

UNITED STATES  
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

For the fiscal year ended March 31, 2003

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from.....to.....

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 (I.R.S. Employer  
or organization) Identification No.)

12900 Preston Road, Suite 700, Dallas, Texas  
75230

(Address of principal executive offices)  
(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  
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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]

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). Yes X No  
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The aggregate market value of the voting stock held by non-affiliates of the registrant as of May 1, 2003 was \$97,852,305, 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, 2003 was 3,829,051.

Documents Incorporated by Reference

Part of Form 10-K

- |   |   |
|---|---|
| (1) Annual Report to Shareholders for the Year Ended March 31, 2003             | Parts I and II; and<br>Part IV, Item 14(a)(1) and (2) |
| (2) Proxy Statement for Annual Meeting of Shareholders to be held July 21, 2003 | 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 \$42,715,312 and a value of \$251,201,091, representing 87.5% of the value of the Company's consolidated investment portfolio at March 31, 2003. For a narrative description of the twelve largest investments, see "Twelve Largest Investments - March 31, 2003" on pages 8 through 10 of the Company's Annual Report to Shareholders for the Year Ended March 31, 2003 (the "2003 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, SBICs and wealthy individuals.

The number of persons employed by the Company at March 31, 2003 was seven.

The Company's internet website address is [www.capitalsouthwest.com](http://www.capitalsouthwest.com). You can review the filings Capital Southwest Corporation has made with U.S. Securities and Exchange Commission ("SEC"), free of charge by linking directly from our website to NASDAQ, a database that links to EDGAR, the Electronic Data Gathering, Analysis, and Retrieval System of the SEC. You should be able to access our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934.

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 2008. 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, 2003.

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 33 of the 2003 Annual Report is herein incorporated by reference.

Item 6. Selected Financial Data

"Selected Consolidated Financial Data" on page 32 of the 2003 Annual Report is herein incorporated by reference.

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

Pages 29 through 31 of the Company's 2003 Annual Report are herein incorporated by reference.

Item 7A. Quantitative and Qualitative Disclosures 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 \$3,351,750 at March 31, 2003, equivalent to 1.17% 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. 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 issuers of such restricted securities 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, which are valued at the public market price, 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 11 through 28 of the Company's 2003 Annual Report are herein incorporated by reference. See also Item 16 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, 2003 and 2002.

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total
(In thousands, except per share amounts)					
<b>2003</b>					
Net investment income	\$ 475	\$ 484	\$ 984	\$ 356	\$ 2,299
Net realized gain (loss) on investments	(318)	37	13	1,614	1,346
Net increase (decrease) in unrealized appreciation of investments	(14,528)	(32,274)	3,478	(2,048)	(45,372)
Net increase (decrease) in net assets from operations	(14,371)	(31,754)	4,476	(78)	(41,727)
Net increase (decrease) in net assets from operations per share	(3.75)	(8.30)	1.17	(0.02)	(10.90)
<b>2002</b>					
Net investment income	\$ 429	\$ 383	\$ 921	\$ 309	\$ 2,042
Net realized gain (loss) on investments	--	(450)	1,084	(1,172)	(538)
Net increase (decrease) in unrealized appreciation of investments	15,310	(1,139)	7,296	2,707	24,174
Net increase (decrease) in net assets from operations	15,739	(1,206)	9,301	1,844	25,678
Net increase (decrease) in net assets from operations per share	4.11	(0.32)	2.43	0.48	6.70

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

On Form 8-K dated May 9, 2003, the Company reported the dismissal of KPMG LLP as accountants for the fiscal year ending March 31, 2004 and the appointment of Ernst & Young LLP.

PART III

Item 10. Directors and Executive Officers of the Registrant

The information set forth under the caption "Proposal 1: Election of Directors" in the Company's definitive Proxy Statement for Annual Meeting of Shareholders to be held July 21, 2003, filed pursuant to Regulation 14A under the Securities Exchange Act of 1934, on or about June 6, 2003 (the "2003 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:

William M. Ashbaugh, age 48, has served as Vice President of the Company since 2001. He previously served as Managing Director in the corporate finance departments of Hoak Breedlove Wesneski & Co. from 1998 to 2001, Principal Financial Securities from 1997 to 1998 and Southwest Securities from 1995 to 1997.

Patrick F. Hamner, age 47, has served as Vice President of the Company since 1986 and was an investment associate with the Company from 1982 to 1986.

Susan K. Hodgson, age 41, has served as Secretary-Treasurer of the Company since 2001 and was the Controller of the Company from 1994.

Gary L. Martin, age 56, 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 portfolio company.

William R. Thomas, age 74, 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 2003 Proxy Statement is herein incorporated by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information set forth under the captions "Stock Ownership of Certain Beneficial Owners" and "Proposal 1: Election of Directors" in the 2003 Proxy Statement is herein incorporated by reference.

The table below sets forth certain information as of March 31, 2003 regarding the shares of our common stock available for grant or granted under stock option plans that (i) were approved by our stockholders, and (ii) were not approved by our stockholders.

Equity Compensation Plan Information

Plan Category -----	Number of Securities To Be Issued Upon Exercise of Outstanding Options, Warrants And Rights -----	Weighted-Average Exercise Price Of Outstanding Options, Warrants And Rights -----	Number of Securities Remaining Available For Future Issuance Under Equity Compensation Plans (excluding securities reflected in column (a)) -----
	(a)	(b)	(c)
Equity compensation plans approved by security holders(1)	82,500	\$58.336	85,500
Equity compensation plans not approved by security holders	-	-	-
Total	----- 82,500	----- \$58.336	----- 85,500

(1) Includes the 1984 Incentive Stock Option Plan and the 1999 Stock Option Plan. For a description of these plans, please refer to Footnote 6 contained in our consolidated financial statements.

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, 2003 or proposed for the fiscal year ending March 31, 2004.

Item 14. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Our President and Chairman of the Board and Secretary-Treasurer have reviewed and evaluated the effectiveness of the Company's disclosure controls and procedures (as defined in Exchange Act Rules 240.13a-14(c) and 15d-14(c) as of a date within 90 days before the filing date of this annual report. Based on that evaluation, the President and Chairman of the Board and Secretary-Treasurer have concluded that the Company's current disclosure controls and procedures are effective and timely, providing all material information relating to the Company required to be disclosed in reports filed or submitted under the Exchange Act.

Changes in Internal Controls

There have not been any significant changes in the Company's internal controls or in other factors that could significantly affect these controls subsequent to the date of their evaluation. We are not aware of any significant deficiencies or material weaknesses, therefore no corrective actions were taken.

Item 15. Principal Accountant Fees and Services

The information set forth under the caption "Audit and Other Fees" and "Proposal 2: Ratification of Appointment of Independent Auditors" in the 2003 Proxy Statement is herein incorporated by reference.

PART IV

Item 16. Exhibits, Financial Statement Schedules, and Reports on Form 8-K

(a)(1) The following financial statements included in pages 11 through 28 of the Company's 2003 Annual Report are herein incorporated by reference:

- (A) Portfolio of Investments - March 31, 2003  
Consolidated Statements of Financial Condition - March 31, 2003  
and 2002  
Consolidated Statements of Operations - Years Ended March 31, 2003,  
2002 and 2001  
Consolidated Statements of Changes in Net Assets - Years Ended  
March 31, 2003, 2002 and 2001  
Consolidated Statements of Cash Flows - Years Ended March 31, 2003,  
2002 and 2001
- (B) Notes to Consolidated Financial Statements
- (C) Notes to Portfolio of Investments
- (D) Selected Per Share Data and Ratios
- (E) Independent Auditors' Report
- (F) Portfolio Changes During the Year

(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 9.

(b) The Company filed no reports on Form 8-K during the three months ended March 31, 2003.

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 13, 2003

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 (chief executive officer)	June 13, 2003
/s/ Gary L. Martin ----- Gary L. Martin	Director	June 13, 2003
/s/ Graeme W. Henderson ----- Graeme W. Henderson	Director	June 13, 2003
/s/ James M. Nolan ----- James M. Nolan	Director	June 13, 2003
/s/ John H. Wilson ----- John H. Wilson	Director	June 13, 2003
/s/ Susan K. Hodgson ----- Susan K. Hodgson	Secretary-Treasurer (chief financial/accounting officer)	June 13, 2003



SARBANES-OXLEY SECTION 302(a) CERTIFICATION

I, William R. Thomas, President and Chairman of the Board of the Company, certify that:

1. I have reviewed this annual report on Form 10-K of Capital Southwest Corporation;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the consolidated financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
  - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
  - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and
  - c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
  - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officer and I have indicated in this annual report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: June 13, 2003

By: /s/ William R. Thomas

-----  
William R. Thomas, President  
and Chairman of the Board

SARBANES-OXLEY SECTION 302(a) CERTIFICATION

I, Susan K. Hodgson, Secretary-Treasurer of the Company, certify that:

1. I have reviewed this annual report on Form 10-K of Capital Southwest Corporation;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the consolidated financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
  - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
  - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and
  - c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
  - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officer and I have indicated in this annual report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: June 13, 2003

By: /s/ Susan K. Hodgson

-----  
Susan K. Hodgson, Secretary-Treasurer

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 4.1 to Form 10-K for the fiscal year ended March 31, 2002).
10.1	The RectorSeal Corporation and Jet-Lube, Inc. Employee Stock Ownership Plan as revised and restated effective April 1, 1998 (filed as Exhibit 10.1 to Form 10-K for the fiscal year ended March 31, 2002).
10.2	Amendment No. I to The RectorSeal Corporation and Jet-Lube, Inc. Employee Stock Ownership Plan as revised and restated effective April 1, 1998 (filed as Exhibit 10.2 to Form 10-K for the fiscal year ended March 31, 2002).
10.3*	Amendment No. 2 to The RectorSeal Corporation and Jet-Lube, Inc. Employee Stock Ownership Plan as revised and restated effective April 1, 1998.
10.4	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).
10.5	Amendments One and Two to Retirement Plan for Employees of Capital Southwest Corporation and Its Affiliates as amended and restated effective April 1, 1989 (filed as Exhibit 10.4 to Form 10-K for the fiscal year ended March 31, 1998).
10.6	Amendment Three to Retirement Plan for Employees of Capital Southwest Corporation and Its Affiliates as amended and restated effective April 1, 1989 (filed as Exhibit 10.5 to Form 10-K for the fiscal year ended March 31, 2002).

- 10.7\*           Amendment Four to Retirement Plan for Employees of Capital Southwest Corporation and Its Affiliates as amended and restated effective April 1, 1989.
- 10.8\*           Amendment Five to Retirement Plan for Employees of Capital Southwest Corporation and Its Affiliates as amended and restated effective April 1, 1989.
- 10.9\*           Amendment Six to Retirement Plan for Employees of Capital Southwest Corporation and Its Affiliates as amended and restated effective April 1, 1989.
- 10.10           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).
- 10.11           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 (filed as Exhibit 10.6 to Form 10-K for the fiscal year ended March 31, 1998).
- 10.12           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).
- 10.13           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).
- 10.14           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).
- 10.15           Capital Southwest Corporation 1999 Stock Option Plan (filed as Exhibit 10.10 to Form 10-K for the fiscal year ended March 31, 2000).
- 13.1\*           Annual Report to Shareholders for the fiscal year ended March 31, 2003.
- 16.1            Letter Regarding Change of Certifying Accountant (incorporated by reference to Exhibit 16 to Form 8-K filed on May 9, 2003).
- 21.1            List of subsidiaries of the Company (filed as exhibit 21 to Form 10-K for the fiscal year ended March 31, 1998).
- 23.1\*           Independent Auditors' Consent.
- 99.1\*           Certificate Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 of the President and Chairman of the Board of the Corporation.
- 99.2\*           Certificate Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 of the Secretary-Treasurer of the Corporation.

AMENDMENT NO. 2  
TO  
THE RECTORSEAL CORPORATION AND JET-LUBE, INC.  
EMPLOYEE STOCK OWNERSHIP PLAN  
(As Revised and Restated Effective April 1, 1998)

THIS AMENDMENT NO. 2, executed this \_\_\_ day of November, 2002, and effective as of the dates specified herein, 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, the Company revised and restated The RectorSeal Corporation and Jet-Lube, Inc. Employee Stock Ownership Plan (the "Plan") effective April 1, 1998, except for certain provisions for which another effective date was subsequently provided elsewhere in the terms of the Plan, to (i) incorporate the prior amendment to the Plan and (ii) bring the Plan into compliance with the Internal Revenue Code of 1986, as amended (the "Code"), as modified by the Small Business Job Protection Act of 1996, the General Agreement on Tariffs and Trade under the Uruguay Round Agreements Act, the Uniformed Services Employment and Reemployment Rights Act of 1994, the Taxpayer Relief Act of 1997, the Internal Revenue Service Restructuring and Reform Act of 1998, and the Community Renewal Tax Relief Act of 2000, as well as all applicable rules, regulations and administrative pronouncements enacted, promulgated or issued since the date the Plan was last restated;

WHEREAS, the Company adopted Amendment No. 1 to the revised and restated Plan, effective as of April 1, 2002, except as specifically provided otherwise in Amendment No. 1, to (i) reflect certain provisions of the Economic Growth and Tax Relief Reconciliation Act of 2001 ("EGTRRA") which generally became applicable to the Plan effective as of April 1, 2002, and (ii) constitute good faith compliance with the requirements of EGTRRA;

WHEREAS, final Treasury regulations were issued April 17, 2002 under section 401(a)(9) of the Code relating to distributions under Section 11.4 of the Plan (the "Final Distribution Regulations");

WHEREAS, the Pension and Welfare Benefits Administration of the Department of Labor issued final regulations establishing new standards for processing benefit claims of participants and beneficiaries under Section 11.6 of the Plan which have been clarified by further guidance from the Pension and Welfare Benefits Administration (collectively the "Final Claims Procedure Regulations"); and

WHEREAS, the Company now desires to adopt this Amendment No. 2 to (i) revise Section 11.4 of the Plan, effective January 1, 2003, to reflect the Final Distribution Regulations consistent with the Model Amendment provided by the Internal Revenue Service in Rev. Proc. 2002-29, and (ii) revise Section 11.6 of the Plan, effective April 1, 2002, to provide that the administrator of the Plan shall process benefit claims of participants and beneficiaries pursuant to the

1

claims procedure specified in the summary plan description for the Plan which shall comply with the Final Claims Procedure Regulations, as may be amended from time to time;

NOW, THEREFORE, in consideration of the premises and the covenants herein contained, the Company hereby adopts the following Amendment No. 2 to the Plan:

1. Section 11.4 of the Plan is hereby amended in its entirety, effective January 1, 2003, to read as follows:

Sec. 11.4 Additional Requirements Relating to Benefit Payments and Death Distributions. Notwithstanding any other provisions of the Plan, the following provisions shall be applicable to the Plan for calendar years beginning with the 2003 calendar year:

(a) General Distribution Deadline. Distribution of benefits shall be made, unless the Participant otherwise elects, not later than the 60th day after the last day 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 if such Participant is a Five-Percent Owner; or

(iii) the date the Participant's employment with his Employer and all Affiliated Companies terminates, 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 such Participant is a Five-Percent Owner.

If a Participant is entitled to receive a distribution of all or a portion of his Individual Account pursuant to Article VII, VIII, IX or X, he may elect to defer the date of distribution of that amount, but not beyond his Required Beginning Date. 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 the date of distribution of any benefit under this Section 11.4(a); provided that in no event shall he receive distribution of the vested portion of his Individual Account later than his Required Beginning Date.

(b) Required Compliance with Code and Treasury Regulations. 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.

(c) Time and Manner of Distribution.

(i) Required Beginning Date and Election to Defer Distribution Date. The Participant's entire Individual Account shall be distributed to the Participant no later than the Participant's Required Beginning Date. An election of a Participant to defer the distribution date shall be made by submitting to the Administrator a written statement signed by the Participant describing the benefits and the date on which the Participant requests that the distribution of his benefits be made; provided, however, a Participant may not elect to defer receipt of benefits beyond his Required Beginning Date.

(ii) Death of Participant Before Distribution to Him. If the Participant dies before distribution to him of his entire Individual Account under Section 11.1, the Participant's entire Individual Account shall be distributed no later than as follows:

(A) If the Participant's surviving spouse is the Participant's sole Designated Beneficiary, then, except as elected by the surviving spouse as provided below, distribution to the surviving spouse shall be made by December 31 of the calendar year immediately following the calendar year in which the Participant died, or by December 31 of the calendar year in which the Participant would have attained age 70 1/2, if later.

(B) If the Participant's surviving spouse is not the Participant's sole Designated Beneficiary, then, except as provided below, distribution to the Designated Beneficiary shall be made by December 31 of the calendar year immediately following the calendar year in which the Participant died.

(C) If there is no Designated Beneficiary of the Participant as of September 30 of the year following the year of the Participant's death, the Participant's entire Individual Account shall be distributed by December 31 of the calendar year containing the fifth anniversary of the Participant's death.

(D) If the Participant's surviving spouse is the Participant's sole Designated Beneficiary and the surviving spouse dies after the Participant but before distribution to the surviving spouse has been made, this Section 11.4(c)(ii), other than Section 11.4(c)(ii)(A), shall apply as if the surviving spouse were the Participant.

If the Participant dies before distribution to him of his entire Individual Account and there is a Designated Beneficiary, distribution to the Designated Beneficiary is not required to be made by the date specified above in this Section 11.4(c)(ii), but the Participant's entire Individual Account shall be distributed to the Designated Beneficiary by December 31 of the calendar year containing the fifth anniversary of the Participant's death. If the Participant's surviving spouse is the Participant's Designated Beneficiary, the surviving spouse may elect to apply the distribution requirement of Section 11.4(c)(ii) without regard to the prior sentence. If the Participant's surviving spouse is the Participant's sole Designated Beneficiary and the surviving spouse dies after the Participant but before distribution to either the Participant or the surviving spouse has been made, this election shall apply as if the surviving spouse were the Participant. For purposes of this Section 11.4(c)(ii), unless Section 11.4(c)(ii)(D) applies, distributions are considered to be made on the Participant's Required Beginning Date. If Section 11.4(c)(ii)(D) applies, distributions are considered to be made on the date distributions are required to be made to the surviving spouse under Section 11.4(c)(ii)(A).

(d) Definitions. For purposes of this Section 11.4, the following terms shall have the meanings set forth below:

(i) "Designated Beneficiary" means the individual who is designated as the Beneficiary under Section 1.7 and is the designated beneficiary under Section 401(a)(9) of the Code and Treas. Reg. ss.1.401(a)(9)-1, Q&A-4.

(ii) "Five-Percent Owner" means a Participant who is a five-percent owner of the Company within the meaning of Section 416(i)(1)(B)(i) of the Code (determined in accordance with Section 416 of the Code 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 70 1/2 or any subsequent Year.

(iii) "Required Beginning Date" of a Participant means the date determined as follows:

(A) if the Participant is not a Five-Percent Owner and has not attained age 70 1/2 prior to April 1, 2002, 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 calendar year in which the Participant retires; or

(B) if the Participant is a Five Percent-Owner, or if the Participant has attained age 70 1/2 prior to April 1, 2002, 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 even if he has not retired.



2. Section 11.6 of the Plan is hereby amended in its entirety to read as follows:

Sec. 11.6 Claims Procedure. The Administrator shall process all benefit claims of Participants, Former Participants and Beneficiaries pursuant to the claims procedure specified in the summary plan description for the Plan and shall act in a manner which is consistent with regulations published from time to time by the Department of Labor.

IN WITNESS WHEREOF, the Company, acting by and through its duly authorized officers, has caused this Amendment No. 2 to be executed as of the day and year first above written.

THE RECTORSEAL CORPORATION

By: \_\_\_\_\_

COMPANY

AMENDMENT FOUR TO  
RETIREMENT PLAN FOR EMPLOYEES OF  
CAPITAL SOUTHWEST CORPORATION AND ITS AFFILIATES

As Amended and Restated Effective April 1, 1989

WHEREAS, effective as of April 1, 1989, the Retirement Plan for Employees of Capital Southwest Corporation and Its Affiliates (the "Plan") was amended and restated in its entirety;

WHEREAS, by the terms of Section 6.4 of the Plan, the Plan may be amended; and

WHEREAS, it is necessary that certain technical amendments be made to the Plan in order to comply with the Economic Growth and Tax Relief Reconciliation Act of 2001, to adopt the 1994 GAR mortality table for purposes of complying with section 417(e)(3) and section 415(b) of the Internal Revenue Code, to eliminate the description of claims procedures from the plan document, and to include "deemed section 125 compensation" in the definition of compensation for purposes of benefit accrual and complying with section 415 of the Internal Revenue Code;

NOW, THEREFORE, the Plan is hereby amended, effective as of the dates specified below, as follows:

EXCEPT AS QUALIFIED BY THE CONTEXT OR OTHERWISE INDICATED, THE TERMS USED IN THIS AMENDMENT FOUR SHALL HAVE THE MEANINGS ASSIGNED TO THEM IN THE PLAN.

1. Effective as of the dates specified below, the Plan is amended to incorporate the following provisions under Internal Revenue Notice 2001-57 in compliance with the requirement to adopt good faith EGTRRA plan amendments:

AMENDMENT OF THE PLAN FOR EGTRRA

PREAMBLE

1. Adoption and Effective Date of Amendment. This amendment of the Plan is adopted to reflect certain provisions of the Economic Growth and Tax Relief Reconciliation Act of 2001 ("EGTRRA"). This amendment is intended as good faith compliance with the requirements of EGTRRA and is to be construed in accordance with EGTRRA and guidance issued thereunder. Except as otherwise

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provided, this amendment shall be effective as of the first day of the first Plan Year beginning after December 31, 2001.

2. Supersession of Inconsistent Provisions. This amendment shall supersede the provisions of the Plan to the extent those provisions are inconsistent with the provisions of this amendment.
3. Definition of "Code." When used herein, the term "Code" shall mean the Internal Revenue Code of 1986, as amended.
4. Expiration of Amendment. Notwithstanding any provision hereof to the contrary, this amendment of the Plan to reflect certain provisions of EGTRRA shall expire and cease to be effective after December 31, 2010, unless such provisions of EGTRRA are extended by law.

SECTION A. LIMITATIONS ON BENEFITS

1. Effective Date. This section shall be effective for limitation years ending after December 31, 2001.
2. Effect on Participants. Benefit increases resulting from the increase in the limitations of section 415(b) of the Code will be provided to all Employees participating in the Plan who have one hour of service on or after the first day of the first limitation year ending after December 31, 2001.
3. Definitions.
  - 3.1 Defined Benefit Dollar Limitation. The "defined benefit dollar limitation" is \$160,000, as adjusted, effective January 1 of each year, under section 415(d) of the Code in such manner as the Secretary shall prescribe, and payable in the form of a straight life annuity. A limitation as adjusted under section 415(d) will apply to limitation years ending with or within the calendar year for which the adjustment applies.
  - 3.2 Maximum Permissible Benefit. The "maximum permissible benefit" is the lesser of the defined benefit dollar limitation or the defined benefit compensation limitation (both adjusted where required, as provided in (a) and, if applicable, in (b) or (c) below).
    - (a) If the Participant has fewer than 10 years of participation in the Plan, the defined benefit dollar limitation shall be multiplied by a fraction, (i) the numerator of which is the number of years (or part thereof) of participation in the

Plan and (ii) the denominator of which is 10. In the case of a Participant who has fewer than 10 years of service with Controlled Group Members, the defined benefit compensation limitation shall be multiplied by a fraction, (i) the numerator of which is the number of years (or part thereof) of service with the Controlled Group Members and (ii) the denominator of which is 10.

- (b) If the benefit of a Participant begins prior to age 62, the defined benefit dollar limitation applicable to the Participant at such earlier age is an annual benefit payable in the form of a straight life annuity beginning at the earlier age that is the actuarial equivalent of the defined benefit dollar limitation applicable to the Participant at age 62 (adjusted under (a) above, if required). The defined benefit dollar limitation applicable at an age prior to age 62 is determined as the lesser of (i) the actuarial equivalent (at such age) of the defined benefit dollar limitation computed using the interest rate and mortality table (or other tabular factor) specified in Section 1.1(B)(1) of the Plan and (ii) the actuarial equivalent (at such age) of the defined benefit dollar limitation computed using a 5 percent interest rate and the applicable mortality table as defined in Section 4.1(A)(2) of the Plan. Any decrease in the defined benefit dollar limitation determined in accordance with this paragraph (b) shall not reflect a mortality decrement if benefits are not forfeited upon the death of the Participant. If any benefits are forfeited upon death, the full mortality decrement is taken into account.
  
- (c) If the benefit of a Participant begins after the Participant attains age 65, the defined benefit dollar limitation applicable to the Participant at the later age is the annual benefit payable in the form of a straight life annuity beginning at the later age that is actuarially equivalent to the defined benefit dollar limitation applicable to the Participant at age 65 (adjusted under (a) above, if required). The actuarial equivalent of the defined benefit dollar limitation applicable at an age after age 65 is determined as (i) the lesser of the actuarial equivalent (at such age) of the defined benefit dollar limitation computed using the interest rate and mortality table (or other tabular factor) specified in Section 1.1(B)(1) of the Plan and (ii) the actuarial equivalent (at such age) of the defined benefit dollar limitation computed using a 5 percent interest rate assumption and the applicable mortality table as defined in Section 4.1(A)(2) of the Plan. For these purposes, mortality between age 65 and the age at which benefits commence shall be ignored.
  
- (d) For purposes of applying the compensation limit under section 415(b)(1)(B) of the Code to the Plan, a multiemployer plan to which a Controlled Group Member contributes shall not be combined or aggregated with the Plan.

## SECTION B. INCREASE IN COMPENSATION LIMIT

1. Increase in Limit. The annual Compensation of each Participant taken into account in determining benefit accruals in any Plan Year beginning after December 31, 2001, shall not exceed \$200,000. Annual Compensation means Compensation during the Plan Year or such other consecutive 12-month period over which Compensation is otherwise determined under the Plan (the determination period). For purposes of determining benefit accruals in a Plan Year beginning after December 31, 2001, Compensation for determination periods beginning before January 1, 2002, shall be \$200,000.
2. Cost-of-living Adjustment. The \$200,000 limit on annual Compensation in paragraph 1 shall be adjusted for cost-of-living increases in accordance with section 401(a)(17)(B) of the Code. The cost-of-living adjustment in effect for a calendar year applies to annual Compensation for the determination period that begins with or within such calendar year.

## SECTION C. MODIFICATION OF TOP-HEAVY RULES

1. Effective Date. This section shall apply for purposes of determining whether the Plan is a top-heavy plan under section 416(g) of the Code for Plan Years beginning after December 31, 2001, and whether the Plan satisfies the minimum benefits requirements of section 416(c) of the Code for such years. This section amends Section 4.6 of the Plan.
2. Determination of Top-heavy Status.
  - 2.1 Key Employee. Key employee means any Employee or former Employee (including any deceased Employee) who at any time during the Plan Year that includes the determination date was an officer of a Controlled Group Member having annual compensation greater than \$130,000 (as adjusted under section 416(i)(1) of the Code for Plan Years beginning after December 31, 2002), a 5-percent owner of a Controlled Group Member, or a 1-percent owner of a Controlled Group Member having annual compensation of more than \$150,000. For this purpose, annual compensation means compensation within the meaning of section 415(c)(3) of the Code. The determination of who is a key employee will be made in accordance with section 416(i)(1) of the Code and the applicable regulations and other guidance of general applicability issued thereunder.
  - 2.2 Determination of Present Values and Amounts. This section 2.2 shall apply for purposes of determining the present values of accrued benefits and the amounts of account balances of employees as of the determination date.
    - 2.2.1 Distributions During Year Ending on the Determination Date. The present values of accrued benefits and the amounts of account balances of an employee as of the determination date shall be increased by the distributions made with respect to the employee under the Plan and any plan aggregated with the Plan under section 416(g)(2) of the Code during the 1-year period ending on the determination date. The preceding sentence shall also apply to distributions under a terminated plan which, had it not been terminated, would have been aggregated with the Plan under section 416(g)(2)(A)(i) of the Code. In the case of a distribution made for a reason other than separation from service, death, or disability, this provision shall be applied by substituting "5-year period" for "1-year period."
    - 2.2.2 Employees Not Performing Services During Year Ending on the Determination Date. The accrued benefits and accounts of any individual who has not performed services for a Controlled Group Member during the 1-year period ending on the determination date shall not be taken into account.

3. Minimum Benefits. For purposes of satisfying the minimum benefit requirements of section 416(c)(1) of the Code and the Plan, in determining years of service with a Controlled Group Member, any service with a Controlled Group Member shall be disregarded to the extent that such service occurs during a Plan Year when the Plan benefits (within the meaning of section 410(b) of the Code) no key employee or former key employee.

#### SECTION D. DIRECT ROLLOVERS OF PLAN DISTRIBUTIONS

1. Effective Date. This section shall apply to distributions made after December 31, 2001.
2. Modification of Definition of Eligible Retirement Plan. For purposes of the direct rollover provisions in Section 4.1(I) of the Plan, an eligible retirement plan shall also mean an annuity contract described in section 403(b) of the Code and an eligible plan under section 457(b) of the Code which is maintained by a state, political subdivision of a state, or any agency or instrumentality of a state or political subdivision of a state and which agrees to separately account for amounts transferred into such plan from this Plan. The definition of eligible retirement plan shall also apply in the case of a distribution to a surviving spouse, or to a spouse or former spouse who is the alternate payee under a qualified domestic relation order, as defined in section 414(p) of the Code.

2. Effective as of December 31, 2002, the Plan is amended to incorporate the following provisions to comply with section 415 and section 417(e) of the Internal Revenue Code, as required under Rev. Rul. 2001-62:

ADOPTION OF 1994 GAR MORTALITY TABLE

1. Effective Date. This section shall apply to distributions with Annuity Starting Dates on or after December 31, 2002.
2. Notwithstanding any other Plan provisions to the contrary, the applicable mortality table used for purposes of adjusting any benefit or limitation under ss. 415(b)(2)(B), (C), or (D) of the Internal Revenue Code as set forth in Section 4.1(A) of the Plan and the applicable mortality table used for purposes of satisfying the requirements of ss. 417(e) of the Internal Revenue Code as set forth in Section 1.1(B)(2) of the Plan is the table prescribed in Rev. Rul. 2001-62.

3. Effective as of January 1, 2002, Section 5.11 of the Plan is amended to read in its entirety as follows:

"5.11 - APPEAL TO COMMITTEE

A Participant or Beneficiary who feels he is being denied any benefit or right provided under the Plan must file a written claim with the Committee. All such claims shall be submitted on a form provided by the Committee which shall be signed by the claimant and shall be considered filed on the date the claim is received by the Committee.

The Committee shall establish claims procedures in compliance with applicable law, and such claims procedures shall be set forth in the summary plan description for the Plan."

4. Effective as of January 1, 1998, the Plan is amended to incorporate the following provisions to comply with Rev. Rul. 2002-27 concerning "deemed section 125 compensation":

INCLUSION OF "DEEMED SECTION 125 COMPENSATION"

1. Effective Date. This section shall apply to plan years and limitation years beginning on and after January 1, 1998.
2. For purposes of the definition of compensation under Section 1.1(A)(6) and Section 4.1(A)(4)(b) of the plan, amounts

under section 125 include any amounts not available to a participant in cash in lieu of group health coverage because the participant is unable to certify that he or she has other health coverage. An amount will be treated as an amount under section 125 only if the Employer does not request or collect information regarding the participant's other health coverage as part of the enrollment process for the health plan.

IN WITNESS WHEREOF, CAPITAL SOUTHWEST CORPORATION has caused this instrument to be executed by its duly authorized officer on this \_\_\_\_ day of \_\_\_\_\_, 20\_\_.

CAPITAL SOUTHWEST CORPORATION

By \_\_\_\_\_

Title: \_\_\_\_\_



AMENDMENT FIVE TO  
RETIREMENT PLAN FOR EMPLOYEES OF  
CAPITAL SOUTHWEST CORPORATION AND ITS AFFILIATES

As Amended and Restated Effective April 1, 1989

WHEREAS, effective as of April 1, 1989, the Retirement Plan for Employees of Capital Southwest Corporation and Its Affiliates (the "Plan") was amended and restated in its entirety;

WHEREAS, by the terms of Section 6.4 of the amended and restated Plan, said Plan may be amended by Capital Southwest Corporation (the "Sponsoring Employer");

WHEREAS, the Sponsoring Employer has determined that the Plan shall be amended to reduce the amount of bonus to be included in compensation for purposes of computing final average monthly compensation; and

WHEREAS, the Board of Directors of the Sponsoring Employer has approved and adopted this Amendment Five to the Plan;

NOW, THEREFORE, the last paragraph of Section 1.1(A)(15) of the Plan is hereby amended, effective as of January 1, 2003, to read in its entirety as follows:

"Notwithstanding any provision of this Section 1.1(A)(15) to the contrary, for purposes of determining a Participant's average monthly rate of Compensation on or after April 1, 1998, the Participant's Compensation for a calendar year shall not include the portion of any bonus or aggregated bonuses paid in such calendar year which exceeds (a) 40% of the Participant's total base pay in the calendar year, for years prior to 2003, and (b) 25% of the Participant's total base pay in the calendar year, for years after 2002. Provided, however, that the Participant's retirement benefits under the Plan on and after January 1, 2003 shall not be less than the Accrued Deferred Monthly Retirement Income Commencing at Normal Retirement Date that the Participant has accrued as of December 31, 2002 using 'Final Average Monthly Compensation' determined as of such date without regard to clause (b) of the preceding sentence."

IN WITNESS WHEREOF, CAPITAL SOUTHWEST CORPORATION has caused this instrument to be executed by its duly authorized officer on this \_\_\_\_ day of \_\_\_\_\_, 2002, to be effective January 1, 2003.

CAPITAL SOUTHWEST CORPORATION

By \_\_\_\_\_

Title: \_\_\_\_\_

AMENDMENT SIX TO  
RETIREMENT PLAN FOR EMPLOYEES OF  
CAPITAL SOUTHWEST CORPORATION AND ITS AFFILIATES

As Amended and Restated Effective April 1, 1989

WHEREAS, effective as of April 1, 1989, the Retirement Plan for Employees of Capital Southwest Corporation and Its Affiliates (the "Plan") was amended and restated in its entirety;

WHEREAS, by the terms of Section 6.4 of the Plan, the Plan may be amended; and

WHEREAS, it is necessary that certain technical amendments be made to the Plan in order to obtain approval of the Internal Revenue Code for the continued qualification of the Plan;

NOW, THEREFORE, the Plan is hereby amended, effective as of the dates specified below, as follows:

1. Effective as of April 1, 1997, Section 1.6 is amended to read in its entirety as follows:

"1.6 - PARTICIPATION AND BENEFITS FOR FORMER LEASED EMPLOYEES

A "Leased Employee" as defined under Section 414(n) of the Internal Revenue Code is any person (other than an employee of the recipient) who pursuant to an agreement between the recipient and any other person ("leasing organization") has performed services for the recipient (or for the recipient and related persons determined in accordance with Internal Revenue Code Section 414(n)(6)) on a substantially full-time basis for a period of at least 1 year, and such services are performed under the recipient's primary direction or control. Any such Leased Employee of an Employer or Designated Nonparticipating Employer shall not be deemed for any purposes of the Plan to be an employee of such Employer or Designated Nonparticipating Employer. However, in the event that any such former Leased Employee qualifies as an Employee as defined herein on or after the Effective Date of the Plan, unless the Plan is otherwise excluded by applicable regulations from the requirements of Section 414(n) of the Internal Revenue Code, the total period that he provided services to the Employer or Designated Nonparticipating Employer as a Leased Employee shall be treated under the Plan in determining his nonforfeitable right to his accrued benefits and his eligibility to become a Participant in the Plan in the manner described in Section 1.5(A) hereof as though he had been an employee of a Designated Nonparticipating Employer during such period of service (but such service shall not be included in the service that is used to calculate any benefits that he accrues under the Plan)."

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2. Effective as of January 1, 1995, the first sentence of Section 4.1(A)(2) of the Plan is amended to read as follows:

"The mortality assumptions that are used to compute the actuarially equivalent maximum amount of retirement income permitted under this Section 4.1(A) on and after January 1, 1995 shall be based upon the mortality table prescribed by the Secretary of Treasury pursuant to Section 415(b)(2)(E) of the Internal Revenue Code (which as of January 1, 1995 is based upon a fixed blend of 50% of the male mortality rates and 50% of the female mortality rates from the 1983 Group Annuity Mortality Table)."

IN WITNESS WHEREOF, CAPITAL SOUTHWEST CORPORATION has caused this instrument to be executed by its duly authorized officer on this \_\_\_\_ day of \_\_\_\_\_, 20\_\_.

CAPITAL SOUTHWEST CORPORATION

By \_\_\_\_\_

Title: \_\_\_\_\_



## Twelve Largest Investments - March 31, 2003

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Palm Harbor Homes, Inc.	\$70,696,000
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Palm Harbor Homes, Dallas, Texas, is an integrated manufacturer and retailer of manufactured and modular housing produced in 19 plants and sold in 29 states by 153 company-owned retail stores and over 100 independent dealers. The company provides financing through its subsidiary, CountryPlace Mortgage, and through its jointly-owned mortgage banking company, BSM Financial, and sells insurance through its subsidiary, Standard Casualty. Palm Harbor's high-quality homes are designed to meet the need for attractive, affordable housing.

During the year ended March 28, 2003, Palm Harbor earned \$3,221,000 (\$0.14 per share) on net sales of \$573,130,000, compared with earnings of \$19,448,000 (\$0.85 per share) on net sales of \$627,380,000 in the previous year. The March 31, 2003 closing Nasdaq bid price of Palm Harbor's common stock was \$14.19 per share.

At March 31, 2003, the \$10,931,955 investment in Palm Harbor by Capital Southwest and its subsidiary was valued at \$70,696,000 (\$9.00 per share), consisting of 7,855,121 restricted shares of common stock, representing a fully-diluted equity interest of 34.1%.

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The RectorSeal Corporation	\$55,000,000
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The RectorSeal Corporation, Houston, Texas, with two plants in Texas and a plant in New York, manufactures specialty chemical products including pipe thread sealants, firestop sealants, plastic cements and other formulations for plumbing and industrial applications. RectorSeal's 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 produces a line of automotive chemical products sold under the Cargo and Blue Magic trade names. RectorSeal also owns a 20% equity interest in The Whitmore Manufacturing Company (described on page 9).

During the year ended March 31, 2003, RectorSeal earned \$6,799,000 on revenues of \$63,161,000, compared with earnings of \$5,277,000 on revenues of \$57,338,000 in the previous year. RectorSeal's earnings do not reflect its 20% equity in The Whitmore Manufacturing Company.

At March 31, 2003, Capital Southwest owned 100% of RectorSeal's common stock having a cost of \$52,600 and a value of \$55,000,000.

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Skylawn Corporation	\$38,000,000
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Skylawn Corporation, Hayward, California, owns and operates cemeteries, mausoleums and mortuaries. Skylawn's operations, all of which are in California, include a major cemetery in San Mateo, a mausoleum and an adjacent mortuary in Oakland and cemeteries, mausoleums and mortuaries in Hayward, Sacramento and Napa. The company recently acquired a funeral home in San Bruno and will soon begin building a major funeral home on the grounds of its San Mateo County cemetery. Its insurance company and funeral and cemetery trusts enable Skylawn's clients to make pre-need arrangements.

For the fiscal year ended March 31, 2003, Skylawn earned \$3,299,000 on revenues of \$24,871,000, compared with earnings of \$3,772,000 on revenues of \$26,928,000 in the previous year.

At March 31, 2003, 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.

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Alamo Group Inc.	\$22,570,000
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Alamo Group Inc., Seguin, Texas, is a leading designer, manufacturer and distributor of heavy-duty, tractor-mounted mowing and other vegetation maintenance equipment, street-sweeping equipment and replacement parts. Founded in 1969, Alamo Group operates 13 manufacturing facilities and serves governmental, industrial and agricultural markets in the U.S., Europe, Canada and Australia.

For the year ended December 31, 2002, Alamo reported consolidated earnings of \$6,382,000 (\$0.65 per share) on net sales of \$259,435,000, compared with earnings of \$10,812,000 (\$1.11 per share) on net sales of \$246,047,000 in the previous year. The March 31, 2003 closing NYSE market price of Alamo's common stock was \$11.66 per share.

At March 31, 2003, the \$2,065,047 investment in Alamo by Capital Southwest and its subsidiary was valued at \$22,570,000 (\$8.00 per share), consisting of 2,821,300 restricted shares of common stock, representing a fully-diluted equity interest of 27.2%.

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Encore Wire Corporation	\$13,623,000
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Encore Wire Corporation, McKinney, Texas, manufactures a broad line of copper electrical building wire and cable including non-metallic sheathed,

underground feeder and THHN wire and 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, 2002, Encore reported net income of \$5,964,000 (\$0.39 per share) on net sales of \$285,207,000, compared with net income of \$9,130,000 (\$0.60 per share) on net sales of \$281,010,000 in the previous year. The March 31, 2003 closing Nasdaq bid price of Encore's common stock was \$8.50 per share.

At March 31, 2003, 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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Media Recovery, Inc. \$10,000,000  
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Media Recovery, Inc., Graham, Texas, distributes computer and office automation supplies and accessories to corporate customers through its direct sales force with 27 offices in 22 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, 2002, Media Recovery reported net income of \$1,817,000 on net sales of \$97,866,000, compared with net income of \$3,007,000 on net sales of \$110,840,000 in the previous year.

At March 31, 2003, the \$5,415,000 investment in Media Recovery by Capital Southwest and its subsidiary was valued at \$10,000,000, consisting of 4,800,000 shares of Series A convertible preferred stock, representing a fully-diluted equity interest of 71.2%.

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The Whitmore Manufacturing Company \$10,000,000  
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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, 2003, Whitmore reported net income of \$149,000 on net sales of \$12,521,000, compared with net income of \$88,000 on net sales of \$12,151,000 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 8).

At March 31, 2003, the direct investment in Whitmore by Capital Southwest was valued at \$10,000,000 and had a cost of \$1,600,000.

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All Components, Inc. \$8,700,000  
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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, 2002, All Components reported net income of \$1,605,000 on net sales of \$135,936,000, compared with net income of \$5,220,000 on net sales of \$152,757,000 in the previous year.

At March 31, 2003, the \$150,000 investment in All Components by Capital Southwest's subsidiary was valued at \$8,700,000 consisting of 150,000 shares of Series A convertible preferred stock, representing a 29.0% fully-diluted equity interest.

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Liberty Media Corporation \$6,859,747  
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Liberty Media Corporation, Englewood, Colorado, acquired by AT&T as part of Tele-Communications, Inc. in 1999 and now an independent company, 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, 2002, Liberty Media reported a net loss of \$5.330 billion (\$2.06 per share) on net sales of \$2.084 billion, compared with a net loss of \$6.203 billion (\$2.40 per share) on net sales of \$2.059 billion in the previous year. The March 31, 2003 closing NYSE market price of Series A common stock was \$9.73 per share.

At March 31, 2003, Capital Southwest owned 705,010 unrestricted shares of Series A common stock, having a total cost of \$165,613 and a market value of \$6,859,747 (\$9.73 per share).

=====  
PETSMART, Inc. \$5,723,171  
-----

PETSMART, Inc., Phoenix, Arizona, is the largest specialty retailer of services and solutions for the lifetime needs of pets. The company operates more than 500 pet superstores in the United States and Canada and is the leading direct marketer of pet products through its e-commerce site and its pet and equine catalog business.

For the year ended February 2, 2003, PETSMART, Inc. reported net income of \$88,855,000 (\$0.63 per share) on net sales of \$2.695 billion, compared with net income of \$39,567,000 (\$0.35 per share) on net sales of \$2.501 billion in the previous year. The March 31, 2003 closing Nasdaq bid price of PETSMART's common stock was \$12.60 per share.

At March 31, 2003, Capital Southwest and its subsidiary owned 454,220 unrestricted shares of common stock, having a cost of \$1,995,524 and a market value of \$5,723,171 (\$12.60 per share).

=====  
AmPro Mortgage Corporation \$5,029,167  
-----

AmPro Mortgage Corporation, Dallas, Texas, is a newly formed company which acquired the production facility (but not the servicing operations) of Matrix Financial Services Corporation ("Matrix") on February 28, 2003. AmPro originates, acquires, sells and services residential mortgage loans through nine traditional wholesale offices and one wholesale sub-prime office in Santa Ana, California. The wholesale offices are located in Sacramento, Dallas, Houston, Chicago, St Louis, Phoenix, Denver, Atlanta and Jacksonville. In 2002, Matrix originated over \$3.6 billion in mortgages.

At March 31, 2003, the investment in AmPro by Capital Southwest was valued at its cost of \$5,029,167 and consisted of 5,000 shares of Series A cumulative preferred stock and 29,167 shares of Series A common stock, representing a fully-diluted equity interest of 29.2%.

=====  
Texas Capital Bancshares, Inc. \$5,000,006  
-----

Texas Capital Bancshares, Inc. of Dallas, Texas, formed in 1998, has raised a total of \$133.2 million through three private placements and now has total assets of approximately \$1.8 billion. With banks in Dallas, Fort Worth, Austin and San Antonio, Texas Capital Bancshares conducts its business through its wholly-owned subsidiary, Texas Capital Bank, N.A., which primarily targets middle market commercial and wealthy private client customers in Texas.

For the year ended December 31, 2002, Texas Capital reported net income of \$7,343,000 (\$0.32 per share), compared with net income of \$5,844,000 (\$0.30 per share) in the previous year.

At March 31, 2003, the investment in Texas Capital Bancshares by Capital Southwest was valued at its cost of \$5,000,006, consisting of 689,656 shares of common stock, representing a fully-diluted equity interest of 2.9%.

Portfolio of Investments - March 31, 2003

Company	Equity (a)	Investment (b)	Cost	Value (c)
+AT&T CORP. New York, New York Major provider of voice and data communications services including business and consumer long distance and Internet.	<1%	++26,649 shares common stock (acquired 3-9-99)	\$ 12	\$ 431,714
+AT&T WIRELESS SERVICES, INC. Redmond, Washington Provider of wireless voice and data services and products in the cellular and PCS markets.	<1%	++42,878 shares common stock (acquired 7-9-01)	10	282,995
+ALAMO GROUP INC. Seguin, Texas Tractor-mounted mowing and vegetation maintenance equipment for governmental, industrial and agricultural markets; street-sweeping equipment for municipalities.	27.2%	2,821,300 shares common stock (acquired 4-1-73 thru 10-4-99)	2,065,047	22,570,000
ALL COMPONENTS, INC. Farmers Branch, Texas Distribution and production of memory and other components for personal computer manufacturers, retailers and value-added resellers; electronics contract manufacturing.	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	8,700,000
+ALLTEL CORPORATION Little Rock, Arkansas Wireline and wireless communications and information services.	<1%	++8,880 shares common stock (acquired 7-1-98)	108,355	397,469
AMPRO MORTGAGE CORPORATION Dallas, Texas Originator and banker of residential mortgage loans.	29.2%	5,000 shares Series A cumulative preferred stock (acquired 2-28-03) 29,167 shares Series A common stock (acquired 2-28-03)	5,000,000 29,167 ----- 5,029,167	5,000,000 29,167 ----- 5,029,167
BALCO, INC. Wichita, Kansas Specialty architectural products used in the construction and remodeling of commercial and institutional buildings.	89.7%	445,000 shares common stock and 60,920 shares Class B non-voting common stock (acquired 10-25-83 and 5-30-02)	624,920	5,000,000
+Publicly-owned company		++Unrestricted securities as defined in Note (b)		

Company	Equity (a)	Investment (b)	Cost	Value (c)
BOXX TECHNOLOGIES, INC. Austin, Texas Workstations for computer graphics imaging and design.	16.3%	3,125,354 shares Series B convertible preferred stock, convertible into 3,125,354 shares of common stock at \$0.50 per share (acquired 8-20-99 thru 8-8-01) Warrants to purchase 80,000 shares of Series B preferred stock at \$0.50 per share, expiring 2005 (acquired 8-24-00)	\$ 1,500,000 -- ----- 1,500,000	\$ 2 -- ----- 2
CMI HOLDING COMPANY, INC. Richardson, Texas Owns Chase Medical, which develops and sells devices used in cardiac surgery including proprietary devices for surgical intervention to relieve congestive heart failure.	14.0%	1,745,744 shares Series A preferred stock (acquired 8-21-02)	3,000,000	3,000,000
CASHWORKS, INC. Dallas, Texas Provides an ATM based system to convenience stores and other retail outlets for paycheck cashing and other financial services.	33.8%	1,500,000 shares Series B convertible preferred stock, convertible into 1,500,000 shares of common stock at \$2.00 per share (acquired 1-31-03) Warrant to purchase 375,000 shares of Series B preferred stock at \$0.85 per share, expiring 2007 (acquired 1-31-03)	3,000,000 -- ----- 3,000,000	3,000,000 -- ----- 3,000,000
+COMCAST CORPORATION Philadelphia, PA Development, management and operation of broadband cable networks, electronic retailing and programming.	<1%	++43,104 shares common stock (acquired 11-18-02)	21	1,234,068
+CONCERT INDUSTRIES LTD. Vancouver, British Columbia Manufacture and sale of latex, thermal and multi-bonded air-laid nonwoven fabrics having superabsorbent properties.	7.5%	2,833,485 shares common stock (acquired 5-31-00 thru 6-1-01) Warrants to purchase 373,758 shares of common stock at C\$8.00 (US\$5.442) per share, expiring 2003 (acquired 6-1-01)	9,131,224 188,900 ----- 9,320,124	443,000 -- ----- 443,000
DENNIS TOOL COMPANY Houston, Texas Polycrystalline diamond compacts (PDCs) used in oil field drill bits and in mining and industrial applications.	66.8%	20,725 shares 5% convertible preferred stock, convertible into 20,725 shares of common stock at \$48.25 per share (acquired 8-10-98) 140,137 shares common stock (acquired 3-7-94 and 8-10-98)	999,981 2,329,963 ----- 3,329,944	999,981 500,000 ----- 1,499,981
+ENCORE WIRE CORPORATION McKinney, Texas Electric wire and cable for residential and commercial use.	17.1%	2,724,500 shares common stock (acquired 7-16-92 thru 10-7-98)	5,800,000	13,623,000
EXOPACK HOLDING CORP. Spartanburg, South Carolina Paper and plastic flexible packaging for products such as pet food, building materials, chemicals and other commodities.	1.5%	5,190 shares common stock (acquired 7-27-01 and 8-8-02)	523,830	523,830
+Publicly-owned company		++Unrestricted securities as defined in Note (b)		



Company	Equity (a)	Investment (b)	Cost	Value (c)
EXTREME INTERNATIONAL, 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.	43.6%	12% subordinated notes, payable 2003 to 2004 (acquired 10-21-96 thru 4-30-01) 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) Warrants to purchase 1,303,500 shares of common stock at \$0.25 per share, expiring 2005 and 2008 (acquired 8-11-98 thru 12-31-01)	\$ 4,176,750  375,000  --  ----- 4,551,750	\$ 1,551,750  --  ----- 1,551,750
+FMC CORPORATION Chicago, Illinois Chemicals for agricultural, industrial and consumer markets.	<1%	++6,430 shares common stock (acquired 6-6-86)	66,726	100,821
+FMC TECHNOLOGIES, INC. Chicago, Illinois Equipment and systems for the energy, food processing and air transportation industries.	<1%	++11,057 shares common stock (acquired 1-2-02)	57,051	212,294
HEELING, INC. Carrollton, Texas Heelys stealth skate shoes ("one wheel in the heel") sold through specialty skate, lifestyle and sporting goods stores, footwear chains, department stores and over the Internet at Heelys.com.	43.0%	10% subordinated debenture due 2006 (acquired 10-30-00 thru 12-7-00) 1,745,455 shares Series A preferred stock (acquired 5-26-00) 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)	1,800,000  480,000  120,000 ----- 2,400,000	1,800,000  480,000  120,000 ----- 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	1,370,055
+KIMBERLY-CLARK CORPORATION Dallas, Texas Manufacturer of tissue, personal care and health care products.	<1%	++77,180 shares common stock (acquired 12-18-97)	2,396,926	3,508,603
+LIBERTY MEDIA CORPORATION Englewood, Colorado Global media and entertainment company owning interests in video programming and communications businesses.	<1%	++705,010 shares Series A common stock (acquired 3-9-99 thru 12-12-02)	165,613	6,859,747
+MAIL-WELL, INC. Englewood, Colorado Envelopes and commercial printing.	3.8%	++2,096,588 shares common stock (acquired 2-18-94 thru 11-10-98)	2,986,870	4,256,074
+Publicly-owned company		++Unrestricted securities as defined in Note (b)		

Company	Equity (a)	Investment (b)	Cost	Value (c)
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.	71.2%	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	\$ 10,000,000
ORGANIZED LIVING, INC. Lenexa, Kansas Specialty retailer of products designed to provide home and office storage and organization solutions.	6.1%	3,333,335 shares Series D convertible preferred stock, convertible into 3,333,335 shares of common stock at \$1.80 per share (acquired 1-7-00 and 10-30-00)	6,000,000	1
PALLET ONE, INC. Bartow, Florida Wood pallet manufacturer with 12 manufacturing facilities.	8.8%	150,000 shares common stock (acquired 10-18-01) 1,485,000 shares Series A preferred stock (acquired 10-18-01)	150,000 1,350,000	150,000 1,350,000
+PALM HARBOR HOMES, INC. Dallas, Texas Integrated manufacturing, retailing, financing and insuring of manufactured housing and modular homes.	34.1%	7,855,121 shares common stock (acquired 1-3-85 thru 7-31-95)	10,931,955	70,696,000
+PETSMART, INC. Phoenix, Arizona Retail chain of more than 500 stores selling pet foods, supplies and services.	<1%	++454,220 shares common stock (acquired 6-1-95)	1,995,524	5,723,171
THE RECTORSEAL CORPORATION Houston, Texas Specialty chemical products for plumbing, HVAC, electrical, construction, industrial, oil field and automotive applications; owns 20% of Whitmore Manufacturing Company.	100.0%	27,907 shares common stock (acquired 1-5-73 and 3-31-73)	52,600	55,000,000
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	846,000
+SPRINT CORPORATION - PCS Group Overland Park, Kansas Domestic wireless telephony services.	<1%	++36,000 shares common stock (acquired 11-23-98)	53,991	156,960
+Publicly-owned company		++Unrestricted securities as defined in Note (b)		

Company	Equity (a)	Investment (b)	Cost	Value (c)
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 Regional bank holding company with banking operations in four Texas cities.	2.9%	689,656 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.	5.1%	30,000 shares common stock (acquired 6-27-96)	3,000,000	1
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%	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	1,800,000
VOCALDATA, INC. Richardson, Texas Hardware and software for customer premises telephony equipment based on Voice Over Internet Protocol.	2.8%	1,300,002 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) 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)	1,137,500  352,305 ----- 1,489,805	1  1 ----- 2
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	10,000,000
MISCELLANEOUS	--	Diamond State Ventures, L.P. - 1.9% limited partnership interest (acquired 10-12-99 thru 1-3-03)	184,375	184,375
	--	First Capital Group of Texas III, L.P. - 3.3% limited partnership interest (acquired 12-26-00 thru 11-14-02)	400,000	400,000
	100.0%	Humac Company - 1,041,000 shares common stock (acquired 1-31-75 and 12-31-75)	--	128,000
	--	STARTech Seed Fund I - 12.6% limited partnership interest (acquired 4-17-98 thru 1-5-00)	178,066	1
	--	STARTech Seed Fund II - 3.1% limited partnership interest (acquired 4-28-00 thru 2-28-02)	750,000	375,000
	--	Sterling Group Partners I, L.P. - 1.7% limited partnership interest (acquired 4-20-01 thru 2-19-03)	579,100	579,100
TOTAL INVESTMENTS			\$91,461,842 =====	\$287,060,437 =====
+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, 2003, restricted securities represented approximately 91.2% 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 lower of the closing bid price or the last sale 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, 2003 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
AmPro Mortgage Corporation .....	\$ 5,029,167
CMI Holding Company, Inc. ....	3,000,000
CashWorks, Inc. ....	3,000,000
Diamond State Ventures, L.P. ....	18,750
Exopack Holding Corp. ....	73,830
First Capital Group of Texas III, L.P. ....	152,071
Liberty Media Corporation .....	165,588
Sterling Group Partners I, L.P. ....	260,000
StarTech Seed Fund II .....	150,000
Miscellaneous .....	55,233
	-----
	\$11,904,639
	=====

Dispositions

	Cost	Amount Received
Concert Industries Ltd. ....	\$ 47,525	\$ --
Drew Scientific Group PLC.....	182,689	11,168
MESC Holdings .....	--	56,678
Mylan Laboratories, Inc.....	200,000	2,697,985
PETSMART, Inc. ....	441,604	1,448,052
Photon Dynamics, Inc. ....	--	20,280
Sprockets.com, Inc. ....	1,300,000	--
Texas Shredder, Inc. ....	329,600	329,600
Miscellaneous .....	55,233	--
	-----	-----
	\$2,556,651	\$4,563,763
	=====	=====
Repayments Received .....		\$ 80,000
		=====

Capital Southwest Corporation and Subsidiaries  
Consolidated Statements of Financial Condition

	March 31	
Assets	2003	2002
Investments at market or fair value (Notes 1, 2 and 10)		
Companies more than 25% owned (Cost: 2003 - \$23,114,865, 2002 - \$23,194,865) .....	\$202,893,981	\$243,024,999
Companies 5% to 25% owned (Cost: 2003 - \$30,120,124, 2002 - \$27,167,649) .....	18,566,004	34,943,003
Companies less than 5% owned (Cost: 2003 - \$38,226,853, 2002 - \$31,831,341) .....	65,600,452	69,513,064
Total investments (Cost: 2003 - \$91,461,842, 2002 - \$82,193,855) .....	287,060,437	347,481,066
Cash and cash equivalents .....	4,650,388	1,977,180
Receivables .....	297,664	1,753,297
Other assets (Note 8) .....	6,481,383	5,971,361
Totals .....	\$298,489,872	\$357,182,904

	March 31	
Liabilities and Shareholders' Equity	2003	2002
Note payable to bank (Note 4) .....	\$ 15,500,000	\$ 6,500,000
Notes payable to portfolio company (Note 4) .....	7,500,000	2,500,000
Accrued interest and other liabilities (Note 8) ..	1,868,991	2,018,140
Deferred income taxes (Note 3) .....	67,153,906	90,673,722
Subordinated debenture (Note 5) .....	--	5,000,000
Total liabilities .....	92,022,897	106,691,862
Shareholders' equity (Notes 3 and 6)		
Common stock, \$1 par value: authorized, 5,000,000 shares; issued, 4,266,416 shares at March 31, 2003 and March 31, 2002 .....	4,266,416	4,266,416
Additional capital .....	6,935,497	6,935,497
Undistributed net investment income .....	3,299,659	3,297,838
Undistributed net realized gain on investments .....	71,190,108	69,844,380
Unrealized appreciation of investments - net of deferred income taxes .....	127,808,597	173,180,213
Treasury stock - at cost (437,365 shares) .....	(7,033,302)	(7,033,302)
Net assets at market or fair value, equivalent to \$53.92 per share at March 31, 2003, and \$65.42 per share at March 31, 2002, on the 3,829,051 shares outstanding .....	206,466,975	250,491,042
Totals .....	\$ 298,489,872	\$ 357,182,904

See Notes to Consolidated Financial Statements

Capital Southwest Corporation and Subsidiaries  
Consolidated Statements of Operations

	Years Ended March 31		
	2003	2002	2001
Investment income (Note 9):			
Interest .....	\$ 204,490	\$ 322,521	\$ 542,241
Dividends .....	3,360,990	3,293,633	2,955,833
Management and directors' fees .....	495,900	530,400	530,400
	4,061,380	4,146,554	4,028,474
Operating expenses:			
Salaries .....	911,671	894,612	850,959
Net pension benefit (Note 8) .....	(387,923)	(504,536)	(486,174)
Other operating expenses (Notes 7 and 11) .....	626,106	633,254	614,861
	1,149,854	1,023,330	979,646
Income before interest expense and income taxes .....	2,911,526	3,123,224	3,048,828
Interest expense .....	476,761	929,372	1,144,337
Income before income taxes .....	2,434,765	2,193,852	1,904,491
Income tax expense (Note 3) .....	135,513	151,956	181,991
Net investment income .....	\$ 2,299,252	\$ 2,041,896	\$ 1,722,500
Proceeds from disposition of investments .....	\$ 4,563,763	\$ 5,923,165	\$ 7,657,377
Cost of investments sold (Note 1) .....	2,556,651	6,685,279	12,782,870
Realized gain (loss) on investments before income taxes (Note 9) .....	2,007,112	(762,114)	(5,125,493)
Income tax expense (benefit) .....	661,384	(224,180)	(1,894,506)
Net realized gain (loss) on investments .....	1,345,728	(537,934)	(3,230,987)
Increase (decrease) in unrealized appreciation of investments before income taxes ..	(69,688,616)	36,971,348	(10,310,835)
Increase (decrease) in deferred income taxes on appreciation of investments (Note 3)	(24,317,000)	12,797,000	(3,841,000)
Net increase (decrease) in unrealized appreciation of investments .....	(45,371,616)	24,174,348	(6,469,835)
Net realized and unrealized gain (loss) on investments .....	\$ (44,025,888)	\$ 23,636,414	\$ (9,700,822)
Increase (decrease) in net assets from operations .....	\$ (41,726,636)	\$ 25,678,310	\$ (7,978,322)

See Notes to Consolidated Financial Statements

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

	Years Ended March 31		
	2003	2002	2001
Operations			
Net investment income .....	\$ 2,299,252	\$ 2,041,896	\$ 1,722,500
Net realized gain (loss) on investments .....	1,345,728	(537,934)	(3,230,987)
Net increase (decrease) in unrealized appreciation of investments	(45,371,616)	24,174,348	(6,469,835)
Increase (decrease) in net assets from operations .....	(41,726,636)	25,678,310	(7,978,322)
Distributions from:			
Undistributed net investment income .....	(2,297,431)	(2,294,631)	(2,289,031)
Capital share transactions			
Exercise of employee stock options .....	--	498,750	--
Increase (decrease) in net assets .....	(44,024,067)	23,882,429	(10,267,353)
Net assets, beginning of year .....	250,491,042	226,608,613	236,875,966
Net assets, end of year .....	\$ 206,466,975	\$ 250,491,042	\$ 226,608,613

See Notes to Consolidated Financial Statements



Capital Southwest Corporation and Subsidiaries  
Consolidated Statements of Cash Flows

	Years Ended March 31		
	2003	2002	2001
Cash flows from operating activities			
Increase (decrease) in net assets from operations .....	\$(41,726,636)	\$ 25,678,310	\$ (7,978,322)
Adjustments to reconcile increase (decrease) in net assets from operations to net cash provided by (used in) operating activities:			
Depreciation and amortization .....	21,668	26,258	29,891
Net pension benefit .....	(387,923)	(504,536)	(486,174)
Net realized and unrealized (gain) loss on investments .....	44,025,888	(23,636,414)	9,700,822
(Increase) decrease in receivables .....	1,455,633	(1,488,920)	(25,783)
Increase in other assets .....	(29,447)	(17,922)	(8,923)
Decrease in accrued interest and other liabilities .....	(96,188)	(44,479)	(27,179)
Decrease in accrued pension cost .....	(167,280)	(199,280)	(209,947)
Deferred income taxes .....	135,800	176,600	170,400
Net cash provided by (used in) operating activities .....	3,231,515	(10,383)	1,164,785
Cash flows from investing activities			
Proceeds from disposition of investments .....	4,563,763	5,923,165	7,657,377
Purchases of securities .....	(11,904,639)	(3,545,458)	(15,922,079)
Maturities of securities .....	80,000	2,267,970	540,000
Net cash provided by (used in) investing activities .....	(7,260,876)	4,645,677	(7,724,702)
Cash flows from financing activities			
Increase (decrease) in notes payable to bank .....	9,000,000	1,500,000	(55,000,000)
Increase (decrease) in notes payable to portfolio companies .....	5,000,000	(3,500,000)	1,000,000
Decrease in subordinated debenture .....	(5,000,000)	--	--
Distributions from undistributed net investment income .....	(2,297,431)	(2,294,631)	(2,289,031)
Proceeds from exercise of employee stock options .....	--	498,750	--
Net cash provided by (used in) financing activities .....	6,702,569	(3,795,881)	(56,289,031)
Net increase (decrease) in cash and cash equivalents .....	2,673,208	839,413	(62,848,948)
Cash and cash equivalents at beginning of year .....	1,977,180	1,137,767	63,986,715
Cash and cash equivalents at end of year .....	\$ 4,650,388	\$ 1,977,180	\$ 1,137,767
	=====	=====	=====
Supplemental disclosure of cash flow information:			
Cash paid during the year for: Interest .....	\$ 606,722	\$ 922,011	\$ 1,144,558
Income taxes .....	\$ --	\$ 287	\$ 11,591

See Notes to Consolidated Financial Statements

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. Capital Southwest Management Corporation ("CSMC"), a wholly-owned subsidiary of CSC, is the management company for CSC and CSVC. The following is a summary of significant accounting policies followed in the preparation of the consolidated financial statements of CSC, CSVC and CSMC (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.

**Stock-Based Compensation.** The Company accounts for its stock-based compensation plans under the recognition and measurement principles of Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees", and related Interpretations. No stock-based compensation cost is reflected in net asset value, as all options granted under those plans had an exercise price equal to the market value of the underlying common stock on the date of grant.

In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure - an amendment of FASB Statement No. 123." SFAS No. 148 provides alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation and amends the related existing disclosure requirements. Since the Company accounts for its stock-based compensation under the recognition and measurement principles of Accounting Principles Board Opinion No. 25, SFAS 148 does not have an impact on the Company's operating results or financial position for the years ended March 31, 2003, 2002 and 2001.

The following table illustrates the effect on net asset value and net asset value per share if the Company had applied the fair value recognition provisions of FASB Statement No. 123, "Accounting for Stock-Based Compensation", to stock-based compensation.

	Years Ended March 31		
	2003	2002	2001
Net asset value, as reported	\$ 206,466,975	\$ 250,491,042	\$ 226,608,613
Deduct: Total fair value computed stock-based compensation	179,440	59,216	59,216
Pro forma net asset value	\$ 206,287,535	\$ 250,431,826	\$ 226,549,397
Net asset value per share:			
Basic - as reported	\$ 53.92	\$ 65.42	\$ 59.40
Basic - pro forma	\$ 53.87	\$ 65.40	\$ 59.38
Diluted - as reported	\$ 53.79	\$ 65.20	\$ 59.14
Diluted- pro forma	\$ 53.74	\$ 65.19	\$ 59.12

The diluted net asset value per share calculation assumes all vested outstanding options for which the market price exceeds the exercise price have been exercised.

Effective April 1, 2003, the Company adopted the fair value method of recording compensation expense related to all stock options granted after March 31, 2003, in accordance with SFAS Nos. 123 and 148. Accordingly, the fair value of stock options as determined on the date of grant using the Black-Scholes option-pricing model will be expensed over the vesting period of the related stock options.

## 2. Valuation of Investments

The consolidated financial statements as of March 31, 2003 and 2002 include securities valued at \$261,680,466 (91.2% of the value of the consolidated investment portfolio) and \$317,137,082 (91.3% 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, 2002, 2001 and 2000, 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 2003, 2002 and 2001 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, 2003 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 \$67,790,000 and \$92,107,000 have been provided on net unrealized appreciation of investments of \$195,598,595 and \$265,287,211 at March 31, 2003 and 2002, 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, 2003 and 2002.

## 4. Notes Payable

The note payable to bank at March 31, 2003 and 2002 was from an unsecured revolving line of credit of \$25,000,000 and \$15,000,000, respectively, of which \$15,500,000 and \$6,500,000, respectively, 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, 2004.

The notes payable to portfolio company were demand promissory notes to Skylawn Corporation with interest payable at the greater of prime minus 2.25% or the Applicable Federal Rate established by the Internal Revenue Service. Interest expense on these portfolio company notes was \$75,531 in 2003 and \$216,280 in 2002.

## 5. Subordinated Debenture

The subordinated debenture of \$5,000,000 outstanding at March 31, 2002 was payable to others and guaranteed by the Small Business Administration ("SBA"), bore interest at 8.0% and was repaid June 3, 2002.

## 6. Employee Stock Option Plan

Under the 1984 Incentive Stock Option Plan, options to purchase 28,000, 28,000 and 42,000 shares of common stock at \$35.625 per share (the market price at the time of grant) were outstanding and exercisable at March 31, 2003, 2002 and 2001, respectively, and expire July 2003. During the three years ended March 31, -0- options were exercised in 2003, 14,000 were exercised in 2002 and -0- were exercised in 2001. The 1984 Incentive Stock Option Plan expired in 1994.

On July 19, 1999, shareholders approved the 1999 Stock Option Plan ("Plan"), which provides for the granting of stock options to employees and officers of the Company and authorizes the issuance of common stock upon the exercise of such options for up to 140,000 shares of common stock. All options are granted at or above market price and generally expire ten years from the date of grant and are generally exercisable on or after the first anniversary of the date of grant in five to ten annual installments.

At March 31, 2003, there were 85,500 additional shares available for grant under the Plan. The per share weighted average fair value of stock options granted during 2002 was \$20.76 on the date of grant using the Black Scholes option-pricing model with the following assumptions: expected dividend yield of .92%, risk-free interest rate of 5.14%, expected volatility of 20.6%, and expected life of 7 years.

The following summarizes activity in the stock option plans for the years ended March 31, 2003, 2002 and 2001:

	Number of shares	Weighted Average Exercise Price
	-----	-----
Balance at April 1, 2000	80,000	\$55.856
Granted	--	--
Exercised	--	--
Forfeited	--	--
Expired	--	--
	-----	-----
Balance at March 31, 2001	80,000	55.856
Granted	44,000	65.239
Exercised	(14,000)	35.625
Forfeited	(27,500)	65.000
Expired	--	--
	-----	-----
Balance at March 31, 2002	82,500	58.336
Granted	--	--
Exercised	--	--
Forfeited	--	--
Expired	--	--
	-----	-----
Balance at March 31, 2003	82,500	\$58.336
	=====	=====

At March 31, 2003, the range of exercise prices and weighted average remaining contractual life of outstanding options was \$35.625 - \$84.70 and 4.80 years, respectively.

At March 31, 2003, 2002 and 2001, the number of options exercisable was 44,750, 36,100 and 49,750, respectively and the weighted average exercise price of those options was \$50.61, \$45.93, \$42.63, respectively.

#### 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 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 \$44,417 in 2003, \$28,322 in 2002 and \$42,997 in 2001.

#### 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, 2003.

The following tables set forth the qualified plan's benefit obligations and fair value of plan assets at March 31, 2003, 2002 and 2001:

	Years Ended March 31		
	2003	2002	2001
	-----	-----	-----
Change in benefit obligation			
Benefit obligation at beginning			
of year .....	\$ 3,284,463	\$ 3,255,669	\$ 3,260,366
Service cost .....	41,142	58,428	50,961
Interest cost .....	202,424	207,940	205,976
Amendments .....	346,882	--	--
Actuarial loss .....	165,560	94,298	59,571
Benefits paid .....	(363,872)	(331,872)	(321,205)
	-----	-----	-----
Benefit obligation at end of year	\$ 3,676,599	\$ 3,284,463	\$ 3,255,669
	=====	=====	=====

	Years Ended March 31		
	2003	2002	2001
Change in plan assets			
Fair value of plan assets at beginning of year	\$ 9,410,320	\$ 8,758,035	\$ 9,837,547
Actual return on plan assets	(2,164,725)	984,157	(758,307)
Benefits paid	(363,872)	(331,872)	(321,205)
Fair value of plan assets at end of year	\$ 6,881,723	\$ 9,410,320	\$ 8,758,035

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	
	2003	2002
Actuarial present value of benefit obligations:		
Accumulated benefit obligation	\$(3,346,711)	\$(2,906,821)
Projected benefit obligation for service rendered to date	\$(3,676,599)	\$(3,284,463)
Plan assets at fair value*	6,881,723	9,410,320
Excess of plan assets over the projected benefit obligation	3,205,124	6,125,857
Unrecognized net loss from past experience different from that assumed and effects of changes in assumptions	3,023,057	32,117
Unrecognized prior service costs	217,886	(140,319)
Unrecognized net assets being amortized over 19 years	(147,646)	(221,477)
Prepaid pension cost included in other assets	\$ 6,298,421	\$ 5,796,178

\*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		
	2003	2002	2001
Service cost - benefits earned during the year	\$ 41,142	\$ 58,428	\$ 50,961
Interest cost on projected benefit obligation	202,424	207,940	205,976
Expected return on assets	(641,722)	(783,467)	(762,897)
Net amortization and deferral	(104,087)	(114,284)	(131,965)
Net pension benefit from qualified plan	\$(502,243)	\$(631,383)	\$(637,925)

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 obligations at March 31, 2003, 2002 and 2001:

	Years Ended March 31		
	2003	2002	2001
Change in benefit obligation			
Benefit obligation at beginning of year	\$ 1,778,496	1,758,214	\$ 2,026,495
Service cost	5,389	8,573	4,945
Interest cost	104,436	113,779	113,497
Amendments	(347,147)	--	--
Actuarial (gain) loss	(20,507)	97,210	(176,776)
Benefits paid	(167,281)	(199,280)	(209,947)
Benefit obligation at end of year	\$ 1,353,386	\$ 1,778,496	\$ 1,758,214

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	
	2003	2002
Projected benefit obligation	\$(1,353,386)	\$(1,778,496)
Unrecognized net gain from past experience different from that assumed and effects of changes in assumptions	(54,972)	(34,465)
Unrecognized prior service costs	(286,262)	65,380
Accrued pension cost included in other liabilities	\$(1,694,620)	\$(1,747,581)

The Retirement Restoration Plan expenses recognized during the years ended March 31, 2003, 2002 and 2001 of \$114,320, \$126,847 and \$151,751, 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 6.0% and 5.0%, respectively, at March 31, 2003 and 6.5% and 5.0%, respectively, at both March 31, 2002 and March 31, 2001. The expected long-term rate of return used to project estimated earnings on plan assets for the qualified plan was 6.0% for the year ended March 31, 2003 and 7.5% for the years ended March 31, 2002 and March 31, 2001. 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
	Interest	Dividends	Other Income	
2003				
Companies more than 25% owned .....	\$ 5,600	\$ 3,073,770	\$ 494,900	\$ --
Companies 5% to 25% owned .....	--	--	--	(47,525)
Companies less than 5% owned .....	180,000	287,220	1,000	2,054,637
Other sources, including temporary investments .....	18,890	--	--	--
	<u>\$ 204,490</u>	<u>\$ 3,360,990</u>	<u>\$ 495,900</u>	<u>\$ 2,007,112</u>
2002				
Companies more than 25% owned .....	\$ 39,200	\$ 2,996,591	\$ 487,400	\$ --
Companies 5% to 25% owned .....	99,041	--	--	--
Companies less than 5% owned .....	133,549	297,042	43,000	(762,114)
Other sources, including temporary investments .....	50,731	--	--	--
	<u>\$ 322,521</u>	<u>\$ 3,293,633</u>	<u>\$ 530,400</u>	<u>\$ (762,114)</u>
2001				
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	--	--	--
	<u>\$ 542,241</u>	<u>\$ 2,955,833</u>	<u>\$ 530,400</u>	<u>\$ (5,125,493)</u>

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

	2003	2002	
Condensed Balance Sheet Data			
Assets			
Cash and temporary investments .....	\$ 14,885	\$ 21,884	
Receivables .....	31,675	28,092	
Inventories .....	40,854	38,721	
Property, plant and equipment .....	38,035	38,109	
Other assets .....	24,598	21,072	
Totals .....	\$150,047	\$147,878	
Liabilities and Shareholder's Equity			
Long-term debt .....	\$ 5,182	\$ 10,594	
Other liabilities .....	16,319	16,926	
Shareholder's equity .....	128,546	120,358	
Totals .....	\$150,047	\$147,878	
Condensed Statements of Income .....			
	2003	2002	2001
Revenues .....	\$100,553	\$ 96,417	\$ 93,575
Costs and operating expenses .....	88,861	83,475	80,952
Income before income taxes .....	13,105	14,722	14,659
Income taxes .....	2,858	5,585	4,829
Net income .....	10,247	9,137	9,830

11. Commitments

The Company has agreed, subject to certain conditions, to invest up to \$2,408,525 in five portfolio companies.

The Company leases office space under an operating lease which requires base annual rentals of approximately \$74,000 through February, 2008. For the three years ended March 31, total rental expense charged to investment income was \$60,482 in 2003, \$58,984 in 2002 and \$58,145 in 2001.



Selected Per Share Data and Ratios

	Years Ended March				
	2003	2002	2001	2000	1999
<b>Per Share Data</b>					
Investment income .....	\$ 1.06	\$ 1.08	\$ 1.06	\$ .86	\$ 1.00
Operating expenses .....	(.30)	(.27)	(.26)	(.27)	(.40)
Interest expense .....	(.12)	(.24)	(.30)	(.12)	(.11)
Income taxes .....	(.04)	(.04)	(.05)	(.03)	(.03)
Net investment income .....	.60	.53	.45	.44	.46
Distributions from undistributed net investment income .....	(.60)	(.60)	(.60)	(.60)	(.60)
Net realized gain (loss) on investments .....	.35	(.14)	(.85)	1.58	.26
Net increase (decrease) in unrealized appreciation of investments after deferred taxes .....	(11.85)	6.31	(1.69)	(6.49)	(10.81)
Exercise of employee stock options* .....	--	(.08)	--	--	(.30)
Increase (decrease) in net asset value .....	(11.50)	6.02	(2.69)	(5.07)	(10.99)
Net asset value					
Beginning of year .....	65.42	59.40	62.09	67.16	78.15
End of year .....	\$ 53.92	\$ 65.42	\$ 59.40	\$ 62.09	\$ 67.16
Increase (decrease) in deferred taxes on unrealized appreciation .....	\$ (6.35)	\$ 3.26	\$ (1.01)	\$ (3.49)	\$ (6.04)
Deferred taxes on unrealized appreciation:					
Beginning of year .....	24.05	20.79	21.80	25.29	31.33
End of year .....	\$ 17.70	\$ 24.05	\$ 20.79	\$ 21.80	\$ 25.29
<b>Ratios and Supplemental Data</b>					
Ratio of operating expenses to average net assets .....	.52%	.42%	.42%	.42%	.55%
Ratio of operating expenses to average net assets plus average deferred taxes on unrealized appreciation .....	.39%	.31%	.31%	.31%	.39%
Ratio of net investment income to average net assets .....	1.04%	.85%	.74%	.67%	.63%
Portfolio turnover rate .....	1.53%	1.05%	2.56%	4.26%	.19%
Shares outstanding at end of period (000s omitted) .....	3,829	3,829	3,815	3,815	3,815

\* Net decrease is due to the exercise of employee stock options at prices 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 subsidiaries as of March 31, 2003 and 2002, including the portfolio of investments as of March 31, 2003, 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, 2003 and the selected per share data and ratios for each of the years in the five-year period ended March 31, 2003. 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 the physical examination of securities owned as of March 31, 2003 and 2002, 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 subsidiaries as of March 31, 2003 and 2002, 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, 2003, and the selected per share data and ratios for each of the years in the five-year period ended March 31, 2003, in conformity with accounting principles generally accepted in the United States of America.

KPMG LLP

Dallas, Texas  
April 25, 2003

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 (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 increase (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 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 (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 \$17,346 in 2003, \$48,877 in 2002 and \$249,000 in 2001. The Company also receives management fees from its wholly-owned portfolio companies which aggregated \$458,400 in each of the years ended March 31, 2003, March 31, 2002 and March 31, 2001. During the three years ended March 31, 2003, the Company recorded dividend income from the following sources:

	Years Ended March 31		
	2003	2002	2001
AT&T Corp. ....	\$ 19,987	\$ 19,987	\$ 68,621
Alamo Group Inc. ....	677,112	677,112	677,112
Dennis Tool Company ....	49,999	49,999	49,999
Kimberly-Clark Corporation ....	95,703	87,985	84,126
The RectorSeal Corporation ....	960,000	960,000	960,000
Skylawn Corporation ....	1,146,659	1,069,480	658,275
TCI Holdings, Inc. ....	81,270	81,270	81,270
Texas Shredder, Inc. ....	33,667	44,506	40,460
The Whitmore Manufacturing Company .	240,000	240,000	240,000
Other .....	56,593	63,294	95,970
	-----	-----	-----
	\$3,360,990	\$3,293,633	\$2,955,833
	=====	=====	=====

Total operating expenses, excluding interest expense, increased by \$126,524 or 12.4% and by \$43,684 or 4.5% during the years ended March 31, 2003 and 2002, 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 decreased by \$452,611 during the year ended March 31, 2003 due to a decrease in interest rates and the payoff of the subordinated debenture on June 3, 2002. For the year ended March 31, 2002, interest expense decreased by \$214,965 due to a decrease in interest rates.

Net Realized Gain (Loss) on Investments

Net realized gain on investments was \$1,345,728 (after income tax expense of \$661,384) during the year ended March 31, 2003, compared with a loss of \$537,934 (after income tax benefit of \$224,180) during 2002 and a loss of \$3,230,987 (after income tax benefit of \$1,894,506) during 2001. 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 or losses through the disposition of certain portfolio investments.

## Net Increase (Decrease) in Unrealized Appreciation of Investments

For the three years ended March 31, the Company recorded an increase (decrease) in unrealized appreciation of investments before income taxes of \$(69,688,616), \$36,971,348 and \$(10,310,835) in 2003, 2002 and 2001, 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		
	2003	2002	2001
AT&T Corp. ....	\$ (426,165)	\$ (746,162)	\$ (4,681,896)
Alamo Group Inc. ....	(8,464,000)	2,821,000	2,821,000
All Components, Inc. ....	--	(50,000)	3,450,000
Balco, Inc. ....	2,000,000	1,482,240	--
CDC Technologies, Inc./Drew Scientific Group PLC ..	--	(38,098)	(2,592,541)
Concert Industries Ltd. ....	(5,479,000)	(3,740,000)	294,351
Encore Wire Corporation ...	(10,898,000)	10,898,000	--
Liberty Media Corporation ..	(1,868,329)	(921,280)	(10,605,732)
Mail-Well, Inc. ....	(2,557,926)	(524,000)	(6,290,000)
Media Recovery, Inc. ....	--	(8,000,000)	10,000,000
Organized Living, Inc. ....	(2,999,999)	(3,000,000)	--
Palm Harbor Homes, Inc. ....	(39,275,000)	31,420,000	(7,855,000)
PETsMART, Inc. ....	(436,051)	5,298,343	654,220
The RectorSeal Corporation .	5,000,000	2,500,000	5,500,000
Skylawn Corporation .....	--	--	3,000,000
Sprint Corporation-FON Group	(254,880)	(482,400)	(2,952,720)

As shown in the above table for the year ended March 31, 2003, we sustained a major \$39,275,000 decrease in the value of our investment in Palm Harbor Homes, Inc. This 35.7% decrease in value reflects Palm Harbor's vulnerability to the unfavorable condition of the manufactured housing industry as the availability of floor plan financing for retailers has declined and lenders have withdrawn from manufactured housing mortgage financing for retail purchasers. The hostile industry climate has created intense price competition and reduced sales volume. We also experienced a significant decline in the value of our investment in Encore Wire Corporation, which was reduced during the year by \$10,898,000, equivalent to 44.4%, as overcapacity in the electric wire and cable industry led to intense price competition and lower profit margins. Another large decline was in the value of our investment in Alamo Group Inc., which decreased by \$8,464,000 - a 27.3% decline during the year - due to the weakness of mower sales to governmental agencies and the unfavorable condition of the agricultural equipment market. Another large decline was in the value of our investment in Concert Industries Ltd., which decreased by \$5,479,000 - a 92.5% decline during the year - as the company experienced continuing losses attributable to production problems in its new Canadian manufacturing facility and to increased competition in the air-laid nonwoven fabrics market.

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, 2003."

## 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, 2003 consolidated deferred Federal income taxes of \$67,790,000 were provided on net unrealized appreciation of investments of \$195,598,595 compared with deferred taxes of \$92,107,000 on net unrealized appreciation of \$265,287,211 at March 31, 2002. Deferred income taxes at March 31, 2003 and 2002 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, 2003, the Company invested \$11,904,639 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 2002 and 2001 fiscal years, the Company invested a total of \$3,545,458 and \$15,922,079, respectively.

## Financial Liquidity and Capital Resources

At March 31, 2003, the Company had cash and cash equivalents of approximately \$4.7 million. Pursuant to Small Business Administration ("SBA") regulations, cash and cash equivalents of \$0.5 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 \$63.8 million. The Company also has an unsecured \$25,000,000 revolving line of credit from a commercial bank, of which \$9,500,000 was available at March 31, 2003. 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 35 years. Retention of future gains is viewed as an important source of funds to sustain the Company's investment activity. Approximately \$25.4 million of the Company's investment portfolio is represented by unrestricted publicly-traded securities, which have an ascertainable market value and represent a 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. At March 31, 2003, the Company owed \$7,500,000 to Skylawn Corporation.

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.

## Critical Accounting Policies

### Valuation of Investments

In accordance with the Investment Company Act of 1940, investments in unrestricted securities (freely marketable securities having readily available market quotations) are valued at market and investments in restricted securities (securities subject to one or more resale restrictions) are valued at fair value determined in good faith by the Company's Board of Directors. Under the valuation policy of the Company, unrestricted securities are valued at the closing sale price for listed securities and at the lower of the closing bid price or the last sale 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, which is considered to be the amount the Company may reasonably expect to receive 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.

## Deferred Income Taxes

In future years, the Company may not qualify or elect to be taxed as a regulated investment company ("RIC") under applicable provisions of the Internal Revenue Code. Therefore, deferred Federal income taxes have been provided on net unrealized appreciation of investments at the then currently effective corporate tax rate on capital gains.

## 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)

	1993	1994	1995	1996	1997	1998
<b>Financial Position (as of March 31)</b>						
Investments at cost .....	\$ 33,953	\$ 41,993	\$ 49,730	\$ 58,544	\$ 59,908	\$ 61,154
Unrealized appreciation .....	113,153	132,212	153,031	198,386	233,383	340,132
Investments at market or fair value .....	147,106	174,205	202,761	256,930	293,291	401,286
Total assets .....	176,422	270,874	213,811	326,972	310,760	522,324
Notes payable * .....	15,000	15,000	11,000	11,000	5,000	5,000
Deferred taxes on unrealized appreciation .....	38,112	45,932	53,247	69,121	81,313	118,674
Net assets .....	121,455	133,053	147,370	189,048	218,972	296,023
Shares outstanding .....	3,681	3,715	3,735	3,767	3,767	3,788
<b>Changes in Net Assets (years ended March 31)</b>						
Net investment income .....	\$ 2,189	\$ 2,870	\$ 2,447	\$ 2,855	\$ 2,574	\$ 2,726
Net realized gain (loss) on investments .....	5,099	(475)	142	11,174	6,806	6,485
Net increase (decrease) in unrealized appreciation before distributions .....	8,524	11,160	13,584	38,746	22,804	69,388
Increase (decrease) in net assets from operations before distributions .....	15,812	13,555	16,173	52,775	32,184	78,599
Cash dividends paid .....	(2,202)	(2,228)	(2,241)	(2,270)	(2,260)	(2,268)
Securities distributed .....	--	--	--	(9,402)	--	--
Employee stock options exercised .....	322	272	385	575	--	720
Increase (decrease) in net assets	13,932	11,599	14,317	41,678	29,924	77,051
<b>Per Share Data (as of March 31)</b>						
Deferred taxes on unrealized appreciation .....	\$ 10.35	\$ 12.36	\$ 14.26	\$ 18.35	\$ 21.59	\$ 31.33
Net assets .....	32.99	35.81	39.46	50.18	58.13	78.15
Closing market price .....	36.50	38.125	38.00	60.00	67.875	94.00
Cash dividends paid .....	.60	.60	.60	.60	.60	.60
Securities distributed .....	--	--	--	2.50	--	--

\* Excludes quarter-end borrowing which is repaid on the first business day after year end.

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

	1999	2000	2001	2002	2003
<b>Financial Position (as of March 31)</b>					
Investments at cost .....	\$ 73,580	\$ 85,002	\$ 87,602	\$ 82,194	\$ 91,462
Unrealized appreciation .....	276,698	238,627	228,316	265,287	195,598
Investments at market or fair value .....	350,278	323,629	315,918	347,481	287,060
Total assets .....	360,786	392,586	322,668	357,183	298,490
Notes payable * .....	5,000	10,000	16,000	14,000	23,000
Deferred taxes on unrealized appreciation .....	96,473	83,151	79,310	92,107	67,790
Net assets .....	256,232	236,876	226,609	250,491	206,467
Shares outstanding .....	3,815	3,815	3,815	3,829	3,829
<b>Changes in Net Assets (years ended March 31)</b>					
Net investment income .....	\$ 1,762	\$ 1,663	\$ 1,723	\$ 2,042	\$ 2,299
Net realized gain (loss) on investments .....	995	6,020	(3,231)	(538)	1,346
Net increase (decrease) in unrealized appreciation before distributions .....	(41,233)	(24,750)	(6,470)	24,174	(45,372)
Increase (decrease) in net assets from operations before distributions .....	(38,476)	(17,067)	(7,978)	25,678	(41,727)
Cash dividends paid .....	(2,280)	(2,289)	(2,289)	(2,295)	(2,297)
Securities distributed .....	--	--	--	--	--
Employee stock options exercised .....	965	--	--	499	--
Increase (decrease) in net assets	(39,791)	(19,356)	(10,267)	23,882	(44,024)
<b>Per Share Data (as of March 31)</b>					
Deferred taxes on unrealized appreciation .....	\$ 25.29	\$ 21.80	\$ 20.79	\$ 24.05	\$ 17.70
Net assets .....	67.16	62.09	59.40	65.42	53.92
Closing market price .....	73.00	54.75	65.00	68.75	48.15
Cash dividends paid .....	.60	.60	.60	.60	.60
Securities distributed .....	--	--	--	--	--

\* Excludes quarter-end borrowing which is repaid on the first business day after year end.



## 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 800 record holders of its common stock at March 31, 2003. This total does not include an estimated 2,300 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, 2001.....	\$69.00	\$ 59.00
September 30, 2001.....	68.20	60.25
December 31, 2001.....	67.19	57.35
March 31, 2002.....	69.01	63.28

Quarter Ended	High	Low
June 30, 2002.....	\$79.24	\$ 66.31
September 30, 2002.....	70.25	58.00
December 31, 2002.....	60.24	45.35
March 31, 2003.....	53.00	43.00

### Dividends

The payment dates and amounts of cash dividends per share since April 1, 2001 are as follows:

Payment Date	Cash Dividend
May 31, 2001.....	\$0.20
November 30, 2001.....	0.40
May 31, 2002.....	0.20
November 29, 2002.....	0.40
May 30, 2003.....	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 21, 2003, 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 the incorporation by reference in the registration statement (No. 33-43881) on Form S-8 of Capital Southwest Corporation of our report dated April 25, 2003, with respect to the consolidated statements of financial condition of Capital Southwest Corporation and subsidiary as of March 31, 2003 and 2002, including the portfolio of investments as of March 31, 2003, 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, 2003, and the selected per share data and ratios for each of the years in the five-year period ended March 31, 2003, which report appears in the annual report to shareholders for the year ended March 31, 2003, and is incorporated by reference in the March 31, 2003 annual report on Form 10-K of Capital Southwest Corporation.

KPMG LLP

Dallas, Texas  
June 12, 2003

CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of Capital Southwest Corporation (the "Company") on Form 10-K for the year ended March 31, 2003 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, William R. Thomas, President and Chairman of the Board of the Company, certify, pursuant to 18 U.S.C. ss. 1350, as adopted pursuant to ss. 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the consolidated financial condition and results of operations of the Company.

Date: June 13, 2003  
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By: /s/ William R. Thomas  
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William R. Thomas, President  
and Chairman of the Board

A signed original of this written statement required by Section 906 has been provided to Capital Southwest Corporation and will be retained by Capital Southwest Corporation and furnished to the Securities and Exchange Commission or its staff upon request.

CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of Capital Southwest Corporation (the "Company") on Form 10-K for the year ended March 31, 2003 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Susan K. Hodgson, Secretary-Treasurer of the Company, certify, pursuant to 18 U.S.C. ss. 1350, as adopted pursuant to ss. 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the consolidated financial condition and results of operations of the Company.

Date: June 13, 2003  
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By: /s/ Susan K. Hodgson  
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Susan K. Hodgson, Secretary-Treasurer

A signed original of this written statement required by Section 906 has been provided to Capital Southwest Corporation and will be retained by Capital Southwest Corporation and furnished to the Securities and Exchange Commission or its staff upon request.