

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the Quarter Ended December 31, 1999

Commission File Number: 814-61

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

Texas
(State or other Jurisdiction of
Incorporation or Organization)

75-1072796
(I.R.S. Employer
Identification Number)

12900 Preston Road, Suite 700, Dallas, Texas 75230
(Address of principal executive offices including zip code)

(972) 233-8242
(Registrant's telephone number including area code)

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 periods that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes X No
 --- ---

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

3,815,051 shares of Common Stock, \$1 Par Value as of January 31, 2000

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

CAPITAL SOUTHWEST CORPORATION AND SUBSIDIARY
Consolidated Statements of Financial Condition

Assets	December 31, 1999 ----- (Unaudited)	March 31, 1999 -----
Investments at market or fair value		
Companies more than 25% owned (Cost: December 31, 1999 - \$23,380,865, March 31, 1999 - \$22,130,818)	\$ 200,632,779	\$ 231,819,359
Companies 5% to 25% owned (Cost: December 31, 1999 - \$15,979,414, March 31, 1999 - \$18,841,914)	18,984,505	31,596,160
Companies less than 5% owned (Cost: December 31, 1999 - \$38,907,783, March 31, 1999 - \$32,607,282)	102,725,290	86,862,983
Total investments (Cost: December 31, 1999 - \$78,268,062, March 31, 1999 - \$73,580,014)	322,342,574	350,278,502

Cash and cash equivalents	44,541,641	6,050,443
Receivables	263,343	315,707
Other assets	4,570,042	4,141,136
	-----	-----
Totals	\$ 371,717,600	\$ 360,785,788
	=====	=====
Liabilities and Shareholders' Equity		
Note payable to bank	\$ 35,000,000	\$ --
Accrued interest and other liabilities	2,145,941	2,023,625
Income taxes payable	4,072,411	282,741
Deferred income taxes	85,356,885	97,247,457
Subordinated debenture	5,000,000	5,000,000
	-----	-----
Total liabilities	131,575,237	104,553,823
	-----	-----
Shareholders' equity		
Common stock, \$1 par value: authorized, 5,000,000 shares; issued, 4,252,416 shares at December 31, 1999 and March 31, 1999	4,252,416	4,252,416
Additional capital	6,450,747	6,450,747
Undistributed net investment income	3,845,601	4,743,205
Undistributed net realized gain on investments	73,609,387	67,593,409
Unrealized appreciation of investments - net of deferred income taxes	159,017,514	180,225,490
Treasury stock - at cost (437,365 shares)	(7,033,302)	(7,033,302)
	-----	-----
Net assets at market or fair value, equivalent to \$62.95 per share at December 31, 1999, and \$67.16 per share at March 31, 1999, on the 3,815,051 shares outstanding	240,142,363	256,231,965
	-----	-----
Totals	\$ 371,717,600	\$ 360,785,788
	=====	=====

(See Notes to Consolidated Financial Statements)

CAPITAL SOUTHWEST CORPORATION
AND SUBSIDIARY
Consolidated Statements of Operations

(Unaudited)

	Three Months Ended December 31		Nine Months Ended December 31	
	1999	1998	1999	1998
	----	----	----	----
Investment income:				
Interest	\$ 260,091	\$ 266,174	\$ 780,555	\$ 990,815
Dividends	304,378	385,072	1,428,017	1,579,387
Management and directors' fees	125,624	124,850	406,300	415,300
	690,093	776,096	2,614,872	2,985,502
Operating expenses				
Interest	121,198	103,104	330,480	315,305
Salaries	301,548	406,783	631,425	913,202
Net pension expense (benefit)	(108,996)	(77,906)	(326,988)	(233,719)
Other operating expenses	216,906	194,420	474,128	559,991
	530,656	626,401	1,109,045	1,554,779
Income before income taxes	159,437	149,695	1,505,827	1,430,723
Income tax expense	38,100	27,300	114,400	81,800
	121,337	122,395	1,391,427	1,348,923
Net investment income	\$ 121,337	\$ 122,395	\$ 1,391,427	\$ 1,348,923
	=====	=====	=====	=====
Proceeds from disposition of investments	\$ --	\$ --	\$ 14,892,513	\$ 761,837
Cost of investments sold	--	--	5,662,000	--
	--	--	9,230,513	761,837
Realized gain on investments before income taxes	--	--	9,230,513	761,837
Income tax expense (benefit)	(16,145)	--	3,214,535	266,643
	16,145	--	6,015,978	495,194
Net realized gain on investments	16,145	--	6,015,978	495,194
	-----	-----	-----	-----
Increase (decrease) in unrealized appreciation of investments before income taxes	6,120,042	3,587,928	(32,623,976)	(40,345,711)
Increase (decrease) in deferred income taxes on appreciation of investments	2,144,000	1,256,000	(11,416,000)	(14,120,000)
	3,976,042	2,331,928	(21,207,976)	(26,225,711)
Net increase (decrease) in unrealized appreciation of investments	3,976,042	2,331,928	(21,207,976)	(26,225,711)
	-----	-----	-----	-----
Net realized and unrealized gain (loss) on investments	\$ 3,992,187	\$ 2,331,928	\$ (15,191,998)	\$ (25,730,517)
	=====	=====	=====	=====
Increase (decrease) in net assets from operations	\$ 4,113,524	\$ 2,454,323	\$ (13,800,571)	\$ (24,381,594)
	=====	=====	=====	=====

(See Notes to Consolidated Financial Statements)

CAPITAL SOUTHWEST CORPORATION
AND SUBSIDIARY
Consolidated Statements of Changes in Net Assets

	Nine Months Ended December 31, 1999 ----- (Unaudited)	Year Ended March 31, 1999 -----
Operations		
Net investment income	\$ 1,391,427	\$ 1,761,718
Net realized gain on investments	6,015,978	994,949
Net decrease in unrealized appreciation of investments	(21,207,976)	(41,232,545)
	-----	-----
Decrease in net assets from operations	(13,800,571)	(38,475,878)
Distributions from:		
Undistributed net investment income	(2,289,031)	(2,280,411)
Capital share transactions		
Exercise of employee stock options	--	965,438
	-----	-----
Decrease in net assets	(16,089,602)	(39,790,851)
Net assets, beginning of period	256,231,965	296,022,816
	-----	-----
Net assets, end of period	\$ 240,142,363 =====	\$ 256,231,965 =====

(See Notes to Consolidated Financial Statements)

CAPITAL SOUTHWEST CORPORATION
AND SUBSIDIARY
Consolidated Statements of Cash Flows

(Unaudited)

	Three Months Ended December 31		Nine Months Ended December 31	
	1999	1998	1999	1998
	----	----	----	----
Cash flows from operating activities				
Increase (decrease) in net assets from operations	\$ 4,113,524	\$ 2,454,323	\$ (13,800,571)	\$ (24,381,594)
Adjustments to reconcile increase (decrease) in net assets from operations to net cash provided by operating activities:				
Depreciation and amortization	7,493	6,178	21,652	18,533
Net pension benefit	(108,996)	(77,906)	(326,988)	(233,719)
Net realized and unrealized (gain) loss on investments	(3,992,187)	(2,331,929)	15,191,998	25,730,516
Decrease in receivables	32,984	130,098	52,364	48,886
(Increase) decrease in other assets	4,029	27,475	(17,476)	(34,968)
Increase in accrued interest and other liabilities	81,435	152,713	2,385	9,742
Deferred income taxes	38,100	27,300	114,400	81,800
	-----	-----	-----	-----
Net cash provided by operating activities	176,382	388,252	1,237,764	1,239,196
	-----	-----	-----	-----
Cash flows from investing activities				
Proceeds from disposition of investments	--	--	14,892,513	761,837
Purchases of securities	(6,450,001)	(1,897,860)	(13,190,048)	(13,170,132)
Maturities of securities	2,000,000	293,000	2,840,000	744,539
	-----	-----	-----	-----
Net cash provided (used) by investing activities	(4,450,001)	(1,604,860)	4,542,465	(11,663,756)
	-----	-----	-----	-----
Cash flows from financing activities				
Increase (decrease) in note payable to bank	10,000,000	(40,000,000)	35,000,000	(100,000,000)
Distributions from undistributed net investment income	(1,526,021)	(1,522,821)	(2,289,031)	(2,280,411)
Proceeds from exercise of employee stock options	--	498,750	--	680,438
	-----	-----	-----	-----
Net cash provided (used) by financing activities	8,473,979	(41,024,071)	32,710,969	(101,599,973)
	-----	-----	-----	-----
Net increase (decrease) in cash and cash equivalents	4,200,360	(42,240,679)	38,491,198	(112,024,533)
Cash and cash equivalents at beginning of period	40,341,281	47,264,066	6,050,443	117,047,920
	-----	-----	-----	-----
Cash and cash equivalents at end of period	\$ 44,541,641	\$ 5,023,387	\$ 44,541,641	\$ 5,023,387
	=====	=====	=====	=====
Supplemental disclosure of cash flow information:				
Cash paid during the period for:				
Interest	\$204,719	\$207,638	\$404,171	\$424,926
Income taxes	\$ 6,000	\$ 5,000	\$22,990	\$ 13,500

(See Notes to Consolidated Financial Statements)

CAPITAL SOUTHWEST CORPORATION
AND SUBSIDIARY
Notes to Consolidated Financial Statements

(Unaudited)

1. Basis of Presentation

The accompanying consolidated financial statements, which include the accounts of Capital Southwest Corporation and its wholly-owned small business investment company subsidiary (the "Company"), have been prepared on the value basis in accordance with generally accepted accounting principles for investment companies. All significant intercompany accounts and transactions have been eliminated in consolidation.

The financial statements included herein have been prepared in accordance with generally accepted accounting principles for interim financial information and the instructions to Form 10-Q and Article 6 of Regulation S-X. The financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's annual report on Form 10-K for the year ended March 31, 1999. Certain information and footnotes normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted, although the Company believes that the disclosures are adequate for a fair presentation. The information reflects all adjustments (consisting of normal recurring adjustments) which are, in the opinion of management, necessary for a fair presentation of the results of operations for the interim periods.

2. Summary of Per Share Information

	Three Months Ended December 31		Nine Months Ended December 31	
	1999	1998	1999	1998
	-----	-----	-----	-----
Investment income	\$.18	\$.20	\$.68	\$.78
Operating expenses	(.11)	(.15)	(.20)	(.33)
Interest expense	(.03)	(.02)	(.09)	(.08)
Income taxes	(.01)	--	(.03)	(.02)
	-----	-----	-----	-----
Net investment income	.03	.03	.36	.35
Net realized gain on investments	--	--	1.58	.13
Net increase (decrease) in unrealized appreciation of investments	1.05	.61	(5.55)	(6.89)
Distributions from undistributed net investment income	(.40)	(.40)	(.60)	(.60)
Exercise of employee stock options (1)	--	(.13)	--	(.21)
	-----	-----	-----	-----
Net increase (decrease) in net asset value	.68	.11	(4.21)	(7.22)
Net asset value:				
Beginning of period	62.27	70.82	67.16	78.15
	-----	-----	-----	-----
End of period	\$ 62.95	\$ 70.93	\$ 62.95	\$ 70.93
	=====	=====	=====	=====
Shares outstanding at end of period (000s omitted)	3,815	3,807	3,815	3,807

(1) Net decrease is due to the exercise of employee stock options at prices less than beginning of period net asset value.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Net asset value at December 31, 1999 was \$240,142,363, equivalent to \$62.95 per share after deducting an allowance of \$22.30 per share for deferred taxes on net unrealized appreciation. Assuming reinvestment of all dividends and tax credits on retained long term capital gains, this represents a decrease of 8.9% during the past twelve months and a decrease of 3.8% during the past nine months.

	December 31 1999	December 31 1998
Net assets	\$240,142,363	\$270,041,249
Shares outstanding	3,815,051	3,807,051
Net assets per share	\$62.95	\$70.93

Interest income in the nine months ended December 31, 1999 decreased from the year-ago period primarily because of the suspension of interest accruals related to one of our portfolio companies. During the nine months ended December 31, 1999 and 1998, the Company recorded dividend income from the following sources:

	Nine Months Ended December 31	
	1999	1998
AT&T	\$ 117,256	\$ 0
Alamo Group Inc.	621,478	877,800
Kimberly-Clark Corporation	60,200	57,885
The RectorSeal Corporation	240,000	240,000
Skylawn Corporation	150,000	150,000
TCI Holdings, Inc./Westmarc Communications, Inc.	60,953	60,953
Texas Shredder, Inc.	30,345	30,345
The Whitmore Manufacturing Company	60,000	60,000
Other	87,785	102,404
	-----	-----
	\$1,428,017	\$1,579,387
	=====	=====

Salaries in the nine months ended December 31, 1999 decreased from the year-ago period primarily due to reductions in staff. Other operating expenses in the nine months ended December 31, 1999 decreased from the year-ago period primarily due to the payment in the prior period of a finders fee related to an investment.

During the nine months ended December 31, 1999, the Company reported a realized gain before income taxes of \$9,230,513 including a gain of \$8,580,232 on our investment in SDI Holding Corp. It should be noted that a realized gain before income taxes occurs when an appreciated portfolio security is sold to realize a gain and a corresponding decrease in 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 unrealized appreciation occurs.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)

Set forth in the following table are the significant increases and decreases in unrealized appreciation (before the related change in deferred taxes and excluding the effect of gains or losses realized during the periods) by portfolio company:

	Three Months Ended		Nine Months Ended	
	December 31		December 31	
	1999	1998	1999	1998
	----	----	----	----
AT&T/Tele-Communications-TCI Group	\$ 974,354	\$ 1,853,727	\$ (319,232)	\$ 2,777,013
AT&T-Liberty Media Group/Tele-Communications LM & TCI Ventures Group	6,604,767	1,700,428	10,336,495	1,975,495
Airformed Composites, Inc.	(2,568,000)	-	(2,568,000)	-
Alamo Group Inc.	(200,000)	-	1,634,053	(10,640,000)
All Components, Inc.	-	-	1,975,000	1,225,000
American Homestar Corporation	23,470	(4,975,766)	(2,511,354)	(5,820,707)
Amfibe, Inc.	-	(2,400,000)	(600,000)	(2,400,000)
Balco, Inc.	(2,023,680)	1,517,760	(2,023,680)	3,422,440
CDC Technologies, Inc.	(2,999,156)	-	(2,999,156)	-
Dennis Tool Company	(600,000)	(800,000)	(600,000)	(2,799,944)
Dyntec, Inc.	(750,000)	-	(4,499,998)	-
Encore Wire Corporation	-	(300,000)	-	(16,288,000)
Global Crossing Ltd./Frontier Corp.	1,505,672	207,614	1,582,426	45,048
Intelligent Reasoning Systems, Inc.	-	(1,542,754)	-	(1,542,754)
Kimberly-Clark Corporation	979,221	1,080,520	1,350,650	337,662
Mail-Well, Inc.	-	2,085,140	2,097,000	(10,407,860)
Media Recovery, Inc.	2,585,000	615,000	2,585,000	615,000
Mylan Laboratories, Inc.	873,949	256,572	(288,643)	1,090,431
Palm Harbor Homes, Inc.	-	-	(31,421,000)	(4,713,000)
PETSMART, Inc.	1,247,106	2,514,659	(1,553,773)	40,890
Rewind Holdings, Inc.	(1,825,001)	-	(2,200,000)	-
Sprint Corporation-FON Group	940,500	496,988	1,314,000	652,238
Sprint Corporation-PCS Group	502,875	355,762	1,047,375	355,762
The Whitmore Manufacturing Co.	-	800,000	-	2,000,000

During the quarter ended December 31, 1999, the Company made new investments of \$1,200,000 and additional investments of \$5,250,001 in existing portfolio companies.

On January 3, 2000, the Company repaid the \$35,000,000 note payable to bank from its cash and cash equivalents.

The Company has agreed, subject to certain conditions, to invest up to \$8,750,000 in seven portfolio companies.

The Company to date has not encountered any significant problems with its computer hardware or software, nor is it aware of any problems with its major service providers or its portfolio companies related to the Year 2000 issues. The Company has not incurred any material costs related to Year 2000 issues. As in the past, any future costs will be expensed as incurred, funded by operating cash flows, and expected to be immaterial to the Company's results of operations, liquidity, or capital resources.

Item 3. Quantitative and Qualitative Disclosure About Market Risk

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

The Company's investment in portfolio securities consists of fixed rate debt securities which totalled \$8,087,972 at December 31, 1999, equivalent to 2.51% of the value of the Company's total investments. Since these debt securities usually have relatively high fixed rates of interest, minor changes in market yields of publicly-traded debt securities have little or no effect on the values of debt securities in the Company's portfolio and no effect on interest income. On the other hand, significant changes in the market yields of publicly-traded debt securities may have a material effect on the values of debt securities in our portfolio. The Company's investments in debt securities are generally held to maturity and their fair values are determined on the basis of the terms of the debt security and the financial condition of the issuer.

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

PART II. OTHER INFORMATION

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits
Exhibit 27 - Financial Data Schedule

(b) Reports on Form 8-K

No reports on Form 8-K have been filed during the quarter for which this report is filed.

SIGNATURES

Pursuant to the requirements 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

Date: February 4, 2000 By: /s/ William R. Thomas

William R. Thomas
President

Date: February 4, 2000 By: /s/ Tim Smith

Tim Smith
Vice President & Secretary-Treasurer

This schedule contains summary financial information extracted from the Consolidated Statement of Financial Condition at December 31, 1999 (unaudited) and the Consolidated Statement of Operations for the nine months ended December 31, 1999 (unaudited) and is qualified in its entirety by reference to such financial statements.

0000017313
Capital Southwest Corporation
1
US Dollars

3-MOS

	MAR-31-1999	APR-01-1999	DEC-31-1999
			1
	78,268,062		
	322,342,574		
		263,343	
		4,570,042	
	44,541,641		
		371,717,600	
		0	
	5,000,000		
126,575,237			
	131,575,237		
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	3,669,861		
	3,815,051		
	3,815,051		
3,845,601			
		0	
	73,609,387		
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159,017,514			
		240,142,363	
	1,428,017		
	780,555		
		406,300	
		1,109,045	
1,391,427			
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2,289,031			
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67,593,409			
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