed net investment income...............................	3,550,573	4,117,104
Undistributed net realized gain on investments..........................	70,382,314	73,613,301
Unrealized appreciation of investments - net of deferred income taxes..........	149,005,865	155,475,700
Treasury stock - at cost (437,365 shares).....................	(7,033,302)	(7,033,302)
Net assets at market or fair value, equivalent to $59.40 per share at March 31, 2001, and $62.09 per share at March 31, 2000 on the 3,815,051 shares outstanding...	226,608,613	236,875,966
Totals.................................	$322,667,968	$392,585,804

See Notes to Consolidated Financial Statements

Capital Southwest Corporation and Subsidiary
Consolidated Statements of Operations

	Years Ended March 31		
	2001	2000	1999
Investment income (Note 9):			
Interest	$ 542,241	$ 884,152	$ 1,307,668
Dividends	2,955,833	1,878,853	1,966,360
Management and directors' fees	530,400	525,400	538,650
	4,028,474	3,288,405	3,812,678
Operating expenses:			
Interest	1,144,337	456,262	416,174
Salaries	850,959	804,933	1,109,699
Net pension expense (benefit) (Note 8)	(486,174)	(435,984)	(311,625)
Other operating expenses (Notes 7 and 11)	614,861	657,770	727,612
	2,123,983	1,482,981	1,941,860
Income before income taxes	1,904,491	1,805,424	1,870,818
Income tax expense (Note 3)	181,991	142,494	109,100
Net investment income	$ 1,722,500	$ 1,662,930	$ 1,761,718
Proceeds from disposition of investments	$ 7,657,377	$ 14,893,442	$ 1,530,691
Cost of investments sold (Note 1)	12,782,870	5,662,000	--
Realized gain (loss) on investments before income taxes (Note 9)	(5,125,493)	9,231,442	1,530,691
Income tax expense (benefit)	(1,894,506)	3,211,550	535,742
Net realized gain (loss) on investments	(3,230,987)	6,019,892	994,949
Decrease in unrealized appreciation of investments before income taxes	(10,310,835)	(38,071,790)	(63,433,545)
Decrease in deferred income taxes on appreciation of investments (Note 3)	(3,841,000)	(13,322,000)	(22,201,000)
Net decrease in unrealized appreciation of investments	(6,469,835)	(24,749,790)	(41,232,545)
Net realized and unrealized loss on investments	$ (9,700,822)	$(18,729,898)	$(40,237,596)
Decrease in net assets from operations	$ (7,978,322)	$(17,066,968)	$(38,475,878)

See Notes to Consolidated Financial Statements

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

	Years Ended March 31		
	2001	2000	1999
Operations			
Net investment income	$ 1,722,500	$ 1,662,930	$ 1,761,718
Net realized gain (loss) on investments	(3,230,987)	6,019,892	994,949
Net decrease in unrealized appreciation of investments	(6,469,835)	(24,749,790)	(41,232,545)
Decrease in net assets from operations	(7,978,322)	(17,066,968)	(38,475,878)
Distributions from:			
Undistributed net investment income	(2,289,031)	(2,289,031)	(2,280,411)
Capital share transactions			
Exercise of employee stock options	--	--	965,438
Decrease in net assets	(10,267,353)	(19,355,999)	(39,790,851)
Net assets, beginning of year	236,875,966	256,231,965	296,022,816
Net assets, end of year	$ 226,608,613	$ 236,875,966	$ 256,231,965

See Notes to Consolidated Financial Statements

Capital Southwest Corporation and Subsidiary
Consolidated Statements of Cash Flows

	Years Ended March 31		
	2001	2000	1999
Cash flows from operating activities			
Decrease in net assets from operations	$ (7,978,322)	$ (17,066,968)	$ (38,475,878)
Adjustments to reconcile decrease in net assets from operations to net cash provided by operating activities:			
Depreciation and amortization	29,891	31,976	24,667
Net pension benefit	(486,174)	(435,984)	(311,625)
Net realized and unrealized loss on investments	9,700,822	18,729,898	40,237,596
(Increase) decrease in receivables	(25,783)	77,113	17,166
Increase in other assets	(8,923)	(44,754)	(47,315)
Increase (decrease) in accrued interest and other liabilities	(27,179)	41,504	(74,670)
Decrease in accrued pension cost	(209,947)	--	--
Deferred income taxes	170,400	152,600	109,100
Net cash provided by operating activities	1,164,785	1,485,385	1,479,041
Cash flows from investing activities			
Proceeds from disposition of investments	7,657,377	14,893,442	1,530,691
Purchases of securities	(15,922,079)	(21,924,423)	(13,170,132)
Maturities of securities	540,000	4,840,000	744,539
Income taxes paid on realized gain on investments	--	(4,069,101)	(266,643)
Net cash used by investing activities	(7,724,702)	(6,260,082)	(11,161,545)
Cash flows from financing activities			
Increase (decrease) in notes payable to bank	(55,000,000)	60,000,000	(100,000,000)
Increase in notes payable to portfolio companies	1,000,000	5,000,000	--
Distributions from undistributed net investment income	(2,289,031)	(2,289,031)	(2,280,411)
Proceeds from exercise of employee stock options	--	--	965,438
Net cash provided (used) by financing activities	(56,289,031)	62,710,969	(101,314,973)
Net increase (decrease) in cash and cash equivalents	(62,848,948)	57,936,272	(110,997,477)
Cash and cash equivalents at beginning of year	63,986,715	6,050,443	117,047,920
Cash and cash equivalents at end of year	$ 1,137,767	$ 63,986,715	$ 6,050,443
Supplemental disclosure of cash flow information:			
Cash paid during the year for: Interest	$ 1,144,558	$ 436,023	$ 424,926
Income taxes	$ 11,591	$ 4,092,891	$ 288,838

See Notes to Consolidated Financial Statements

1. Summary of Significant Accounting Policies

Capital Southwest Corporation ("CSC") 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 CSC, is a Federal licensee under the Small Business Investment Act of 1958. The following is a summary of significant accounting policies followed in the preparation of the consolidated financial statements of CSC and CSVC (together, the "Company"):

Principles of Consolidation. The consolidated financial statements have been prepared on the value method of accounting in accordance with accounting principles generally accepted in the United States of America 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.

Investments. 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. Investments are recorded on a trade date basis. Dividends are recognized on the ex-dividend date and interest income is accrued daily.

Segment Information. The Company operates and manages its business in a singular segment. As an investment company, the Company invests in portfolio companies in various industries and geographic areas as presented in the portfolio of investments.

2. Valuation of Investments

The consolidated financial statements as of March 31, 2001 and 2000 include securities valued at $285,059,091 (90% of the value of the consolidated investment portfolio) and $272,736,962 (84% 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. 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

For the tax years ended December 31, 2000, 1999 and 1998, CSC and CSVC qualified to be taxed as regulated investment companies ("RICs") under applicable provisions of the Internal Revenue Code. As RICs, CSC 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 CSC 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 material provision was made for Federal income taxes on the investment company taxable income of CSC and CSVC for the 2001, 2000 and 1999 fiscal years. Such income was distributed to shareholders in the form of cash dividends for which CSC and CSVC receive a tax deduction. With respect to net investment income, the income tax expense for each of the three years ended March 31, 2001 includes a deferred tax provision related to the net pension benefit.

CSC and CSVC may not qualify or elect to be taxed as RICs in future years. Therefore, consolidated deferred Federal income taxes of $79,310,000 and $83,151,000 have been provided on net unrealized appreciation of investments of $228,315,863 and $238,626,698 at March 31, 2001 and 2000, respectively. 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, 2001 and 2000.

4. Notes Payable

The note payable to bank at March 31, 2001 was an unsecured $15,000,000 revolving line of credit, of which $5,000,000 had been drawn. The revolving line of credit bears interest at the bank's base rate less .50% or LIBOR plus 1.25% and matures on July 31, 2002. The note payable to bank at March 31, 2000 was an unsecured note with interest payable at 6.48%. The note was paid in full on April 3, 2000.

The notes payable to portfolio companies were demand promissory notes to Skylawn Corporation and The Whitmore Manufacturing Company with interest payable at prime minus 2.25%. Interest expense on these notes were $421,870 in 2001 and $14,218 in 2000.

5. Subordinated Debenture

The subordinated debenture of $5,000,000 outstanding at March 31, 2001 and 2000 is payable to others and guaranteed by the Small Business Administration ("SBA"), bears interest at 8.0% and matures June 1, 2002.

6. Employee Stock Option Plan

Under the 1984 Incentive Stock Option Plan, options to purchase 42,000 shares of the Company's common stock at $35.625 per share (the adjusted market price at the time of grant) were outstanding and exercisable at March 31, 2001 and expire in 2003. The 1984 Incentive Stock Option Plan expired in 1994.

Under the 1999 Stock Option Plan, 140,000 shares of common stock were reserved for issuance to employees and officers of the Company. Options to purchase 32,000 shares at a price of $77.00 per share (the market price at the time of grant) and 6,000 shares at $84.70 were granted during the year ended March 31, 2000 and remain outstanding at March 31, 2001, thus leaving a total of 102,000 options available for future grant. Such options expire ten years from the date of grant and are generally exercisable on or after the first anniversary of the date of grant in eight annual installments. At March 31, 2001, 7,750 shares were exercisable.

At March 31, 2001 and 2000, 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 portfolio companies 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 $42,997 in 2001, $43,862 in 2000 and $35,079 in 1999.

8. Retirement Plans

The Company sponsors a qualified defined benefit pension plan which covers its employees and employees of certain of its wholly-owned portfolio companies. The following information about the plan 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, 2001.

The following tables set forth the plan's benefit obligations and fair value of plan assets at March 31, 2001, 2000 and 1999:

	Years Ended March 31		
	2001	2000	1999
Change in benefit obligation			
Benefit obligation at beginning of year	$ 3,260,366	$ 3,315,119	$ 3,059,555
Service cost	50,961	43,818	68,710
Interest cost	205,976	193,397	199,301
Amendments	--	--	(149,171)
Actuarial gain (loss)	59,571	(201,158)	205,810
Benefits paid	(321,205)	(90,810)	(69,086)
Benefit obligation at end of year	$ 3,255,669	$ 3,260,366	$ 3,315,119
Change in plan assets			
Fair value of plan assets at beginning of year	$ 9,837,547	$ 10,074,598	$ 11,314,714
Actual return on plan assets	(758,307)	(146,241)	(1,171,030)
Benefits paid	(321,205)	(90,810)	(69,086)

Fair value of plan assets at end of year	$ 8,758,035	$ 9,837,547	$ 10,074,598

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

	March 31 2001	March 31 2000
Actuarial present value of benefit obligations:		
Accumulated benefit obligation	$(2,938,747)	$(2,965,576)
Projected benefit obligation for service rendered to date	$(3,255,669)	$(3,260,366)
Plan assets at fair value*	8,758,035	9,837,547
Excess of plan assets over the projected benefit obligation	5,502,366	6,577,181
Unrecognized net (gain) loss from past experience different from that assumed and effects of changes in assumptions	109,379	(1,518,207)
Prior service costs not yet recognized	(151,642)	(162,965)
Unrecognized net assets being amortized over 19 years	(295,308)	(369,139)
Prepaid pension cost included in other assets	$ 5,164,795	$ 4,526,870

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*Primarily equities and bonds including approximately 30,000 shares of common stock of the Company.

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

	Years Ended March 31 2001	2000	1999
Service cost - benefits earned during the year	$ 50,961	$ 43,818	$ 68,710
Interest cost on projected benefit obligation	205,976	193,397	199,301
Actual return on assets	758,307	146,241	1,171,030
Net amortization and deferral	(1,653,169)	(960,903)	(1,901,221)
Net pension expense (benefit) from qualified plan	$ (637,925)	$ (577,447)	$ (462,180)

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 Retirement Restoration Plan's benefit obligation at March 31, 2001, 2000 and 1999:

	Years Ended March 31 2001	2000	1999
Change in benefit obligation			
Benefit obligation at beginning of year	$ 2,026,495	$ 2,166,180	$ 2,051,899
Service cost	4,945	4,089	13,087
Interest cost	113,497	117,541	117,635
Amendments	--	--	83,360
Actuarial gain (loss)	(176,776)	(261,315)	(99,801)
Benefits paid	(209,947)	--	--
Benefit obligation at end of year....	$ 1,758,214	$ 2,026,495	$ 2,166,180

The following table sets forth the status of the Retirement Restoration Plan and the amounts recognized in the consolidated statements of financial condition:

	March 31 2001	March 31 2000
Projected benefit obligation	$(1,758,214)	$(2,026,495)
Unrecognized net (gain) loss from past experience different from that assumed and effects of changes in assumptions	(131,675)	45,101
Unrecognized prior service costs	69,875	83,360
Unrecognized net obligation	--	19,823
Accrued pension cost included in other liabilities..	$(1,820,014)	$(1,878,211)

The Retirement Restoration Plan expenses recognized during the years ended

March 31, 2001, 2000 and 1999 of $151,751, $141,463 and $150,555, respectively, are offset against the net pension benefit from the qualified plan.

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 6.5% and 5.0%, respectively, at March 31, 2001, March 31, 2000 and March 31, 1999. The expected long-term rate of return used to project estimated earnings on plan assets for the qualified plan was 7.5% for the years ended March 31, 2001 and March 31, 2000 and 8.5% for the year ended March 31, 1999. The calculations also assume retirement at age 65, the normal retirement age.

9. Sources of Income

Income was derived from the following sources:

Years Ended March 31	Investment Income			Realized Gain (Loss) on Investments Before Income Taxes
2001	Interest	Dividends	Other Income	
Companies more than 25% owned	$ 72,800	$ 2,585,386	$ 494,900	$ --
Companies 5% to 25% owned	--	--	--	(3,000,000)
Companies less than 5% owned	217,080	370,447	35,500	(2,125,493)
Other sources, including temporary investments	252,361	--	--	--
	$ 542,241	$ 2,955,833	$ 530,400	$(5,125,493)
2000				
Companies more than 25% owned	$ 106,400	$ 1,440,755	$ 487,400	$ --
Companies 5% to 25% owned	--	--	(1,500)	8,133,870
Companies less than 5% owned	173,105	438,098	39,500	1,097,572
Other sources, including temporary investments	604,647	--	--	--
	$ 884,152	$ 1,878,853	$ 525,400	$ 9,231,442
1999				
Companies more than 25% owned	$ 140,000	$ 1,644,270	$ 490,900	$ --
Companies 5% to 25% owned	3,495	--	34,750	--
Companies less than 5% owned	688,210	322,090	13,000	1,530,691
Other sources, including temporary investments	475,963	--	--	--
	$ 1,307,668	$ 1,966,360	$ 538,650	$ 1,530,691

10. Summarized Financial Information of Wholly-Owned Portfolio Companies

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

(all figures in thousands)	March 31	
	2001	2000
Condensed Balance Sheet Data		
Assets		
Cash and temporary investments	$ 14,815	$ 12,547
Receivables	30,504	30,022
Inventories	37,536	36,523
Property, plant and equipment	38,609	34,604
Other assets	19,781	19,671
Totals	$141,245	$133,367
Liabilities and Shareholder's Equity		
Long-term debt	$ 8,334	$ 9,669
Other liabilities	19,412	17,205
Shareholder's equity	113,499	106,493
Totals	$141,245	$133,367

Condensed Statements of Income	2001	2000	1999
Revenues...........................	$ 93,575	$ 91,608	$ 83,426
Costs and operating expenses........	$ 81,087	$ 79,237	$ 72,566
Net income..........................	$ 9,830	$ 7,917	$ 7,021

11. Commitments

The Company has agreed, subject to certain conditions, to invest up to $3,881,154 in six portfolio companies.

The Company leases office space under an operating lease which requires base annual rentals of approximately $58,000 through February, 2003. For the three years ended March 31, total rental expense charged to investment income was $58,145 in 2001, $57,479 in 2000 and $58,798 in 1999.

Selected Per Share Data and Ratios

	Years Ended March				
	2001	2000	1999	1998	1997
Investment income	$ 1.06	$ .86	$ 1.00	$ 1.28	$ 1.26
Operating expenses	(.26)	(.27)	(.40)	(.42)	(.37)
Interest expense	(.30)	(.12)	(.11)	(.11)	(.17)
Income taxes	(.05)	(.03)	(.03)	(.03)	(.03)
Net investment income	.45	.44	.46	.72	.69
Distributions from undistributed net investment income	(.60)	(.60)	(.60)	(.60)	(.60)
Net realized gain (loss) on investments	(.85)	1.58	.26	1.71	1.81
Net increase (decrease) in unrealized appreciation of investments	(1.69)	(6.49)	(10.81)	18.32	6.05
Exercise of employee stock options*	--	--	(.30)	(.13)	--
Increase (decrease) in net asset value	(2.69)	(5.07)	(10.99)	20.02	7.95
Net asset value:					
Beginning of year	62.09	67.16	78.15	58.13	50.18
End of year	$ 59.40	$ 62.09	$ 67.16	$ 78.15	$ 58.13
Ratio of operating expenses to average net assets	.4%	.4%	.6%	.6%	.7%
Ratio of net investment income to average net assets	.7%	.7%	.6%	1.1%	1.2%
Portfolio turnover rate	2.6%	4.3%	.2%	2.5%	1.6%
Shares outstanding at end of period (000s omitted)	3,815	3,815	3,815	3,788	3,767

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*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
Capital Southwest Corporation:

We have audited the accompanying consolidated statements of financial condition of Capital Southwest Corporation and subsidiary as of March 31, 2001 and 2000, including the portfolio of investments as of March 31, 2001, 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, 2001 and the selected per share data and ratios for each of the years in the five-year period ended March 31, 2001. 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.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. 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, 2001 and 2000, 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 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, 2001 and 2000, the results of their operations, the changes in their net assets and their cash flows for each of the years in the three-year period ended March 31, 2001, and the selected per share data and ratios for each of the years in the five-year period ended March 31, 2001, in conformity with accounting principles generally accepted in the United States of America.

KPMG LLP

Dallas, Texas
April 20, 2001

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 "Decrease in net assets from operations" 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. The third element is the "Net decrease in unrealized appreciation of investments", which is the net change in the market or fair value of the Company's investment portfolio, compared with stated cost, net of a 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 decrease in unrealized appreciation of investments" 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 $249,000 in 2001, $599,000 in 2000 and $476,000 in 1999. The Company also receives management fees from its wholly-owned portfolio companies which aggregated $458,400 in each of the years ended March 31, 2001, March 31, 2000 and March 31, 1999. During the three years ended March 31, 2001, the Company recorded dividend income from the following sources:

	Years Ended March 31		
	2001	2000	1999
AT&T Corp.	$ 68,621	$ 146,570	$ --
Alamo Group Inc.	677,112	790,756	1,170,400
Dennis Tool Company	49,999	49,999	--
Kimberly-Clark Corporation	84,126	81,039	77,952
The RectorSeal Corporation	960,000	240,000	240,000
Skylawn Corporation	658,275	300,000	150,000
TCI Holdings, Inc./Westmarc Communications	81,270	81,270	81,270
Texas Shredder, Inc.	40,460	40,460	40,460
The Whitmore Manufacturing Company .	240,000	60,000	60,000
Other	95,970	88,759	146,278
	$2,955,833	$1,878,853	$1,966,360

Total operating expenses, excluding interest expense, decreased by $47,073 or 4.6% and by $498,967 or 32.7% during the years ended March 31, 2001 and 2000, 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 increased by $688,075 and by $40,088 during the years ended March 31, 2001 and 2000, respectively, due to increased borrowings.

Net Realized Gain (Loss) on Investments

Net realized loss on investments was $3,230,987 (after income tax benefit of $1,894,506) during the year ended March 31, 2001, compared with a gain of $6,019,892 (after income tax expense of $3,211,550) during 2000 and a gain of $994,949 (after income tax expense of $535,742) during 1999. 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 Decrease in Unrealized Appreciation of Investments

For the three years ended March 31, the Company recorded a decrease in unrealized appreciation of investments before income taxes of $10,310,835, $38,071,790 and $63,433,545 in 2001, 2000 and 1999, 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 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		
	2001	2000	1999
AT&T Corp.	$ (4,681,896)	$ 430,271	$ 3,532,591
AT&T Corp.-Liberty Media Group	(10,605,732)	11,183,260	3,131,973
Alamo Group Inc.	2,821,000	7,276,953	(20,615,000)
All Components, Inc.	3,450,000	1,975,000	1,225,000
American Homestar Corporation .	--	(4,224,707)	(11,547,532)
Amfibe, Inc.	--	3,900,000	(2,400,000)
Balco, Inc.	--	(2,529,600)	3,422,440
CDC Technologies, Inc/Drew Scientific Group PLC ...	(2,592,541)	(3,099,156)	--
Dennis Tool Company	1,430,000	(600,000)	(3,299,944)
Dyntec, Inc.	--	(4,499,998)	--
Encore Wire Corporation	--	(2,724,000)	(19,013,000)
Global Crossing Ltd./Frontier Corporation	(1,763,282)	1,004,248	605,215
Mail-Well, Inc.	(6,290,000)	(5,241,000)	(6,214,860)
Media Recovery, Inc.	10,000,000	2,585,000	615,000
Palm Harbor Homes, Inc.	(7,855,000)	(39,276,000)	(12,568,000)
PETsMART, Inc.	654,220	(3,271,100)	(1,758,216)
The RectorSeal Corporation	5,500,000	3,500,000	--
Rewind Holdings, Inc.	(1,123,750)	(2,200,000)	--
SDI Holding Corp.	--	--	6,000,000
Skylawn Corporation	3,000,000	--	(7,000,000)
Sprint Corporation-FON Group ..	(2,952,720)	1,003,500	1,149,741
Sprint Corporation-PCS Group ..	(1,674,000)	1,560,375	743,634
Sprockets.com, Inc.	(1,299,999)	--	--
The Whitmore Manufacturing Company	--	(800,000)	2,800,000

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, 2001."

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, 2001 consolidated deferred Federal income taxes of $79,310,000 were provided on net unrealized appreciation of investments of $228,315,863 compared with deferred taxes of $83,151,000 on net unrealized appreciation of $238,626,698 at March 31, 2000. Deferred income taxes at March 31, 2001 and 2000 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, 2001, the Company invested $15,922,079 in various portfolio securities listed elsewhere in this report under the caption "Portfolio Changes During the Year," which also lists dispositions and write-offs of portfolio securities. During the 2000 and 1999 fiscal years, the Company invested a total of $21,924,423 and $13,170,132, respectively.

Financial Liquidity and Capital Resources

At March 31, 2001, the Company had cash and cash equivalents of $1.1 million. Pursuant to Small Business Administration ("SBA") regulations, cash and cash equivalents of $0.1 million held by CSVC may not be transferred or advanced to CSC without the consent of the SBA. Under current SBA regulations and subject to SBA's approval of its credit application, CSVC would be entitled to borrow up to $58.3 million in addition to the $5 million presently outstanding. The Company also has an unsecured $15,000,000 revolving line of credit from a commercial bank, of which $10,000,000 was available at March 31, 2001. With the exception of a capital gain distribution made in the form of a distribution of the stock of a portfolio company in the fiscal year ended March 31, 1996, the Company has elected to retain all gains realized during the past 33 years. Retention of future gains is viewed as an important source of funds to sustain the Company's investment activity. Approximately $30.9 million of the Company's 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 portfolio companies of the Company, to the extent of their available cash reserves and borrowing capacities.

Management believes that the Company's cash and cash equivalents and cash available from other sources described above are adequate to meet its expected requirements. Consistent with the long-term strategy of the Company, 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)

	1991	1992	1993	1994	1995	1996	1997	1998
Financial Position (as of March 31)								
Investments at cost	$ 31,593	$ 34,929	$ 33,953	$ 41,993	$ 49,730	$ 58,544	$ 59,908	$ 61,154
Unrealized appreciation	107,120	100,277	113,153	132,212	153,031	198,386	233,383	340,132
Investments at market or fair value	138,713	135,206	147,106	174,205	202,761	256,930	293,291	401,286
Total assets	149,975	208,871	176,422	270,874	213,811	326,972	310,760	522,324
Subordinated debentures	15,000	11,000	15,000	15,000	11,000	11,000	5,000	5,000
Deferred taxes on unrealized appreciation	36,063	33,761	38,112	45,932	53,247	69,121	81,313	118,674
Net assets	97,139	107,522	121,455	133,053	147,370	189,048	218,972	296,023
Shares outstanding	3,617	3,644	3,681	3,715	3,735	3,767	3,767	3,788
Changes in Net Assets (years ended March 31)								
Net investment income	$ 2,090	$ 2,363	$ 2,189	$ 2,870	$ 2,447	$ 2,855	$ 2,574	$ 2,726
Net realized gain (loss) on investments	(2,515)	14,313	5,099	(475)	142	11,174	6,806	6,485
Net increase (decrease) in unrealized appreciation before distributions	4,762	(4,541)	8,524	11,160	13,584	38,746	22,804	69,388
Increase (decrease) in net assets from operations before distributions	4,337	12,135	15,812	13,555	16,173	52,775	32,184	78,599
Cash dividends paid	(1,809)	(2,181)	(2,202)	(2,228)	(2,241)	(2,270)	(2,260)	(2,268)
Securities dividends	--	--	--	--	--	(9,402)	--	--
Employee stock options exercised	--	429	322	272	385	575	--	720
Increase (decrease) in net assets	2,528	10,383	13,932	11,599	14,317	41,678	29,924	77,051
Per Share Data (as of March 31)								
Deferred taxes on unrealized appreciation	$ 9.97	$ 9.27	$ 10.35	$ 12.36	$ 14.26	$ 18.35	$ 21.59	$ 31.33
Net assets	26.86	29.51	32.99	35.81	39.46	50.18	58.13	78.15
Closing market price	20.75	24.25	36.50	38.125	38.00	60.00	67.875	94.00
Cash dividends paid	.50	.60	.60	.60	.60	.60	.60	.60
Securities dividends	--	--	--	--	--	2.50	--	--

	1999	2000	2001
Financial Position (as of March 31)			
Investments at cost	$ 73,580	$ 85,002	$ 87,602
Unrealized appreciation	276,698	238,627	228,316
Investments at market or fair value	350,278	323,629	315,918
Total assets	360,786	392,586	322,668
Subordinated debentures	5,000	5,000	5,000
Deferred taxes on unrealized appreciation	96,473	83,151	79,310
Net assets	256,232	236,876	226,609
Shares outstanding	3,815	3,815	3,815
Changes in Net Assets (years ended March 31)			
Net investment income	$ 1,762	$ 1,663	$ 1,723
Net realized gain (loss) on investments	995	6,020	(3,231)
Net increase (decrease) in unrealized appreciation before distributions	(41,233)	(24,750)	(6,470)
Increase (decrease) in net assets from operations before distributions	(38,476)	(17,067)	(7,978)
Cash dividends paid	(2,280)	(2,289)	(2,289)
Securities dividends	--	--	--
Employee stock options exercised	965	--	--
Increase (decrease) in net assets	(39,791)	(19,356)	(10,267)
Per Share Data (as of March 31)			
Deferred taxes on unrealized appreciation	$ 25.29	$ 21.80	$ 20.79
Net assets	67.16	62.09	59.40
Closing market price	73.00	54.75	65.00
Cash dividends paid	.60	.60	.60
Securities dividends	--	--	--

Shareholder Information

Stock Transfer Agent

American Stock Transfer & Trust Company, 59 Maiden Lane, New York, NY 10038 (telephone 800-937-5449) 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 900 record holders of its common stock at March 31, 2001. This total does not include an estimated 1,800 shareholders with shares held under beneficial ownership in nominee name or within clearinghouse positions of brokerage firms or banks.

Market Prices

The Company's common stock trades on The Nasdaq Stock Market 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 Nasdaq:

Quarter Ended	High	Low
June 30, 1999	$82	$71 1/8
September 30, 1999	81	71
December 31, 1999	70 7/8	56
March 31, 2000	60	44

Quarter Ended	High	Low
June 30, 2000	$61 1/4	$53
September 30, 2000	62 1/2	57
December 31, 2000	59 3/4	50 5/8
March 31, 2001	68 1/8	52

Dividends

The payment dates and amounts of cash dividends per share since April 1, 1999 are as follows:

Payment Date	Cash Dividend
May 28, 1999	$0.20
November 30, 1999	0.40
May 31, 2000	0.20
November 30, 2000	0.40
May 31, 2001	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 (ordinary income) of regulated investment companies. Instead of distributing realized long-term capital gains to shareholders, the Company has ordinarily elected to retain such gains to fund future investments.

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 (972) 233-8242. Questions and answers about the Plan are on the next page.

Annual Meeting

The Annual Meeting of Shareholders of Capital Southwest Corporation will be held on Monday, July 16, 2001, 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 20, 2001, relating to the consolidated statements of financial condition of Capital Southwest Corporation and subsidiary as of March 31, 2001 and 2000, the portfolio of investments as of March 31, 2001, 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, 2001, and the selected per share data and ratios for each of the years in the five-year period ended March 31, 2001, which report appears in the annual report to shareholders for the year ended March 31, 2001, and is incorporated by reference in the annual report on Form 10-K of Capital Southwest Corporation.

KPMG LLP

Dallas, Texas
June 14, 2001