

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, 2000

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, 2001

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

CAPITAL SOUTHWEST CORPORATION AND SUBSIDIARY
Consolidated Statements of Financial Condition

Assets	December 31, 2000 ----- (Unaudited)	March 31, 2000 -----
Investments at market or fair value		
Companies more than 25% owned		
(Cost: December 31, 2000 - \$23,140,865, March 31, 2000 - \$23,380,865)	\$201,860,759	\$200,608,759
Companies 5% to 25% owned		
(Cost: December 31, 2000 - \$23,731,917, March 31, 2000 - \$22,579,414)	18,930,006	22,760,506
Companies less than 5% owned		
(Cost: December 31, 2000 - \$46,832,889, March 31, 2000 - \$39,042,158)	89,757,209	100,259,870
	-----	-----
Total investments		
(Cost: December 31, 2000 - \$93,705,671, March 31, 2000 - \$85,002,437)	310,547,974	323,629,135
Cash and cash equivalents	36,885,931	63,986,715
Receivables	280,710	238,594
Other assets	5,185,676	4,731,360
	-----	-----
Totals	\$352,900,291	\$392,585,804
	=====	=====

Liabilities and Shareholders' Equity

Notes payable to bank	\$ 40,000,000	\$ 60,000,000
Notes payable to subsidiaries	7,000,000	5,000,000
Accrued interest and other liabilities	2,110,203	2,220,753
Deferred income taxes	76,045,850	83,489,085
Subordinated debenture	5,000,000	5,000,000
	-----	-----
Total liabilities	130,156,053	155,709,838
	-----	-----
Shareholders' equity		
Common stock, \$1 par value: authorized, 5,000,000 shares; issued, 4,252,416 shares at December 31, 2000 and March 31, 2000	4,252,416	4,252,416
Additional capital	6,450,747	6,450,747
Undistributed net investment income	3,273,809	4,117,104
Undistributed net realized gain on investments	74,287,263	73,613,301
Unrealized appreciation of investments - net of deferred income taxes	141,513,305	155,475,700
Treasury stock - at cost (437,365 shares)	(7,033,302)	(7,033,302)
	-----	-----
Net assets at market or fair value, equivalent to \$58.39 per share at December 31, 2000, and \$62.09 per share at March 31, 2000, on the 3,815,051 shares outstanding	222,744,238	236,875,966
	-----	-----
Totals	\$352,900,291	\$392,585,804
	=====	=====

(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	
	2000	1999	2000	1999
	----	----	----	----
Investment income:				
Interest	\$ 111,955	\$ 260,091	\$ 438,276	\$ 780,555
Dividends	772,382	304,378	2,249,054	1,428,017
Management and directors' fees	121,108	125,624	388,808	406,300
	1,005,445	690,093	3,076,138	2,614,872
Operating expenses				
Interest	313,701	121,198	848,721	330,480
Salaries	220,209	301,548	582,209	631,425
Net pension expense (benefit)	(121,542)	(108,996)	(364,626)	(326,988)
Other operating expenses	116,707	216,906	436,298	474,128
	529,075	530,656	1,502,602	1,109,045
Income before income taxes	476,370	159,437	1,573,536	1,505,827
Income tax expense	42,601	38,100	127,800	114,400
Net investment income	\$ 433,769	\$ 121,337	\$ 1,445,736	\$ 1,391,427
Proceeds from disposition of investments	\$ 160,669	\$ --	\$ 7,207,377	\$ 14,892,513
Cost of investments sold	1,455,730	--	6,282,775	5,662,000
Realized gain (loss) on investments before income taxes	(1,295,061)	--	924,602	9,230,513
Income tax expense (benefit)	(526,803)	(16,145)	250,640	3,214,535
Net realized gain (loss) on investments	(768,258)	16,145	673,962	6,015,978
Increase (decrease) in unrealized appreciation of investments before income taxes	(15,055,062)	6,120,042	(21,784,395)	(32,623,976)
Increase (decrease) in deferred income taxes on appreciation of investments	(5,234,000)	2,144,000	(7,822,000)	(11,416,000)
Net increase (decrease) in unrealized appreciation of investments	(9,821,062)	3,976,042	(13,962,395)	(21,207,976)
Net realized and unrealized gain (loss) on investments	\$(10,589,320)	\$ 3,992,187	\$(13,288,433)	\$(15,191,998)
Increase (decrease) in net assets from operations	\$(10,155,551)	\$ 4,113,524	\$(11,842,697)	\$(13,800,571)

(See Notes to Consolidated Financial Statements)

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

	Nine Months Ended December 31, 2000	Year Ended March 31, 2000
	----- (Unaudited)	-----
Operations		
Net investment income	\$ 1,445,736	\$ 1,662,930
Net realized gain on investments	673,962	6,019,892
Net decrease in unrealized appreciation of investments	(13,962,395)	(24,749,790)
Decrease in net assets from operations	(11,842,697)	(17,066,968)
Distributions from:		
Undistributed net investment income	(2,289,031)	(2,289,031)
Decrease in net assets	(14,131,728)	(19,355,999)
Net assets, beginning of period	236,875,966	256,231,965
Net assets, end of period	<u>\$ 222,744,238</u>	<u>\$ 236,875,966</u>

(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 -----	
	2000 ----	1999 ----	2000 ----	1999 ----
Cash flows from operating activities				
Increase (decrease) in net assets from operations	\$(10,155,551)	\$ 4,113,524	\$(11,842,697)	\$(13,800,571)
Adjustments to reconcile increase (decrease) in net assets from operations to net cash provided by operating activities:				
Depreciation and amortization	7,298	7,493	21,761	21,652
Net pension benefit	(121,542)	(108,996)	(364,626)	(326,988)
Net realized and unrealized (gain) loss on investments	10,589,320	(3,992,187)	13,288,433	15,191,998
(Increase) decrease in receivables	50,086	32,984	(42,116)	52,364
(Increase) decrease in other assets	21,174	4,029	2,362	(17,476)
Increase (decrease) in accrued interest and other liabilities	12,973	81,435	(66,578)	2,385
Decrease in accrued pension cost	(52,488)	--	(157,462)	--
Deferred income taxes	42,601	38,100	127,800	114,400
	-----	-----	-----	-----
Net cash provided by operating activities	393,871	176,382	966,877	1,237,764
	-----	-----	-----	-----
Cash flows from investing activities				
Proceeds from disposition of investments	160,669	--	7,207,377	14,892,513
Purchases of securities	(4,854,456)	(6,450,001)	(15,226,007)	(13,190,048)
Maturities of securities	--	2,000,000	240,000	2,840,000
	-----	-----	-----	-----
Net cash provided (used) by investing activities	(4,693,787)	(4,450,001)	(7,778,630)	4,542,465
	-----	-----	-----	-----
Cash flows from financing activities				
Increase (decrease) in notes payable to bank	35,000,000	10,000,000	(20,000,000)	35,000,000
Increase in notes payable to subsidiaries	2,500,000	--	2,000,000	--
Distributions from undistributed net investment income	(1,526,021)	(1,526,021)	(2,289,031)	(2,289,031)
	-----	-----	-----	-----
Net cash provided (used) by financing activities	35,973,979	8,473,979	(20,289,031)	32,710,969
	-----	-----	-----	-----
Net increase (decrease) in cash and cash equivalents	31,674,063	4,200,360	(27,100,784)	38,491,198
Cash and cash equivalents at beginning of period	5,211,868	40,341,281	63,986,715	6,050,443
	-----	-----	-----	-----
Cash and cash equivalents at end of period	\$ 36,885,931	\$ 44,541,641	\$ 36,885,931	\$ 44,541,641
	=====	=====	=====	=====
Supplemental disclosure of cash flow information:				
Cash paid during the period for:				
Interest	\$ 298,898	\$ 204,719	\$ 837,222	\$ 404,171
Income taxes	\$ --	\$ 6,000	\$ --	\$ 22,990

(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, 2000. 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	
	2000	1999	2000	1999
	-----	-----	-----	-----
Investment income	\$.26	\$.18	\$.80	\$.68
Operating expenses	(.05)	(.11)	(.17)	(.20)
Interest expense	(.08)	(.03)	(.22)	(.09)
Income taxes	(.01)	(.01)	(.03)	(.03)
	-----	-----	-----	-----
Net investment income	.12	.03	.38	.36
Net realized gain (loss) on investments	(.20)	-	.18	1.58
Net increase (decrease) in unrealized appreciation of investments	(2.58)	1.05	(3.66)	(5.55)
Distributions from undistributed net investment income	(.40)	(.40)	(.60)	(.60)
	-----	-----	-----	-----
Net increase (decrease) in net asset value	(3.06)	.68	(3.70)	(4.21)
Net asset value:				
Beginning of period	61.45	62.27	62.09	67.16
	-----	-----	-----	-----
End of period	\$ 58.39	\$ 62.95	\$ 58.39	\$ 62.95
	=====	=====	=====	=====
Shares outstanding at end of period (000s omitted)	3,815	3,815	3,815	3,815

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

Net asset value at December 31, 2000 was \$222,744,238, equivalent to \$58.39 per share after deducting an allowance of \$19.75 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 6.2% during the past twelve months and a decrease of 4.9% during the past nine months.

	December 31 2000	December 31 1999
	----	----
Net assets	\$222,744,238	\$240,142,363
Shares outstanding	3,815,051	3,815,051
Net assets per share	\$58.39	\$62.95

Interest income in the nine months ended December 31, 2000 decreased from the year-ago period primarily because of a decrease in average idle funds invested. During the nine months ended December 31, 2000 and 1999, the Company recorded dividend income from the following sources:

	Nine Months Ended December 31	
	2000	1999
	----	----
AT&T	\$ 63,624	\$ 117,256
Alamo Group Inc.	507,834	621,478
Dennis Tool Company	37,499	24,999
Kimberly-Clark Corporation	62,516	60,200
The RectorSeal Corporation	720,000	240,000
Skylawn Corporation	508,275	150,000
TCI Holdings, Inc.	60,953	60,953
Texas Shredder, Inc.	30,345	30,345
The Whitmore Manufacturing Company	180,000	60,000
Other	78,008	62,786
	-----	-----
	\$2,249,054	\$1,428,017
	=====	=====

Interest expense in the nine months ended December 31, 2000 increased from the year-ago period due to increased borrowings from the bank and subsidiaries.

During the nine months ended December 31, 2000, the Company reported a realized gain before income taxes of \$924,602 including a gain of \$5,973,990 on our investment in Amfibe, Inc. and a loss of \$4,329,835 on our investment in Dyntec, Inc. 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 December 31		Nine Months Ended December 31	
	2000	1999	2000	1999
AT&T	\$(1,615,596)	\$ 974,354	\$ (5,221,539)	\$ (319,232)
AT&T-Liberty Media Group	(3,175,369)	6,604,767	(10,902,100)	10,336,495
Alamo Group Inc.	-	(200,000)	1,410,000	1,634,053
All Components, Inc.	-	-	3,450,000	1,975,000
American Homestar Corporation	(583,094)	23,470	(864,741)	(2,511,354)
Balco, Inc.	-	(2,023,680)	-	(2,023,680)
CDC Technologies, Inc.	629,995	(2,999,156)	629,995	(2,999,156)
Dennis Tool Company	588,000	(600,000)	1,430,000	(600,000)
Encore Wire Corporation	(1,363,000)	-	(1,363,000)	-
Global Crossing Ltd./Frontier Corp.	(1,072,038)	1,505,672	(1,710,443)	1,582,426
Kimberly-Clark Corporation	1,148,245	979,221	1,133,774	1,350,650
Mail-Well, Inc.	(524,000)	-	(6,290,000)	2,097,000
Media Recovery, Inc.	5,000,000	2,585,000	10,000,000	2,585,000
Palm Harbor Homes, Inc.	(7,855,000)	-	(7,855,000)	(31,421,000)
PETSMART, Inc.	(1,185,773)	1,247,106	(81,777)	(1,553,773)
The RectorSeal Corporation	-	-	3,500,000	-
Rewind Holdings, Inc.	(1,000,000)	(1,825,001)	(1,000,000)	(2,200,000)
Skylawn Corporation	-	-	3,000,000	-
Sprint Corporation-FON Group	(648,000)	940,500	(3,073,500)	1,314,000
Sprint Corporation-PCS Group	(528,750)	502,875	(1,622,250)	1,047,375
Sprockets.com, Inc.	(1,249,999)	-	(1,249,999)	-
Vonova Corporation	(1,999,998)	-	(2,999,998)	-

During the quarter ended December 31, 2000, the Company made new investments of \$100,000 and additional investments of \$4,754,456 in existing portfolio companies.

On January 2, 2001, the Company repaid \$35,000,000 of the \$40,000,000 notes payable to bank from its cash and cash equivalents.

The Company has agreed, subject to certain conditions, to invest up to \$5,203,476 in six portfolio companies.

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 \$13,538,971 at December 31, 2000, equivalent to 4.36% 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 2, 2001

By: /s/ William R. Thomas

William R. Thomas
President

Date: February 2, 2001

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, 2000 (unaudited) and the Consolidated Statement of Operations for the nine months ended December 31, 2000 (unaudited) and is qualified in its entirety by reference to such financial statements.

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 Capital Southwest Corporatoin
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 US Dollars

3-MOS

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	74,287,263		
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		222,744,238	
		2,249,054	
		438,276	
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		1,502,602	
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