

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

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

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

For the Fiscal Year Ended March 31, 2000

Commission File Number: 814-61

CAPITAL SOUTHWEST CORPORATION

(Exact name of registrant as specified in its charter)

Texas

75-1072796

(State or other Jurisdiction of  
Incorporation or Organization)

(I.R.S. Employer  
Identification Number)

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

(972) 233-8242

(Registrant's telephone number including area code)

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

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

Indicate by check mark whether the registrant (1) has filed all reports required  
to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during  
the preceding 12 months (or for such shorter period that the registrant was  
required to file such reports), and (2) has been subject to such filing  
requirements for the past 90 days. Yes X No \_\_\_

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405  
of Regulation S-K is not contained herein, and will not be contained, to the  
best of registrant's knowledge, in definitive proxy or information statements  
incorporated by reference in Part III of this Form 10-K or any amendment to this  
Form 10-K. [ X ]

The aggregate market value of the voting stock held by non-affiliates of the  
registrant as of May 1, 2000 was \$125,919,954, 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, 2000 was  
3,815,051.

Documents Incorporated by Reference

Part of Form 10-K

- |  |   |
|--|---|
| (1) Annual Report to Shareholders for the<br>Year Ended March 31, 2000             | Parts I and II; and<br>Part IV, Item 14(a)(1) and (2) |
| (2) Proxy Statement for Annual Meeting of<br>Shareholders to be held July 17, 2000 | 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 \$40,529,940 and a value of \$271,976,515, representing 84.0% of the value of the Company's consolidated investment portfolio at March 31, 2000. For a narrative description of the twelve largest investments, see "Twelve Largest Investments - March 31, 2000" on pages 7 through 9 of the Company's Annual Report to Shareholders for the Year Ended March 31, 2000 (the "2000 Annual Report") which is herein incorporated by reference. Certain of the information presented on the twelve largest investments has been obtained from the respective companies and, in certain cases, from public filings of such companies. The financial information presented on each of the respective companies is from such companies' financial statements, which in some instances is unaudited.

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

The number of persons employed by the Company at March 31, 2000 was seven.

### Item 2. Properties

The Company maintains its offices at 12900 Preston Road, Suite 700, Dallas, Texas, 75230, where it rents approximately 3,700 square feet of office space pursuant to a lease agreement expiring in February 2003. The Company believes that its offices are adequate to meet its current and expected future needs.

### Item 3. Legal Proceedings

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

### Item 4. Submission of Matters to a Vote of Security Holders

No matters were submitted to a vote of security holders during the quarter ended March 31, 2000.

PART II

Item 5. Market for Registrant's Common Equity and Related Stockholder Matters

Information set forth under the captions "Shareholder Information - Shareholders, Market Prices and Dividends" on page 32 of the 2000 Annual Report is herein incorporated by reference.

Item 6. Selected Financial Data

"Selected Consolidated Financial Data" on page 31 of the 2000 Annual Report is herein incorporated by reference.

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

Pages 28 through 30 of the Company's 2000 Annual Report are herein incorporated by reference.

Item 7A. Quantitative and Qualitative Disclosure About Market Risk

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

The Company's investment in portfolio securities consists of fixed rate debt securities which totalled \$9,230,972 at March 31, 2000, equivalent to 2.85% of the value of the Company's total investments. Since these debt securities usually have relatively high fixed rates of interest, minor changes in market yields of publicly-traded debt securities have little or no effect on the values of debt securities in the Company's portfolio and no effect on interest income. On the other hand, significant changes in the market yields of publicly-traded debt securities may have a material effect on the values of debt securities in our portfolio. The Company's investments in debt securities are generally held to maturity and their fair values are determined on the basis of the terms of the debt security and the financial condition of the issuer.

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

Item 8. Financial Statements and Supplementary Data

Pages 10 through 27 of the Company's 2000 Annual Report are herein incorporated by reference. See also Item 14 of this Form 10-K - "Exhibits, Financial Statement Schedules, and Reports on Form 8-K".

Selected Quarterly Financial Data (Unaudited)

The following presents a summary of the unaudited quarterly consolidated financial information for the years ended March 31, 2000 and 1999.

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total
	-----	-----	-----	-----	-----
	(In thousands, except per share amounts)				
2000					
-----					
Net investment income	\$ 547	\$ 723	\$ 121	\$ 272	\$ 1,663
Net realized gain on investments	5,090	910	16	4	6,020
Net increase (decrease) in unrealized appreciation of investments	239	(25,423)	3,976	(3,542)	(24,750)
Net increase (decrease) in net assets from operations	5,876	(23,790)	4,113	(3,266)	(17,067)
Net increase (decrease) in net assets from operations per share	1.54	(6.23)	1.08	(0.86)	(4.47)
1999					
-----					
Net investment income	\$ 841	\$ 386	\$ 122	\$ 413	\$ 1,762
Net realized gain on investments	495	-	-	500	995
Net increase (decrease) in unrealized appreciation of investments	2,999	(31,557)	2,332	(15,007)	(41,233)
Net increase (decrease) in net assets from operations	4,335	(31,171)	2,454	(14,094)	(38,476)
Net increase (decrease) in net assets from operations per share	1.14	(8.22)	.68	(3.69)	(10.09)

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

Not applicable.

PART III

Item 10. Directors and Executive Officers of the Registrant

The information set forth under the caption "Election of Directors" in the Company's definitive Proxy Statement for Annual Meeting of Shareholders to be held July 17, 2000, filed pursuant to Regulation 14A under the Securities Exchange Act of 1934, on or about June 2, 2000 (the "2000 Proxy Statement") is herein incorporated by reference.

Executive Officers of the Registrant

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

Patrick F. Hamner, age 44, has served as Vice President of the Company since 1986 and was an investment associate with the Company from 1982 to 1986.

Gary L. Martin, age 53, has been a director of the Company since July 1988 and has served as Vice President of the Company since 1984. He previously served as Vice President of the Company from 1978 to 1980. Since 1980, Mr. Martin has served as President of The Whitmore Manufacturing Company, a wholly-owned subsidiary of the Company.

Tim Smith, age 39, has served as Vice President and Secretary of the Company since 1993, Treasurer of the Company since January 1990 and was an investment associate with the Company from July 1989 to January 1990.

William R. Thomas, age 71, 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 2000 Proxy Statement is herein incorporated by reference.

#### Item 12. Security Ownership of Certain Beneficial Owners and Management

The information set forth under the captions "Stock Ownership of Certain Beneficial Owners" and "Election of Directors" in the 2000 Proxy Statement is herein incorporated by reference.

#### Item 13. Certain Relationships and Related Transactions

There were no relationships or transactions within the meaning of this item during the fiscal year ended March 31, 2000 or proposed for the fiscal year ending March 31, 2001.

### PART IV

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

(a)(1) The following financial statements included in pages 10 through 27 of the Company's 2000 Annual Report are herein incorporated by reference:

- (A) Portfolio of Investments - March 31, 2000  
Consolidated Statements of Financial Condition - March 31, 2000 and 1999  
Consolidated Statements of Operations - Years Ended March 31, 2000, 1999 and 1998  
Consolidated Statements of Changes in Net Assets - Years Ended March 31, 2000, 1999 and 1998  
Consolidated Statements of Cash Flows - Years Ended March 31, 2000, 1999 and 1998
- (B) Notes to Consolidated Financial Statements
- (C) Notes to Portfolio of Investments
- (D) Selected Per Share Data and Ratios
- (E) Independent Auditors' Report

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

(a)(3) See the Exhibit Index on page 6.

(b) The Company filed no reports on Form 8-K during the three months ended March 31, 2000.

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 16, 2000

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

Signature -----	Title -----	Date ----
/s/ William R. Thomas ----- (William R. Thomas)	President and Chairman of the Board and Director	June 16, 2000
/s/ Gary L. Martin ----- (Gary L. Martin)	Director	June 16, 2000
/s/ Graeme W. Henderson ----- (Graeme W. Henderson)	Director	June 16, 2000
/s/ James M. Nolan ----- (James M. Nolan)	Director	June 16, 2000
/s/ John H. Wilson ----- (John H. Wilson)	Director	June 16, 2000
/s/ Tim Smith ----- (Tim Smith)	Vice President and Secretary-Treasurer (Financial and Accounting Officer)	June 16, 2000

EXHIBIT INDEX

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

Exhibit No. -----	Description -----
3.1(a)	Articles of Incorporation and Articles of Amendment to Articles of Incorporation, dated June 25, 1969 (filed as Exhibit 1(a) and 1(b) to Amendment No. 3 to Form N-2 for the fiscal year ended March 31, 1979).
3.1(b)	Articles of Amendment to Articles of Incorporation, dated July 20, 1987 (filed as an exhibit to Form N-SAR for the six month period ended September 30, 1987).
3.2	By-Laws of the Company, as amended (filed as Exhibit 2 to Amendment No. 11 to Form N-2 for the fiscal year ended March 31, 1987).
4.1	Specimen of Common Stock certificate (filed as Exhibit 4 to Amendment No. 3 to Form N-2 for the fiscal year ended March 31, 1979).
4.2	Subordinated debenture of CSVC guaranteed by the Small Business Administration (filed as Exhibit 4.3 to Form 10-K for the fiscal year ended March 31, 1993).
10.1	The RectorSeal Corporation and Jet-Lube, Inc. Employee Stock Ownership Plan as revised and restated effective April 1, 1989 (filed as Exhibit 10.1 to Form 10-K for the fiscal year ended March 31, 1996).
10.2	Amendment No. I to The RectorSeal Corporation and Jet-Lube, Inc. Employee Stock Ownership Plan as revised and restated effective April 1, 1989.
10.3	Retirement Plan for Employees of Capital Southwest Corporation and Its Affiliates as amended and restated effective April 1, 1989 (filed as Exhibit 10.3 to Form 10-K for the fiscal year ended March 31, 1995).
10.4	Amendments One and Two to Retirement Plan for Employees of Capital Southwest Corporation and Its Affiliates as amended and restated effective April 1, 1989.
10.5	Capital Southwest Corporation and Its Affiliates Restoration of Retirement Income Plan for certain highly-compensated superseded plan participants effective April 1, 1993 (filed as Exhibit 10.4 to Form 10-K for the fiscal year ended March 31, 1995).
10.6	Amendment One to Capital Southwest Corporation and Its Affiliates Restoration of Retirement Income Plan for certain highly-compensated superceded plan participants effective April 1, 1993.



- 10.7 Capital Southwest Corporation Retirement Income Restoration Plan as amended and restated effective April 1, 1989 (filed as Exhibit 10.5 to Form 10-K for the fiscal year ended March 31, 1995).
- 10.8 Form of Indemnification Agreement which has been established with all directors and executive officers of the Company (filed as Exhibit 10.9 to Form 8-K dated February 10, 1994).
- 10.9 Capital Southwest Corporation 1984 Incentive Stock Option Plan as amended and restated as of April 20, 1987 (filed as Exhibit 10.10 to Form 10-K for the fiscal year ended March 31, 1990).
- 10.10\* Capital Southwest Corporation 1999 Stock Option Plan.

Exhibit No. -----	Description -----
13.*	Annual Report to Shareholders for the fiscal year ended March 31, 2000.
21.	List of subsidiaries of the Company.
23.*	Independent Auditors' Consent.
27.*	Financial Data Schedule.

CAPITAL SOUTHWEST CORPORATION  
1999 STOCK OPTION PLAN

1. Objective of the Plan.  
-----

The 1999 Stock Option Plan (the "Plan") is intended to further the established policy of Capital Southwest Corporation (the "Corporation") of encouraging ownership of its Common Stock, \$1.00 par value per share (the "Common Stock"), by key employees of the Corporation and its management company subsidiary, Capital Southwest Management Corporation, and by its officers who are employees of its subsidiaries and of providing incentives for them to enhance the value of the Corporation's stock. By extending to key employees the opportunity to acquire proprietary interests in the Corporation and to participate in its success, the Plan may be expected to benefit the Corporation and its shareholders and to be in their best interests by making it possible for the Corporation to attract and retain the best available talent.

2. Stock Reserved for the Plan.  
-----

One hundred forty thousand (140,000) shares of the authorized but unissued Common Stock are reserved for issuance and may be issued upon the exercise of options granted under the Plan. In lieu of such unissued shares, the Corporation may, in its discretion, transfer upon the exercise of options, reacquired shares or shares bought in the market for the purposes of the Plan provided that (subject to the provisions of Section 14) the total number of shares which may be sold pursuant to the exercise of options granted under the Plan shall not exceed one hundred forty thousand (140,000). If any options granted under the Plan shall for any reason terminate or expire without having been exercised in full, the Common Stock not purchased under such options shall again be available for the purposes of the Plan.

3. Administration of the Plan.  
-----

The Plan shall be administered by the Board of Directors of the Corporation through actions approved by the "required majority" as defined in Section 57(o) of the Investment Company Act of 1940, as amended (the "Investment Company Act"). The Board of Directors shall have plenary authority in its discretion, but subject to the express provisions of the Plan, to determine the employees to whom, and the time or times at which, options shall be granted, the term of each such option, and the number of shares to be covered by each option; to determine whether an option shall be an "incentive stock option" within the meaning of Section 422 of the Internal Revenue Code of 1986, as amended (the "Code"), or a non-qualified stock option; to interpret the Plan; to prescribe, amend and rescind rules and regulations relating to the Plan; to determine the employees to whom, and the time or times at which, dividend equivalent rights shall be granted, and the terms of such dividend equivalent rights; to determine the terms (which need not be identical) of option agreements and dividend equivalent right agreements executed and delivered under the Plan; and to make all other determinations deemed necessary or advisable for the administration of the Plan.

4. Eligibility Factors to be Considered in Making Grants.  
-----

An option and/or dividend equivalent right may be granted to any person who, at the time of grant, is either (i) a regular salaried employee of the Corporation or its management company subsidiary, Capital Southwest Management Corporation; or (ii) an officer of the Corporation who is a regular salaried employee of one of its subsidiaries (such person or persons referred to in clauses (i) and (ii) above being singularly hereinafter referred to as "Key Employee," or, if more than one, as "Key Employees"). No incentive stock option may be granted to an individual who immediately after such option is granted owns, within the meaning of Section 422(b) of the Code, stock possessing more than 10% of the total combined voting power of all classes of stock of the Corporation (or its subsidiaries) (hereinafter called a "10% Holder"), except in compliance with the provisions of Sections 6 and 7 hereof. In determining the Key Employees to whom options and/or dividend equivalent rights shall be granted and the number of shares to be covered by each option, the Board of Directors shall take into account the duties of the respective Key Employees, their present and potential contributions to the success of the Corporation (or one of its subsidiaries), the anticipated number of years of service remaining and such other factors as they shall deem relevant in connection with accomplishing the purpose of the Plan. Subject to the provisions of Section 5, a Key Employee who has been granted an option may be granted an additional option or options if the Board of Directors shall so determine.

5. Types of Options; Maximum Allotment of Options.  
-----

The Board of Directors may grant either incentive stock options or non-qualified stock options under the Plan. In addition, the aggregate fair market value (determined at the time of grant in accordance with Section 6 hereof) of the shares of Common Stock which any Key Employee is first eligible to purchase in any calendar year by exercise of incentive stock options granted under the Plan and all incentive stock option plans of the Corporation or its subsidiaries shall not exceed \$100,000. For this purpose, the fair market value (determined at the respective date of grant of each option) of the stock

purchasable by exercise of an incentive stock option (or an installment thereof) shall be counted against the \$100,000 annual limitation for a Key Employee only for the calendar year such stock is first purchasable under the terms of the option.

6. Option Prices.  
-----

The purchase price of Common Stock covered by each option shall be 100% of the fair market value of the Common Stock at the time the option is granted, except with respect to incentive stock options granted to any 10% Holder, the purchase price shall be not less than 110% of the fair market value. The fair market value shall be (i) if the Common Stock is listed on a national securities exchange (which term shall include the Nasdaq Stock Market), the last reported sale price of the Common Stock on such exchange on the date on which the option is granted (or if there shall be no trading on such date, then on the next previous date on which there shall have been trading of the Common Stock); (ii) if the Common Stock is not listed on a national securities exchange, the average of the highest bid and the lowest ask prices at the close of business in the over-the-counter market on the date on which the option is granted; or (iii) if the Common Stock is neither listed on a national securities exchange nor traded in the over-the-counter market, as determined by the Board of Directors of the Corporation in good faith on the basis of financial information and information regarding recent sales of Common Stock available to it, using any reasonable valuation method. The Board's determination of the fair market value shall be conclusive and the purchase price of shares of Common Stock under each option shall be set forth in the minutes of the meeting of the Board of Directors.

7. Term of Option.  
-----

The term of each option shall be for such period as the Board of Directors shall determine, but not more than ten (10) years from the date of granting thereof, except that in the case of incentive stock options granted to 10% Holders, the term of each option shall not exceed five (5) years, and each option shall be subject to earlier termination as hereinafter provided.

8. Exercise of Options and Withholding Taxes.  
-----

(a) Unless otherwise determined by the Board of Directors, each option shall be exercisable on and after the first anniversary of the date of grant in five (5) equal annual installments of 20% of the shares subject to such option and, except as may be so specified, any annual installment of an option not exercised shall accumulate and thereafter may be exercised as to all, or from time to time any part of, the shares then currently exercisable prior to the expiration of the option. Fractional shares will not be issued. The purchase price of the shares as to which an option shall be exercised shall be paid in full in cash in currency of the United States of America at the time of exercise, except that, subject to the receipt of appropriate orders of the Securities and Exchange Commission which may be required pursuant to the Investment Company Act, the Board of Directors may, in its discretion, provide that payment of the purchase price of such shares may be made with shares of the Corporation's Common Stock. Except as provided in Sections 11 and 12 hereof, no option may be exercised at any time unless the holder thereof is then an employee of the Corporation or one of its subsidiaries. The holder of an option shall not have any of the rights of a shareholder with respect to the shares covered by his option until such shares shall be issued to him upon the due exercise of the option. Proceeds from the sale of stock pursuant to the Plan shall be used for general corporate purposes.

(b) At the time of exercise of a non-qualified stock option or a disqualifying disposition of shares issued under an incentive stock option, the employee shall remit to the Corporation in cash all applicable federal and state withholding taxes.

9. Non-Transferability.  
-----

An option granted under the Plan shall not be transferable otherwise than by a will or the laws of descent and distribution, and an option may be exercised during the lifetime of the holder only by him. A dividend equivalent right granted under the Plan shall not be transferable unless otherwise expressly provided by the Board of Directors.

10. Dividend Equivalent Rights.  
-----

Upon the declaration of any capital gain dividend, the Board shall have the authority to grant dividend equivalent rights with respect to such dividend to eligible employees upon such terms and conditions as it shall establish, subject in all events to the following limitations and provisions of general application set forth in the Plan. Each dividend equivalent right shall entitle a holder to receive a payment (cash or otherwise) equal to the market value on the dividend payment date of any specified capital gain dividend declared and paid by the Corporation on one share of Common Stock. The Corporation shall make payments pursuant to each right within five (5) business days after the payment of the specified capital gain dividend to holders of Common Stock.

Each dividend equivalent right shall be granted independent of any option.

In the event of termination of employment for any reason, any dividend equivalent right held by such employee on the date of termination shall be forfeited, unless otherwise expressly provided by the Board of Directors.

11. Termination of Employment.  
-----

In the event that the employment of any employee of the Corporation or one of its subsidiaries to whom an option has been granted under the Plan shall be terminated (otherwise than by reason of death or for "cause" as defined below) such option may be exercised, to the extent that the holder of the option was entitled to do so at the termination of his employment, at any time within one (1) month after such termination (six (6) months in the case of termination of employment at a time when the employee is "disabled" within the meaning of Section 105 (d)(4) of the Code) but in no event after the expiration of the term of the option. As used herein, "cause" shall mean gross negligence, dishonesty or breach of fiduciary obligations to the Corporation or its subsidiaries. In the event of termination of the employment of any option holder for cause, all outstanding options held by such terminated employee shall terminate effective as of the date of notice of termination. Options granted under the Plan shall not be affected by any change of duties or position so long as the holder continues to be an employee of the Corporation or one of its subsidiaries or is employed by a corporation (or a related corporation of such corporation) issuing or assuming an option in a transaction to which Section 424(a) of the Code applies. Retirement pursuant to any pension plan provided by the Corporation and its subsidiaries shall be deemed to be a termination of employment for the purposes of this Section 11. Nothing in the Plan or in any option or dividend equivalent right granted pursuant to the Plan shall confer upon any employee any right to continue in the employ of the Corporation or of the subsidiary by which he is employed.

12. Death of Employee.  
-----

If an employee of the Corporation or one of its subsidiaries to whom an option has been granted under the Plan shall die while he is employed by the Corporation or one of its subsidiaries or within one (1) month after termination of his employment, such option may be exercised to the extent that the employee was entitled to do so at the date of his death by his executor or administrator or other person at the time entitled by law to the employee's rights under the option, at any time within such period not exceeding six (6) months after the date of the termination of his employment by death or otherwise, as shall be prescribed in the option agreement, but in no event after the expiration of the term of the option.

13. Definitions.  
-----

For purposes of the Plan, a "subsidiary" of the Corporation shall mean a corporation, whether domestic or foreign, in which the Corporation shall own, directly or indirectly, 50% or more of the issued and outstanding capital stock thereof, and "Corporation" shall mean Capital Southwest Corporation and any division thereof.

For purposes of the Plan, employment with the Corporation or one of its subsidiaries shall mean continuous regular employment as an employee, or an uninterrupted chain of continuous regular employment as an employee or by a corporation (or a related corporation of such corporation) issuing or assuming an option in a transaction to which Section 424(a) of the Code applies.

Military, sick leave, or other bona fide leave of absence, such as temporary employment by the government, shall not be considered a termination of employment nor an interruption of employment with the Corporation or one of its subsidiaries hereunder if the period of such leave does not exceed 90 days, or, if longer, so long as the employee's right to re-employment is guaranteed either by statute or by contract.

14. Change in Control; Antidilution.  
-----

- (a) Notwithstanding any provision of the Plan to the contrary, each outstanding option granted hereunder shall become and remain exercisable in full and each dividend equivalent right granted hereunder shall immediately vest and remain in full force and effect for its term,
- (i) on the date 10 days prior to the record date for a meeting of shareholders of the Corporation called for the purpose of voting upon any transaction or series of transactions (other than a transaction to which only the Corporation and one or more of its subsidiaries are parties) pursuant to which the Corporation would become a subsidiary of another corporation or would be merged or consolidated with or into another corporation, or would engage in an exchange of shares with another corporation, or substantially all of the assets of the Corporation would be sold to or acquired by another person, corporation or group of associated persons acting in concert; or
  - (ii) on the date upon which any person, corporation or group of associated persons acting in concert, excluding any persons who have then been owners of 10% or more of the Common Stock of the Corporation for a continuous period of at least ten (10) years, becomes a direct or indirect beneficial owner of shares of stock of the Corporation representing an aggregate of more than 25% of the votes then entitled to be cast at a meeting for the purpose of electing Directors of the Corporation; or
  - (iii) on the date upon which the persons who were members of the Board of Directors of the Corporation as of March 31, 1999 (the "Original Directors"), cease to constitute a majority of the Board of Directors, provided, however, that any new Director whose nomination or selection has been approved by the affirmative vote of at least three of the Original Directors then in office shall also be deemed an Original Director for all purposes of this Section 14(a)(iii).

The Corporation shall use its best efforts to notify each holder of an option and/or dividend equivalent right of his rights under this Section 14(a) within a reasonable period of time prior to the date or effective date of any transaction or event described above.

- (b) In the event that the Common Stock of the Corporation subject to options granted hereunder is hereafter changed into or exchanged for a different number or kind of shares or other securities of the Corporation or of another corporation by reason of merger, consolidation, exchange of shares, other reorganization, recapitalization, reclassification, combination of shares, stock split-ups or stock dividends,
- (i) the aggregate number and kind of shares subject to outstanding options and dividend equivalent rights granted hereunder shall be adjusted appropriately;
  - (ii) rights under outstanding options and dividend equivalent rights granted hereunder, both as to the number of subject shares, and with respect to options, the option price, shall be adjusted appropriately;
  - (iii) where dissolution or liquidation of the Corporation is involved, each dividend equivalent right and outstanding option granted hereunder shall terminate, but the holder of an option shall have the right, immediately prior to such dissolution or liquidation to exercise his option in full, notwithstanding the provisions of Section 8 (but subject to the other terms and conditions of this Plan) and the Corporation shall notify each holder of an option of such right within a reasonable period of time prior to any such dissolution or liquidation; and
  - (iv) where any merger, consolidation or exchange of shares is involved from and after the effective time of such merger, consolidation or exchange of shares, each dividend equivalent right shall remain in full force and effect and become the obligation of any successor entity and each holder of an option shall be entitled, upon exercise of his option in accordance with all of the terms and conditions of this Plan, to receive in lieu of Common Stock of the Corporation, shares of such stock or other securities or consideration as the holders of Common Stock of the Corporation received pursuant to the terms of the merger, consolidation or exchange of shares.

The adjustments contained in clauses (i), (ii), (iii) and (iv) of this subsection (b) and the manner of application of such provisions shall be determined solely by the Board of Directors and any such adjustment may provide for the elimination of fractional share interests.

15. Time of Grant.  
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Nothing contained in the Plan or in any resolution to be adopted by the Board of Directors or the holders of Common Stock of the Corporation shall constitute the granting of any option or dividend equivalent right hereunder. An option or dividend equivalent right pursuant to the Plan shall be deemed to have been granted on the date on which the name of the recipient and the terms of the option or dividend equivalent right, as applicable, are determined by the Board of Directors in accordance with Section 3.

16. Termination and Amendment of the Plan.  
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Unless the Plan shall theretofore have been terminated as hereinafter provided in this Section 16, no option or dividend equivalent right shall be granted hereunder after April 19, 2009. The Board of Directors of the Corporation may at any time prior to that date terminate the Plan or make such modification or amendment of the Plan as it shall deem advisable; provided however, that no amendment may be made which will disqualify an incentive stock option granted hereunder as an "incentive stock option" within the meaning of Section 422 of the Code, and provided that the Board of Directors may not, without further approval by the holders of Common Stock, except as provided in Section 14 hereof, increase the maximum number of shares for which options may be granted under the Plan, either in the aggregate or to any individual, or change the manner of determining the minimum option prices or extend the period during which an option may be granted or exercised or amend the requirements as to the class of employees eligible to receive options. No termination, modification or amendment of the Plan may adversely affect the rights of an option holder under an option previously granted to such option holder without the consent of such option holder.

17. Government Regulations.  
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The Plan, the granting of dividend equivalent rights, the granting and exercise of options thereunder, and the obligation of the Corporation to sell and deliver shares under such options shall be subject to all applicable laws, rules and regulations.

18. Shareholder Approval.  
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The Plan shall be submitted to the shareholders for approval at the next annual meeting of shareholders or a special meeting of shareholders called for the purpose of such approval, but in no event more than one (1) year after the date of its adoption by the Board of Directors. No grants will be made under the Plan until it is approved by the shareholders of the Corporation.

19. Severability.  
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If any provision of the Plan is held to be illegal or invalid for any reason, that illegality or invalidity shall not affect the remaining portions of the Plan, but such provision shall be fully severable and the Plan shall be construed and enforced as if the illegal or invalid provision had never been included in this Plan. Such an illegal or invalid provision shall be replaced by a revised provision that most nearly comports to the substance of the illegal or invalid provision. If any of the terms or provisions of the Plan or any agreement conflict with the requirements of Rule 16b-3 (as those terms or provisions are applied to eligible persons who are subject to Section 16(b) of the Securities Exchange Act of 1934, as amended, or Section 422 of the Code (with respect to incentive stock options)), those conflicting terms or provisions shall be deemed inoperative to the extent they conflict with those requirements. With respect to incentive stock options, if the Plan does not contain any provision required to be included in a plan under Section 422 of the Code, that provision shall be deemed to be incorporated into the Plan with the same force and effect as if it had been expressly set out in the Plan; provided, however, that, to the extent any option that is intended to qualify as an incentive stock option cannot so qualify, that option (to that extent) shall be deemed to be a non-qualified option for all purposes of the Plan.

Twelve Largest Investments - March 31, 2000

Palm Harbor Homes, Inc. \$86,406,000

Palm Harbor Homes, Dallas, Texas, is an integrated manufactured housing company, building, retailing, financing and insuring homes produced in 15 plants in Alabama, Arizona, Florida, Georgia, North Carolina, Ohio, Oregon and Texas and sold in 30 states by over 200 independent dealers and 133 company-owned retail superstores. Palm Harbor manufactures high-quality, energy-efficient homes designed to meet the need for affordable housing, particularly among retirees and newly-formed families.

During the year ended March 31, 2000, Palm Harbor earned \$38,596,000 (\$1.66 per share) on net sales of \$777,471,000, compared with earnings of \$40,177,000 (\$1.69 per share) on net sales of \$761,374,000 in the previous year. The March 31, 2000 closing Nasdaq bid price of Palm Harbor's common stock was \$15.00 per share.

At March 31, 2000, the \$10,931,955 investment in Palm Harbor by Capital Southwest and its subsidiary was valued at \$86,406,000 (\$11.00 per share) consisting of 7,855,121 restricted shares of common stock, representing a fully-diluted equity interest of 34.2%.

The RectorSeal Corporation \$42,000,000

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

During the year ended March 31, 2000, RectorSeal earned \$4,988,000 on revenues of \$53,858,000, compared with earnings of \$3,801,000 on revenues of \$47,555,000 in the previous year. RectorSeal's earnings do not reflect its 20% equity in The Whitmore Manufacturing Company.

At March 31, 2000, Capital Southwest owned 100% of RectorSeal's common stock having a cost of \$52,600 and a value of \$42,000,000.

Skylawn Corporation \$35,000,000

Skylawn Corporation, Hayward, California owns and operates cemeteries, mausoleums and mortuaries. Skylawn's operations, all of which are in California, include a mausoleum and an adjacent mortuary in Oakland and cemeteries and mausoleums in San Mateo, Hayward, Sacramento and Napa, the latter three of which also have mortuaries at the cemetery sites. These entities have provided cemetery and funeral services to their respective communities for many years. A captive insurance company and funeral and cemetery trusts enable Skylawn's clients to make pre-need arrangements.

For the fiscal year ended March 31, 2000, Skylawn, after adopting a change in accounting principle, earned \$2,940,000 on revenues of \$24,574,000. Before this change, earnings were \$4,163,000. In the previous year, Skylawn earned \$2,069,000 on revenues of \$21,922,000.

At March 31, 2000, Capital Southwest owned 100% of Skylawn Corporation's common stock, which had a cost of \$4,510,400 and was valued at \$35,000,000.

Alamo Group Inc. \$25,392,000

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

For the year ended December 31, 1999, Alamo reported consolidated earnings of \$6,102,000 (\$0.63 per share) on net sales of \$176,608,000, compared with earnings of \$4,115,000 (\$0.42 per share) on net sales of \$200,553,000 in the previous year. The March 31, 2000 closing NYSE market price of Alamo's common stock was \$11.625 per share.

At March 31, 2000, the \$2,065,047 investment in Alamo by Capital Southwest and its subsidiary was valued at \$25,392,000 (\$9.00 per share) consisting of 2,821,300 restricted shares of common stock, representing a fully-diluted equity interest of 27.2%.



AT&T Corp. - Liberty Media Group

\$20,089,500

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

For the ten months ended December 31, 1999, AT&T Corp. - Liberty Media Group reported a net loss of \$2,022,000,000 (\$1.61 per share) on net sales of \$729,000,000. The March 31, 2000 closing NYSE market price of AT&T Corp. - Series A Liberty Media Group common (tracking) stock was \$59.3125 per share.

At March 31, 2000, Capital Southwest owned 338,706 unrestricted shares of Series A Liberty Media Group tracking stock, having a total cost of \$25 and a market value of \$20,089,500 (\$59.3125 per share).

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Mail-Well, Inc.

\$13,628,000

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Mail-Well, Inc., Englewood, Colorado, is a leading consolidator in the fragmented printing industry, specializing in customized envelopes, high-impact printing, consumer products labels and business communications documents. Mail-Well has more than 15,800 employees and operates 140 plants and numerous sales offices throughout North America and the United Kingdom.

For the year ended December 31, 1999, Mail-Well reported earnings of \$64,482,000 (\$1.20 per share) on net sales of \$1,848,041,000, compared with earnings of \$21,709,000 (\$0.45 per share) on net sales of \$1,504,686,000 in the previous year. The March 31, 2000 closing NYSE market price of Mail-Well's common stock was \$8.6875 per share.

At March 31, 2000, the \$2,986,870 investment in Mail-Well by Capital Southwest was valued at \$13,628,000 (\$6.50 per share) consisting of 2,096,588 restricted shares of common stock, representing a fully-diluted equity interest of 3.4%.

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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 wire and cable including non-metallic sheathed cable, underground feeder cable and THHN cable for residential, commercial and industrial construction. Encore's products are sold through large-volume distributors and building materials retailers.

For the year ended December 31, 1999, Encore reported net income of \$6,594,000 (\$0.42 per share) on net sales of \$229,670,000, compared with net income of \$17,567,000 (\$1.07 per share) on net sales of \$244,044,000 in the previous year. The March 31, 2000 closing Nasdaq bid price of Encore's common stock was \$7.0625 per share.

At March 31, 2000, 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 16.6%.

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Media Recovery, Inc.

\$8,000,000

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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 24 offices in 18 states. Its Shockwatch division manufactures impact and tilt monitoring devices used to detect mishandled shipments. Media Recovery's subsidiary, The Damage Prevention Company, Denver, Colorado, manufactures dunnage products used to prevent damage in trucking, rail and export container shipments.

During the year ended September 30, 1999, Media Recovery reported net income of \$2,418,000 on net sales of \$88,707,000, compared with net income of \$1,028,000 on net sales of \$62,351,000 for the eleven month period ended September 30, 1998.

At March 31, 2000, the \$5,415,000 investment in Media Recovery by Capital Southwest and its subsidiary was valued at \$8,000,000 consisting of 4,800,000 shares of Series A convertible preferred stock, representing a fully-diluted equity interest of 68.2%.

The Whitmore Manufacturing Company

\$8,000,000

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, 2000, Whitmore reported a net loss of \$10,600 on net sales of \$13,176,000, compared with net income of \$1,151,000 on net sales of \$13,949,000 in the previous year. The company is owned 80% by Capital Southwest and 20% by Capital Southwest's subsidiary, The RectorSeal Corporation (described on page 7).

At March 31, 2000, the direct investment in Whitmore by Capital Southwest was valued at \$8,000,000 and had a cost of \$1,600,000.

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AT&T Corp.

\$7,520,015

AT&T Corp., New York, New York, is among the world's communications leaders telecommunications services. In March 1999, AT&T Corp. acquired Tele-Comm operates one of the nation's largest cable television systems.

During the year ended December 31, 1999, AT&T Corp. reported net income of \$3,428,000,000 (\$1.74 per share) on net sales of \$62,391,000,000. The March 31, 2000 closing NYSE market price of AT&T Corp. - Series A common stock was \$56.4375 per share.

At March 31, 2000, Capital Southwest owned 133,245 shares of unrestricted AT&T Corp. - Series A common stock, having a total cost of \$43 and a market value of \$7,520,015 (\$56.4375 per share).

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Airformed Composites, Inc.

\$6,568,000

Airformed Composites, Inc., Charleston, South Carolina, manufactures and markets airformed composites composed of wood pulp, latex binders and various specialized fibers and super-absorbent compounds. Its airlaid materials are used in the production of baby diapers and wet wipes, adult incontinence products, feminine hygiene products, food packaging materials and industrial wipes.

During the year ended December 31, 1999, Airformed reported a net loss of \$4,461,000 on net sales of \$3,465,000.

At March 31, 2000, the investment by Capital Southwest and its subsidiary in a demand promissory note, subordinated debentures and 425,000 shares of Series A convertible preferred stock was valued at its cost of \$6,568,000 and represented a fully-diluted equity interest of 65.9%.

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All Components, Inc.

\$5,750,000

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 plants in Austin, Texas and Boise, Idaho, the company serves over 2,000 customers throughout the United States.

During the year ended August 31, 1999, All Components reported net income of \$2,542,000 on net sales of \$157,932,000, compared with net income of \$2,109,000 on net sales of \$114,522,000 in the previous year.

At March 31, 2000, the \$600,000 investment in All Components by Capital Southwest's subsidiary was valued at \$5,750,000 consisting of 450,000 shares of Series B preferred stock and 150,000 shares of convertible preferred stock, representing a 29.1% fully-diluted equity interest.

Portfolio of Investments - March 31, 2000

Company	Equity (a)	Investment (b)	Cost	Value (c)
+AT&T CORP. New York, New York World communications leader, providing voice, data and video telecommunications services and cable television systems.	<1%	++133,245 shares Series A common stock (acquired 3-9-99)	\$ 43	\$ 7,520,015
+AT&T CORP. - Liberty Media Group New York, New York Production and distribution of cable television programming services and wireless and wireline communications services.	<1%	++338,706 shares Series A common stock (acquired 3-9-99)	25	20,089,500
AIRFORMED COMPOSITES, INC. Charleston, South Carolina Airformed composite materials for use in absorbent specialty applications such as diapers and feminine hygiene products.	65.9%	12% demand promissory notes (acquired 2-1-00 thru 3-31-00) 12% subordinated debenture, due 2004 (acquired 12-22-99) 10% subordinated debentures, due 2007 (acquired 12-12-97 and 5-6-98) 425,000 shares Series A convertible preferred stock, convertible into 425,000 shares of common stock at \$1.00 per share (acquired 12-12-97) Warrants to purchase 770,506 shares of common stock at \$1.00 per share, expiring 9-30-09 (acquired 12-22-99)	1,000,000 2,000,000 3,143,000 425,000 -	1,000,000 2,000,000 3,143,000 425,000 -
			6,568,000	6,568,000
+ALAMO GROUP INC. Seguin, Texas Tractor-mounted mowing and vegetation maintenance equipment for governmental, industrial and agricultural markets; power-sweeping equipment for municipalities.	27.2%	2,821,300 shares common stock (acquired 4-1-73, 7-18-78 and 9-9-99 thru 10-4-99)	2,065,047	25,392,000
ALL COMPONENTS, INC. Farmers Branch, Texas Distribution and production of memory and other components for personal computer manufacturers, retailers and value-added resellers.	29.1%	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) 450,000 shares Series B preferred stock (acquired 9-16-94)	150,000 450,000	5,300,000 450,000
			600,000	5,750,000
+ALLTEL CORPORATION Little Rock, Arkansas Wireline and wireless communications and information services.	<1%	++8,880 shares common stock (acquired 7-1-98)	108,355	559,995
+Publicly-owned company		++Unrestricted securities as defined in Note (b)		

Company	Equity (a)	Investment (b)	Cost	Value (c)
+AMERICAN HOMESTAR CORPORATION League City, Texas Integrated manufacturing, retailing and financing of manufactured housing produced in 12 plants.	3.3%	++751,059 shares common stock (acquired 8-31-93, 7-12-94 and 3-28-96)	\$ 3,405,824	\$ 1,220,471
AMFIBE, INC. Martinsville, Virginia Nylon monofilament yarns for the textile industry.	40.0%	2,000 shares Class B non-voting common stock (acquired 6-15-94)	200,000	5,500,000
BALCO, INC. Wichita, Kansas Specialty architectural products used in the construction and remodeling of commercial and institutional buildings.	89.7%	14% subordinated debentures, payable 2000 to 2002 (acquired 8-13-91) 14% subordinated debenture, payable 2000 to 2002, last maturing \$250,000 convertible into 250,000 shares of common stock at \$1.00 per share (acquired 6-1-91) 110,000 shares common stock and 60,920 shares Class B non-voting common stock (acquired 10-25-83) Warrants to purchase 85,000 shares of common stock at \$2.40 per share, expiring 2001 (acquired 8-13-91)	240,000  480,000  170,920  -	240,000  980,000  512,760  51,000  ----- 1,783,760
BOXX TECHNOLOGIES, INC. Austin, Texas Workstations for computer graphics imaging and design.	9.8%	1,000,000 shares Series B convertible preferred stock, convertible into 1,000,000 shares of common stock at \$0.50 per share (acquired 8-20-99)	500,000	500,000
CDC TECHNOLOGIES, INC. Oxford, Connecticut Hematology and blood chemistry analyzers and reagents for veterinary and medical applications.	23.6%	12% subordinated debentures, payable 2000 (acquired 8-26-99 thru 3-31-00) 3,388 shares Series C convertible preferred stock, convertible into 7,218 shares of common stock at \$346.24 per share (acquired 10-15-97 and 9-10-98) Warrants to purchase 339 shares of Series C convertible preferred stock at \$737.65 per share, expiring 2007 (acquired 12-17-97) Warrant to purchase 3,000 shares of common stock at \$166.66 per share, expiring 2009 (acquired 8-26-99 thru 9-29-99)	600,000  2,499,158  -  -	1  1  -  -  ----- 2
+Publicly-owned company		++Unrestricted securities as defined in Note (b)		

Company	Equity (a)	Investment (b)	Cost	Value (c)
DENNIS TOOL COMPANY Houston, Texas Polycrystalline diamond compacts (PDCs) used in oil field drill bits and in mining and industrial applications.	66.2%	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	\$ 400,000 1,500,000 ----- 1,900,000
DYNTEC, INC. Louisville, Kentucky Multi-specialty dental services provided through Dentistry Plus Centers located in major shopping malls.	51.7%	14% senior secured promissory note, \$1,125,000 principal amount, payable 11-10-02 (acquired 9-10-99) 1,710,766 shares Series A redeemable preferred stock (acquired 6-24-98) 1,710,766 shares Series B convertible preferred stock, convertible into 1,710,766 shares of common stock at \$0.004 per share (acquired 6-24-98) Warrants to purchase 1,829,517 shares of common stock at \$0.004 per share expiring 7-7-02 and 8-30-02 (acquired 9-10-99)	750,000 3,743,156 6,844 ----- 4,500,000	1 1 - ----- 2
+ENCORE WIRE CORPORATION McKinney, Texas Electrical wire and cable for residential and commercial use.	16.6%	2,724,500 shares common stock (acquired 7-16-92, 3-15-94, 4-28-94 and 10-7-98)	5,800,000	13,623,000
+FMC CORPORATION Chicago, Illinois Machinery and chemicals in diversified product areas.	<1%	++6,430 shares common stock (acquired 6-6-86)	123,777	363,294
+GLOBAL CROSSING LTD. Hamilton, Bermuda Diversified telecommunications company.	<1%	++64,242 shares common stock (acquired 9-28-99)	78,346	2,629,907
+HOLOGIC, INC. Bedford, Massachusetts Medical instruments including bone densitometers and digital radiography systems.	<1%	++158,205 shares common stock (acquired 8-27-99)	220,000	1,245,864
iCHOOSE, INC. Carrollton, Texas Online marketing platform to enable e-commerce merchants to deliver competing offers to consumers at point of purchase on competitors' websites.	4.1%	240,000 shares Series A convertible preferred stock, convertible into 240,000 shares of common stock at \$0.4167 per share (acquired 4-9-99) 729,928 shares Series B convertible preferred stock, convertible into 729,928 shares of common stock at \$1.37 per share (acquired 10-29-99)	100,000 1,000,001 ----- 1,100,001	100,000 1,000,001 ----- 1,100,001
+Publicly-owned company		++Unrestricted securities as defined in Note (b)		

Company	Equity (a)	Investment (b)	Cost	Value (c)
INTELLIGENT REASONING SYSTEMS, INC. Austin, Texas Automated optical inspection systems used in the production of printed wired assemblies and high density interconnects.	4.4%	705,128 shares Series B convertible preferred stock, convertible into 705,128 shares of common stock at \$0.60 per share (acquired 5-28-97) 1,513,081 shares Series C convertible preferred stock, convertible into 1,513,081 shares of common stock at \$0.74 per share (acquired 6-11-98) Warrant to purchase 70,513 shares of Series B convertible preferred stock at \$.60 per share, expiring 2004 (acquired 11-21-97)	\$ 423,077 1,119,679 -	\$ - 2 -
			1,542,756	2
INTERNATIONAL TALK.COM, INC. Austin, Texas Internet-based retail and wholesale long distance communications to and from foreign countries.	18.3%	8,333,334 shares Series A convertible preferred stock, convertible into 8,333,334 shares of common stock at \$0.36 per share (acquired 9-23-99 and 3-3-00)	3,000,000	3,000,000
+KIMBERLY-CLARK CORPORATION Irving, Texas Manufacturer of tissue, personal care and health care products.	<1%	++77,180 shares common stock (acquired 12-18-97)	2,396,926	4,322,080
+MAIL-WELL, INC. Englewood, Colorado Customized envelopes, labels and high-impact printing.	3.4%	2,096,588 shares common stock (acquired 2-18-94, 12-14-94, 7-27-95 and 11-10-98)	2,986,870	13,628,000
MEDIA RECOVERY, INC. Graham, Texas Computer and office automation supplies and accessories; impact and tilt monitoring devices to detect mishandled shipments; dunnage for protecting shipments.	68.2%	4,800,000 shares Series A convertible preferred stock, convertible into 4,800,000 shares of common stock at \$1.00 per share (acquired 11-4-97)	5,415,000	8,000,000
+MYLAN LABORATORIES, INC. Pittsburgh, Pennsylvania Proprietary and generic pharmaceutical products.	<1%	++128,286 shares common stock (acquired 11-20-91)	400,000	3,527,865
ORGANIZED LIVING, INC. Lenexa, Kansas Specialty retailer of products designed to provide home and office storage and organization solutions.	8.5%-10.8%	2,083,334 shares Series D convertible preferred stock, convertible into 2,083,334 to 2,777,778 shares of common stock at \$1.80 to \$2.40 per share (acquired 1-7-00)	5,000,000	5,000,000
+PALM HARBOR HOMES, INC. Dallas, Texas Integrated manufacturing, retailing, financing and insuring of manufactured housing produced in 15 plants.	34.2%	7,855,121 shares common stock (acquired 1-3-85, 3-31-88 and 7-31-95)	10,931,955	86,406,000
+Publicly-owned company		++Unrestricted securities as defined in Note (b)		

Company	Equity (a)	Investment (b)	Cost	Value (c)
PAYLINX CORPORATION Reston, Virginia Provides traditional and e-commerce businesses with a single, enterprise-wide resource for processing electronic payments.	1.3%	127,803 shares Series B convertible preferred stock, convertible into 127,803 shares of common stock at \$7.82 per share (acquired 1-21-00)	\$ 1,000,000	\$ 1,000,000
+PETSMART, INC. Phoenix, Arizona Retail chain of 484 stores selling pet foods, supplies and services.	<1%	++654,220 shares common stock (acquired 6-1-95)	2,878,733	1,962,660
THE RECTORSEAL CORPORATION Houston, Texas Chemical specialty products for industrial, construction, oil field and automotive applications; owns 20% of Whitmore Manufacturing.	100.0%	27,907 shares common stock (acquired 1-5-73 and 3-31-73)	52,600	42,000,000
REWIND HOLDINGS, INC. Sugar Land, Texas Owns Bill Young Productions, Texas Video and Post, and Extreme Communications, which produce radio and television commercials and corporate communications videos.	38.3%	12% subordinated notes, payable 2000 to 2004 (acquired 10-21-96, 8-13-97 and 8-11-98) 375 shares 8% Series A convertible preferred stock, convertible into 1,500 shares of common stock at \$250.00 per share (acquired 10-21-96) Warrant to purchase 600 shares of common stock at \$250 per share, expiring 2005 (acquired 8-11-98)	3,825,000 375,000 -	2,000,000 - -
SDI INVESTMENTS LIQUIDATING TRUST Houston, Texas Trust formed to complete the liquidation of SDI Holding Corp., former owner of Sterling Diagnostic Imaging.	-	11.4% non-voting trust interest (acquired 5-17-99)	118,000	500,000
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	35,000,000
+SPRINT CORPORATION - FON Group Kansas City, Missouri Diversified telecommunications company.	<1%	++72,000 shares common stock (acquired 6-20-84)	449,654	4,536,000
+SPRINT CORPORATION - PCS Group Kansas City, Missouri Domestic wireless telephony services.	<1%	++36,000 shares common stock (acquired 11-23-98)	53,991	2,358,000
+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 PETROCHEMICAL HOLDINGS, INC. Houston, Texas Butadiene for synthetic rubber, MTBE for gasoline octane enhancement and butylenes for varied applications.	5.4%	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%	14% subordinated debentures, payable 2000 (acquired 3-6-91 and 6-1-98) 3,296 shares Series A preferred stock (acquired 3-6-91 and 6-1-98) 750 shares Series B convertible preferred stock, convertible into 750,000 shares of common stock at \$0.10 per share(acquired 3-6-91)	617,970 329,600 75,000 1,022,570	617,970 329,600 2,625,000 3,572,570
VOCALDATA, INC. Richardson, Texas Hardware and software for customer premises telephony equipment based on Voice Over Internet Protocol.	4.1%	650,000 shares Series A convertible stock, convertible into 650,000 shares of common stock at \$1.75 per share (acquired 11-4-99 and 12-3-99)	1,137,500	1,137,500
THE WHITMORE MANUFACTURING COMPANY Rockwall, Texas Specialized mining and industrial lubricants; automotive transit coatings.	80.0%	80 shares common stock (acquired 8-31-79)	1,600,000	8,000,000
MISCELLANEOUS	-	Diamond State Ventures L.P. - 1.9% limited partnership interest (acquired 10-12-99)	71,875	71,875
	100.0%	Humac Company - 1,041,000 shares common stock (acquired 1-31-75 and 12-31-75)	-	127,000
	-	STARTech Seed Fund I-12.1% limited partnership interest (acquired 4-17-98)	500,000	500,000
	<1%	+TCI Satellite Entertainment, Inc.--+18,000 shares Series A common stock (acquired 12-4-96)	-	345,375
	<1%	+Triton Energy Corporation--+6,022 shares common stock (acquired 12-15-86)	144,167	211,146
TOTAL INVESTMENTS			\$85,002,437 =====	\$323,629,135 =====

+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, 2000, restricted securities represented approximately 84% of the value of the consolidated investment portfolio.

(c) Under the valuation policy of the Company, unrestricted securities are valued at the closing sale price for listed securities and at the closing bid price for over-the-counter securities on the valuation date. Restricted securities, including securities of publicly-owned companies which are subject to restrictions on resale, are valued at fair value as determined by the Board of Directors. Fair value is considered to be the amount which the Company 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, 2000 and common stocks which may be acquired thereafter through exercise of warrants and conversion of debentures and preferred stocks, apply to restricted securities of all issuers in the investment portfolio of the Company except securities of the following issuers, which are not obligated to bear registration costs: Humac Company, Skylawn Corporation and The Whitmore Manufacturing Company.

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

Portfolio Changes During the Year

New Investments and Additions to Previous Investments

	Amount
Airformed Composites, Inc. ....	\$ 3,000,000
Alamo Group Inc. ....	1,490,047
All Components, Inc. ....	4,000,000
BOXX Technologies, Inc. ....	500,000
CDC Technologies, Inc. ....	600,000
Diamond State Ventures L.P. ....	71,875
Dyntec, Inc. ....	750,000
iChoose, Inc. ....	1,100,001
International Talk.com, Inc. ....	3,000,000
Organized Living, Inc. ....	5,000,000
PaylinX Corporation ....	1,000,000
STARTech Seed Fund I ....	275,000
VocalData, Inc. ....	1,137,500
	-----
	\$ 21,924,423
	=====

Dispositions

	Cost	Amount Received
MESC Holdings, Inc. ....	\$ -	\$ 302,501
PTS Holdings, Inc. ....	-	347,780
SDI Holding Corp. ....	5,054,000	12,885,369
SDI Investments Liquidating Trust .....	608,000	1,356,863
Miscellaneous.....	-	929
	-----	-----
	\$ 5,662,000	\$ 14,893,442
	=====	=====

Repayments Received.....	\$ 4,840,000
	=====

Capital Southwest Corporation and Subsidiary  
Consolidated Statements of Financial Condition

Assets	March 31	
	2000	1999
Investments at market or fair value (Notes 1, 2 and 10)		
Companies more than 25% owned (Cost: 2000 - \$23,380,865, 1999 - \$22,130,818) .....	\$ 200,608,759	\$ 231,819,359
Companies 5% to 25% owned (Cost: 2000 - \$22,579,414, 1999 - \$18,841,914) .....	22,760,506	31,596,160
Companies less than 5% owned (Cost: 2000 - \$39,042,158, 1999 - \$32,607,282) .....	100,259,870	86,862,983
	-----	-----
Total investments (Cost: 2000 - \$85,002,437, 1999 - \$73,580,014) .....	323,629,135	350,278,502
Cash and cash equivalents .....	63,986,715	6,050,443
Receivables .....	238,594	315,707
Other assets (Note 8) .....	4,731,360	4,141,136
	-----	-----
Totals.....	\$392,585,804	\$ 360,785,788
	=====	=====

Liabilities and Shareholders' Equity	March 31,	
	2000	1999
Note payable to bank (Note 4) .....	\$ 60,000,000	\$ --
Notes payable to subsidiary (Note 4) .....	5,000,000	--
Accrued interest and other liabilities (Note 8).....	2,220,753	2,306,366
Deferred income taxes (Note 3) .....	83,489,085	97,247,457
Subordinated debenture (Note 5) .....	5,000,000	5,000,000
	-----	-----
Total liabilities .....	155,709,838	104,553,823
	-----	-----
Shareholders' equity (Notes 3 and 6)		
Common stock, \$1 par value: authorized, 5,000,000 shares; issued, 4,252,416 shares at March 31, 2000 and March 31, 1999 .....	4,252,416	4,252,416
Additional capital .....	6,450,747	6,450,747
Undistributed net investment income .....	4,117,104	4,743,205
Undistributed net realized gain on investments .....	73,613,301	67,593,409
Unrealized appreciation of investments - net of deferred income taxes .....	155,475,700	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 \$62.09 per share at March 31, 2000, and \$67.16 per share at March 31, 1999 on the 3,815,051 shares outstanding .....	236,875,966	256,231,965
	-----	-----
Totals .....	\$ 392,585,804	\$ 360,785,788
	=====	=====

See Notes to Consolidated Financial Statements

Capital Southwest Corporation and Subsidiary  
Consolidated Statements of Operations

	Years Ended March 31		
	2000	1999	1998
Investment income (Note 9):			
Interest.....	\$ 884,152	\$ 1,307,668	\$ 2,025,024
Dividends .....	1,878,853	1,966,360	2,237,293
Management and directors' fees .....	525,400	538,650	569,900
	3,288,405	3,812,678	4,832,217
Operating expenses:			
Interest .....	456,262	416,174	426,962
Salaries .....	804,933	1,109,699	1,206,478
Net pension expense (benefit) (Note 8) .....	(435,984)	(311,625)	(313,511)
Other operating expenses (Note 7) .....	657,770	727,612	674,466
	1,482,981	1,941,860	1,994,395
Income before income taxes .....	1,805,424	1,870,818	2,837,822
Income tax expense (Note 3) .....	142,494	109,100	111,678
Net investment income .....	\$ 1,662,930	\$ 1,761,718	\$ 2,726,144
Proceeds from disposition of investments .....	\$ 14,893,442	\$ 1,530,691	\$ 16,669,892
Cost of investments sold (Note 1) .....	5,662,000	--	6,764,823
Realized gain on investments before income taxes (Note 9) .....	9,231,442	1,530,691	9,905,069
Income tax expense .....	3,211,550	535,742	3,420,177
Net realized gain on investments .....	6,019,892	994,949	6,484,892
Increase (decrease) in unrealized appreciation of investments before income taxes ....	(38,071,790)	(63,433,545)	106,748,923
Increase (decrease) in deferred income taxes on appreciation of investments (Note 3) .	(13,322,000)	(22,201,000)	37,361,000
Net increase (decrease) in unrealized appreciation of investments .....	(24,749,790)	(41,232,545)	69,387,923
Net realized and unrealized gain (loss) on investments .....	\$ (18,729,898)	\$ (40,237,596)	\$ 75,872,815
Increase (decrease) in net assets from operations .....	\$ (17,066,968)	\$ (38,475,878)	\$ 78,598,959

See Notes to Consolidated Financial Statements

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

	Years Ended March 31		
	2000	1999	1998
Operations			
Net investment income.....	\$ 1,662,930	\$ 1,761,718	\$ 2,726,144
Net realized gain on investments .....	6,019,892	994,949	6,484,892
Net increase (decrease) in unrealized appreciation of investments ....	(24,749,790)	(41,232,545)	69,387,923
Increase (decrease) in net assets from operations .....	(17,066,968)	(38,475,878)	78,598,959
Distributions from:			
Undistributed net investment income .....	(2,289,031)	(2,280,411)	(2,268,451)
Capital share transactions			
Exercise of employee stock options .....	--	965,438	720,188
Increase (decrease) in net assets .....	(19,355,999)	(39,790,851)	77,050,696
Net assets, beginning of year .....	256,231,965	296,022,816	218,972,120
Net assets, end of year .....	\$ 236,875,966	\$ 256,231,965	\$ 296,022,816

See Notes to Consolidated Financial Statements

Capital Southwest Corporation and Subsidiary  
Consolidated Statements of Cash Flows

Years Ended March 31

	2000	1999	1998
Cash flows from operating activities			
Increase (decrease) in net assets from operations.....	\$ (17,066,968)	\$ (38,475,878)	\$ 78,598,959
Adjustments to reconcile increase (decrease) in net assets from operations to net cash provided by operating activities:			
Depreciation and amortization .....	31,976	24,667	23,770
Net pension benefit .....	(435,984)	(311,625)	(313,511)
Net realized and unrealized (gain) loss on investments .....	18,729,898	40,237,596	(75,872,815)
(Increase) decrease in receivables .....	77,113	17,166	(53,058)
Increase in other assets .....	(44,754)	(47,315)	(7,035)
Increase (decrease) in accrued interest and other liabilities .....	41,504	(74,670)	46,649
Deferred income taxes .....	152,600	109,100	109,729
Net cash provided by operating activities .....	1,485,385	1,479,041	2,532,688
Cash flows from investing activities			
Proceeds from disposition of investments .....	14,893,442	1,530,691	16,669,892
Purchases of securities .....	(21,924,423)	(13,170,132)	(9,709,195)
Maturities of securities .....	4,840,000	744,539	1,697,866
Income taxes paid on realized gain on investments .....	(4,069,101)	(266,643)	(6,604,549)
Net cash provided (used) by investing activities .....	(6,260,082)	(11,161,545)	2,054,014
Cash flows from financing activities			
Increase (decrease) in notes payable .....	65,000,000	(100,000,000)	100,000,000
Distributions from undistributed net investment income .....	(2,289,031)	(2,280,411)	(2,268,451)
Proceeds from exercise of employee stock options .....	--	965,438	720,188
Net cash provided (used) by financing activities .....	62,710,969	(101,314,973)	98,451,737
Net increase (decrease) in cash and cash equivalents .....	57,936,272	(110,997,477)	103,038,439
Cash and cash equivalents at beginning of year .....	6,050,443	117,047,920	14,009,481
Cash and cash equivalents at end of year .....	\$ 63,986,715	\$ 6,050,443	\$ 117,047,920
Supplemental disclosure of cash flow information:			
Cash paid during the year for: Interest .....	\$ 436,023	\$ 424,926	\$ 400,000
Income taxes.....	\$ 4,092,891	\$ 288,838	\$ 6,621,499

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. The following is a summary of significant accounting policies followed in the preparation of the consolidated financial statements of CSC and CSVC (together, the "Company"):

**Principles of Consolidation.** The consolidated financial statements have been prepared on the value method of accounting in accordance with generally accepted accounting principles for investment companies. All significant intercompany accounts and transactions have been eliminated in consolidation.

**Cash and Cash Equivalents.** All temporary cash investments having a maturity of three months or less when purchased are considered to be cash equivalents.

**Investments.** Investments are stated at market or fair value determined by the Board of Directors as described in the Notes to Portfolio of Investments and Note 2 below. The average cost method is used in determining cost of investments sold. Investments are recorded on a trade date basis. Dividends are recognized on the ex-dividend date and interest income is accrued daily.

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

### 2. Valuation of Investments

The consolidated financial statements as of March 31, 2000 and 1999 include securities valued at \$272,736,962 (84% of the value of the consolidated investment portfolio) and \$309,498,090 (88% 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, 1999, 1998 and 1997, 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 provision was made for Federal income taxes on the investment company taxable income of CSC and CSVC for the 2000, 1999 and 1998 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, 2000 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 \$83,151,000 and \$96,473,000 have been provided on net unrealized appreciation of investments of \$238,626,698 and \$276,698,488 at March 31, 2000 and 1999, 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, 2000 and 1999.

4. Notes Payable

The note payable to bank at March 31, 2000 was an unsecured note with interest payable at 6.48%. The note was paid in full on April 3, 2000. The notes payable to subsidiary were demand promissory notes to Skylawn Corporation with interest payable at prime minus 2.25%.

5. Subordinated Debenture

The subordinated debenture of \$5,000,000 outstanding at March 31, 2000 and 1999 is payable to others and guaranteed by the Small Business Administration ("SBA"), bears interest at 8.0% and matures in 2002.

6. Employee Stock Option Plan

Under the 1984 Incentive Stock Option Plan, options to purchase 42,000 shares of the Company's common stock at \$35.625 per share (the adjusted market price at the time of grant) were outstanding and exercisable at March 31, 2000 and expire in 2003. The 1984 Incentive Stock Option Plan expired in 1994 and no options have been authorized or granted thereunder since that date.

On July 19, 1999 shareholders approved the 1999 Stock Option Plan under which 140,000 shares of common stock were reserved for issuance to employees and officers of the Company. Options to purchase 32,000 shares at a price of \$77.00 per share (the market price at the time of grant) and 6,000 shares at \$84.70 were granted during the year and remain outstanding at March 31, 2000, thus leaving a total of 102,000 options available for future grant. Such options expire ten years from the date of grant and are generally exercisable on or after the first anniversary of the date of grant in eight annual installments.

At March 31, 2000 and 1999, the dilution of net assets per share arising from options outstanding was not material.

7. Employee Stock Ownership Plan

The Company and one of its wholly-owned subsidiaries sponsor a qualified employee stock ownership plan ("ESOP") in which certain employees participate. Contributions to the plan, which are invested in Company stock, are made at the discretion of the Company's Board of Directors. A participant's interest in contributions to the ESOP fully vests after five years of active service. During the three years ended March 31, the Company made contributions to the ESOP, which were charged against net investment income, of \$43,862 in 2000, \$35,079 in 1999 and \$67,763 in 1998.

8. Retirement Plans

The Company sponsors a qualified defined benefit pension plan which covers its employees and employees of certain of its wholly-owned subsidiaries. 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, 2000.

The following tables set forth the plan's benefit obligations and fair value of plan assets at March 31, 2000, 1999 and 1998:

	Years Ended March 31		
	2000	1999	1998
Change in benefit obligation			
Benefit obligation at beginning of year.....	\$ 3,315,119	\$ 3,059,555	\$ 2,376,257
Service cost .....	43,818	68,710	52,388
Interest cost .....	193,397	199,301	204,328
Amendments .....	--	(149,171)	--
Actuarial gain (loss) .....	(201,158)	205,810	495,668
Benefits paid .....	(90,810)	(69,086)	(69,086)
Benefit obligation at end of year .....	<u>\$ 3,260,366</u>	<u>\$ 3,315,119</u>	<u>\$ 3,059,555</u>
Change in plan assets			
Fair value of plan assets at beginning of year.....	\$10,074,598	\$ 11,314,714	\$ 7,820,401
Actual return on plan assets .....	(146,241)	(1,171,030)	3,563,399
Benefits paid .....	(90,810)	(69,086)	(69,086)
Fair value of plan assets at end of year.....	<u>\$ 9,837,547</u>	<u>\$ 10,074,598</u>	<u>\$ 11,314,714</u>



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	
	2000	1999
Actuarial present value of benefit obligations:		
Accumulated benefit obligation, including vested benefits of \$2,928,376 in 2000 and \$2,915,453 in 1999	\$ (2,965,576)	\$ (2,990,205)
Projected benefit obligation for service rendered to date	\$ (3,260,366)	\$ (3,315,119)
Plan assets at fair value*	9,837,547	10,074,598
Excess of plan assets over the projected benefit obligation	6,577,181	6,759,479
Unrecognized net (gain) loss from past experience different from that assumed and effects of changes in assumptions	(1,518,207)	(2,192,798)
Prior service costs not yet recognized	(162,965)	(174,288)
Unrecognized net assets being amortized over 19 years	(369,139)	(442,970)
Prepaid pension cost included in other assets	\$ 4,526,870	\$ 3,949,423

\*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		
	2000	1999	1998
Service cost - benefits earned during the year	\$ 43,818	\$ 68,710	\$ 52,388
Interest cost on projected benefit obligation	193,397	199,301	204,328
Actual return on assets	146,241	1,171,030	(3,563,399)
Net amortization and deferral	(960,903)	(1,901,221)	2,813,811
Net pension expense (benefit) from qualified plan	\$ (577,447)	\$ 462,180	\$ (492,872)

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

The following table sets forth the Retirement Restoration Plan's benefit obligation at March 31, 2000, 1999 and 1998:

	Years Ended March 31		
	2000	1999	1998
Change in benefit obligation			
Benefit obligation at beginning of year	\$ 2,166,180	\$ 2,051,899	\$ 1,474,701
Service cost	4,089	13,087	5,958
Interest cost	117,541	117,635	142,735
Amendments	--	83,360	--
Actuarial gain (loss)	(261,315)	(99,801)	428,505
Benefit obligation at end of year	\$ 2,026,495	\$ 2,166,180	\$ 2,051,899

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	
	2000	1999
Projected benefit obligation	\$(2,026,495)	\$(2,166,180)
Unrecognized net (gain) loss from past experience different from that assumed and effects of changes in assumptions	45,101	306,416
Unrecognized prior service costs	83,360	83,360
Unrecognized net obligation	19,823	39,656
Accrued pension cost included in other liabilities	\$(1,878,211)	\$(1,736,748)

=====

The Retirement Restoration Plan expenses recognized during the years ended March 31, 2000, 1999 and 1998 of \$141,463, \$150,555 and \$179,361, respectively, are offset against the net pension benefit from the qualified plan.

The weighted-average discount rate and rate of increase in future compensation levels used in determining the actuarial present value of the projected benefit obligation were 6.5% and 5.0%, respectively, at both March 31, 2000 and March 31, 1999 and 7.0% and 5.0%, respectively, at March 31, 1998. The expected long-term rate of return used to project estimated earnings on plan assets for the qualified plan was 7.5% for the year ended March 31, 2000 and 8.5% for the years ended March 31, 1999 and 1998. 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 ----- 2000 -----	Investment Income			Realized Gain (Loss) on Investments Before Income Taxes
	Interest	Dividends	Other Income	
Companies more than 25% owned .....	\$ 106,400	\$ 1,440,755	\$ 487,400	\$ --
Companies 5% to 25% owned .....	--	--	(1,500)	8,133,870
Companies less than 5% owned .....	173,105	438,098	39,500	1,097,572
Other sources, including temporary investments .....	604,647	--	--	--
	<u>\$ 884,152</u>	<u>\$ 1,878,853</u>	<u>\$ 525,400</u>	<u>\$ 9,231,442</u>
=====				
1999 -----				
Companies more than 25% owned .....	\$ 140,000	\$ 1,644,270	\$ 490,900	\$ --
Companies 5% to 25% owned .....	3,495	--	34,750	--
Companies less than 5% owned .....	688,210	322,090	13,000	1,530,691
Other sources, including temporary investments .....	475,963	--	--	--
	<u>\$ 1,307,668</u>	<u>\$ 1,966,360</u>	<u>\$ 538,650</u>	<u>\$ 1,530,691</u>
=====				
1998 -----				
Companies more than 25% owned .....	\$ 168,000	\$ 1,985,200	\$ 518,900	\$ --
Companies 5% to 25% owned .....	8,706	--	35,500	(3,990,894)
Companies less than 5% owned .....	609,187	252,093	15,500	13,895,963
Other sources, including temporary investments .....	1,239,131	--	--	--
	<u>\$ 2,025,024</u>	<u>\$ 2,237,293</u>	<u>\$ 569,900</u>	<u>\$ 9,905,069</u>
=====				

10. Summarized Financial Information of Unconsolidated Subsidiaries

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

(all figures in thousands)

	March 31	
	2000	1999
Condensed Balance Sheet Data		
Assets		
Cash and temporary investments.....	\$ 12,547	\$ 12,130
Receivables .....	30,022	26,350
Inventories .....	36,523	34,373
Property, plant and equipment .....	34,604	33,152
Other assets .....	19,671	18,549
Totals .....	<u>\$133,367</u>	<u>\$124,554</u>
Liabilities and Shareholder's Equity		
Long-term debt.....	\$ 9,669	\$ 11,685
Other liabilities .....	17,205	14,086
Shareholder's equity .....	106,493	98,783
Totals .....	<u>\$133,367</u>	<u>\$124,554</u>

Condensed Statements of Income

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	2000	1999	1998
Revenues .....	\$ 91,608	\$ 83,426	\$ 77,275
Costs and operating expenses .....	\$ 79,237	\$ 72,566	\$ 66,223
Net income.....	\$ 7,917	\$ 7,021	\$ 8,066

11. Commitments

The Company has agreed, subject to certain conditions, to invest up to \$3,053,125 in five portfolio companies.

The Company leases office space under an operating lease which requires base annual rentals of approximately \$58,000 through February, 2003. For the three years ended March 31, total rental expense charged to investment income was \$57,479 in 2000, \$58,798 in 1999 and \$44,285 in 1998.

Selected Per Share Data and Ratios

	Years Ended March				
	2000	1999	1998	1997	1996
Investment income .....	\$ .86	\$ 1.00	\$ 1.28	\$ 1.26	\$ 1.64
Operating expenses .....	(.27)	(.40)	(.42)	(.37)	(.41)
Interest expense .....	(.12)	(.11)	(.11)	(.17)	(.45)
Income taxes .....	(.03)	(.03)	(.03)	(.03)	(.02)
Net investment income .....	.44	.46	.72	.69	.76
Distributions from undistributed net investment income .....	(.60)	(.60)	(.60)	(.60)	(.60)
Net realized gain on investments .....	1.58	.26	1.71	1.81	2.97
Distributions from undistributed net realized gain on investments ..	--	--	--	--	(.04)
Net increase (decrease) in unrealized appreciation of investments before distributions.....	(6.49)	(10.81)	18.32	6.05	10.28
Distributions from unrealized appreciation of investments .....	--	--	--	--	(2.46)
Exercise of employee stock options* .....	--	(.30)	(.13)	--	(.19)
Increase (decrease) in net asset value .....	(5.07)	(10.99)	20.02	7.95	10.72
Net asset value:					
Beginning of year .....	67.16	78.15	58.13	50.18	39.46
End of year .....	\$ 62.09	\$ 67.16	\$ 78.15	\$ 58.13	\$ 50.18
Ratio of operating expenses to average net assets .....	.4%	.6%	.6%	.7%	.9%
Ratio of net investment income to average net assets .....	.7%	.6%	1.1%	1.2%	1.7%
Portfolio turnover rate .....	4.3%	.2%	2.5%	1.6%	4.5%
Shares outstanding at end of period (000s omitted) .....	3,815	3,815	3,788	3,767	3,767

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

Independent Auditors' Report

The Board of Directors and Shareholders  
Capital Southwest Corporation:

We have audited the accompanying consolidated statements of financial condition of Capital Southwest Corporation and subsidiary as of March 31, 2000 and 1999, including the portfolio of investments as of March 31, 2000, 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, 2000 and the selected per share data and ratios for each of the years in the five-year period ended March 31, 2000. These financial statements and per share data and ratios are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and per share data and ratios based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and per share data and ratios are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. Our procedures included verification of securities owned as of March 31, 2000 and 1999, by examination of such securities held by the custodian. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion the consolidated financial statements and selected per share data and ratios referred to above present fairly, in all material respects, the financial position of Capital Southwest Corporation and subsidiary as of March 31, 2000 and 1999, and 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, 2000, and the selected per share data and ratios for each of the years in the five-year period ended March 31, 2000, in conformity with accounting principles generally accepted in the United States of America.

KPMG LLP

Dallas, Texas  
April 21, 2000

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 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 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 \$599,000 in 2000, \$476,000 in 1999 and \$1,239,000 in 1998. The Company also receives management fees from its wholly-owned subsidiaries which aggregated \$458,400 in the years ended March 31, 2000 and March 31, 1999, and \$494,400 in the year ended March 31, 1998. During the three years ended March 31, 2000, the Company recorded dividend income from the following sources:

	Years Ended March 31		
	2000	1999	1998
AT&T Corp.....	\$ 146,570	\$ -	\$ -
Alamo Group Inc. ....	790,756	1,170,400	1,064,000
Dennis Tool Company.....	49,999	-	-
Kimberly - Clark Corporation.....	81,039	77,952	19,295
The RectorSeal Corporation.....	240,000	240,000	501,200
Skylawn Corporation.....	300,000	150,000	300,000
TCI Holdings, Inc./Westmarc Communications.....	81,270	81,270	81,270
Texas Shredder, Inc. ....	40,460	40,460	37,500
The Whitmore Manufacturing Company..	60,000	60,000	120,000
Other.....	88,759	146,278	114,028
	\$1,878,853	\$1,966,360	\$2,237,293

Total operating expenses, excluding interest expense, decreased by \$498,967 or 32.7% and decreased by \$41,747 or 2.7% during the years ended March 31, 2000 and 1999, respectively. Due to the nature of its business, the majority of the Company's operating expenses are related to employee and director compensation, office expenses, legal and accounting fees and the net pension benefit. Interest expense, the majority of which is related to the SBA-guaranteed subordinated debenture, increased by \$40,088 and decreased by \$10,788 during the years ended March 31, 2000 and 1999, respectively.

Net Realized Gain on Investments

Net realized gain on investments was \$6,019,892 (after income tax expense of \$3,211,550) during the year ended March 31, 2000, compared with a gain of \$994,949 (after income tax expense of \$535,742) during 1999 and a gain of \$6,484,892 (after income tax expense of \$3,420,177) during 1998. Management does not attempt to maintain a comparable level of realized gains from year to year, but instead attempts to maximize total investment portfolio appreciation. This strategy often dictates the long-term holding of portfolio securities in pursuit of increased values and increased unrealized appreciation, but may at opportune times dictate realizing gains through the disposition of certain portfolio investments.

## Net Increase (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 \$(38,071,790), \$(63,433,545) and \$106,748,923 in 2000, 1999 and 1998, 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		
	2000	1999	1998
AT&T Corp.....	\$ 430,271	\$ 3,532,591	\$ 1,419,678
AT&T Corp.-Liberty Media Group.	11,183,260	3,131,973	4,432,679
Alamo Group Inc. ....	7,276,953	(20,615,000)	5,463,000
American Homestar Corporation..	(4,224,707)	(11,547,532)	8,480,708
Amfibe, Inc.....	3,900,000	(2,400,000)	2,400,000
Balco, Inc.....	(2,529,600)	3,422,440	-
CDC Technologies, Inc.....	(3,099,156)	-	-
Dennis Tool Company.....	(600,000)	(3,299,944)	495,000
Dyntec, Inc.....	(4,499,998)	-	-
Encore Wire Corporation.....	(2,724,000)	(19,013,000)	17,279,000
Mail-Well, Inc. ....	(5,241,000)	(6,214,860)	14,020,000
Media Recovery, Inc.....	2,585,000	615,000	241,486
Palm Harbor Homes, Inc.....	(39,276,000)	(12,568,000)	53,792,000
PETSMART, Inc. ....	(3,271,100)	(1,758,216)	(6,092,424)
The RectorSeal Corporation....	3,500,000	-	3,500,000
Rewind Holdings, Inc.....	(2,200,000)	-	-
SDI Holding Corp.....	-	6,000,000	-
Skylawn Corporation.....	-	(7,000,000)	-
The Whitmore Manufacturing Company.....	(800,000)	2,800,000	-

A description of the investments listed above and other material components of the investment portfolio is included elsewhere in this report under the caption "Portfolio of Investments - March 31, 2000."

## 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, 2000 consolidated deferred Federal income taxes of \$83,151,000 were provided on net unrealized appreciation of investments of \$238,626,698 compared with deferred taxes of \$96,473,000 on net unrealized appreciation of \$276,698,488 at March 31, 1999. Deferred income taxes at March 31, 2000 and 1999 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, 2000, the Company invested \$21,924,423 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 1999 and 1998 fiscal years, the Company invested a total of \$13,170,132 and \$9,709,195, respectively.

## Financial Liquidity and Capital Resources

At March 31, 2000, the Company had net cash equivalent assets (cash and cash equivalents less the note payable to bank) of \$4.0 million. Pursuant to Small Business Administration ("SBA") regulations, cash and cash equivalents of \$0.3 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 \$50.8 million in addition to the \$5 million presently outstanding. 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 32 years. Retention of future gains is viewed as an important source of funds to sustain the Company's investment activity. Approximately \$50.9 million of the Company's investment portfolio is represented by unrestricted publicly-traded securities, which have an ascertainable market value and represent a primary source of liquidity.



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

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

#### Impact of Inflation

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

#### Risks

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

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

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

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

	1990	1991	1992	1993	1994	1995	1996
<b>Financial Position (as of March 31)</b>							
Investments at cost .....	\$ 32,212	\$ 31,593	\$ 34,929	\$ 33,953	\$ 41,993	\$ 49,730	\$ 58,544
Unrealized appreciation .....	99,903	107,120	100,277	113,153	132,212	153,031	198,386
Investments at market or fair value .....	132,115	138,713	135,206	147,106	174,205	202,761	256,930
Total assets .....	185,231	149,975	208,871	176,422	270,874	213,811	326,972
Subordinated debentures .....	15,000	15,000	11,000	15,000	15,000	11,000	11,000
Deferred taxes on unrealized appreciation .....	33,608	36,063	33,761	38,112	45,932	53,247	69,121
Net assets .....	94,610	97,139	107,522	121,455	133,053	147,370	189,048
Shares outstanding .....	3,617	3,617	3,644	3,681	3,715	3,735	3,767
<b>Changes in Net Assets (years ended March 31)</b>							
Net investment income .....	\$ 1,737	\$ 2,090	\$ 2,363	\$ 2,189	\$ 2,870	\$ 2,447	\$ 2,855
Net realized gain (loss) on investments .....	12,722	(2,515)	14,313	5,099	(475)	142	11,174
Net increase (decrease) in unrealized appreciation before distributions .....	1,780	4,762	(4,541)	8,524	11,160	13,584	38,746
Increase (decrease) in net assets from operations before distributions .....	16,239	4,337	12,135	15,812	13,555	16,173	52,775
Cash dividends paid .....	(5,197)	(1,809)	(2,181)	(2,202)	(2,228)	(2,241)	(2,270)
Securities dividends .....	--	--	--	--	--	--	(9,402)
Employee stock options exercised .....	444	--	429	322	272	385	575
Increase (decrease) in net assets .....	11,486	2,528	10,383	13,932	11,599	14,317	41,678
<b>Per Share Data (as of March 31)</b>							
Deferred taxes on unrealized appreciation .....	\$ 9.29	\$ 9.97	\$ 9.27	\$ 10.35	\$ 12.36	\$ 14.26	\$ 18.35
Net assets .....	26.16	26.86	29.51	32.99	35.81	39.46	50.18
Closing market price .....	21.375	20.75	24.25	36.50	38.125	38.00	60.00
Cash dividends paid .....	1.44	.50	.60	.60	.60	.60	.60
Securities dividends .....	--	--	--	--	--	--	2.50
<b>Financial Position (as of March 31)</b>							
Investments at cost .....	\$ 59,908	\$ 61,154	\$ 73,580	\$ 85,002			
Unrealized appreciation .....	233,383	340,132	276,698	238,627			
Investments at market or fair value .....	293,291	401,286	350,278	323,629			
Total assets .....	310,760	522,324	360,786	392,586			
Subordinated debentures .....	5,000	5,000	5,000	5,000			
Deferred taxes on unrealized appreciation .....	81,313	118,674	96,473	83,151			
Net assets .....	218,972	296,023	256,232	236,876			
Shares outstanding .....	3,767	3,788	3,815	3,815			
<b>Changes in Net Assets (years ended March 31)</b>							
Net investment income .....	\$ 2,574	\$ 2,726	\$ 1,762	\$ 1,663			
Net realized gain (loss) on investments .....	6,806	6,485	995	6,020			
Net increase (decrease) in unrealized appreciation before distributions .....	22,804	69,388	(41,233)	(24,750)			
Increase (decrease) in net assets from operations before distributions .....	32,184	78,599	(38,476)	(17,067)			
Cash dividends paid .....	(2,260)	(2,268)	(2,280)	(2,289)			
Securities dividends .....	--	--	--	--			
Employee stock options exercised .....	--	720	965	--			
Increase (decrease) in net assets .....	29,924	77,051	(39,791)	(19,356)			
<b>Per Share Data (as of March 31)</b>							
Deferred taxes on unrealized appreciation .....	\$ 21.59	\$31.33	\$ 25.29	\$ 21.80			
Net assets .....	58.13	78.15	67.16	62.09			
Closing market price .....	67.875	94.00	73.00	54.75			

Cash dividends paid .....	.60	.60	.60	.60
Securities dividends .....	--	--	--	--

## Shareholder Information

### Stock Transfer Agent

American Stock Transfer & Trust Company, 40 Wall Street, New York, NY 10005 (telephone 800-937-5449) serves as transfer agent for the Company's common stock. Certificates to be transferred should be mailed directly to the transfer agent, preferably by registered mail.

### Shareholders

The Company had approximately 900 record holders of its common stock at March 31, 2000. This total does not include an estimated 2,000 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 is traded on The Nasdaq Stock Market (National 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, 1998.....	\$106	\$92
September 30, 1998.....	103	81 3/8
December 31, 1998.....	88 3/4	55
March 31, 1999.....	89	67 1/2

  

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

### Dividends

The payment dates and amounts of cash dividends per share since April 1, 1998 are as follows:

Payment Date	Cash Dividend
May 29, 1998.....	\$0.20
November 30, 1998.....	0.40
May 28, 1999.....	0.20
November 30, 1999.....	0.40
May 31, 2000.....	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 17, 2000, at 10:00 a.m. in the North Dallas Bank Tower Meeting Room (first floor), 12900 Preston Road, Dallas, Texas.

Independent Auditors' Consent

The Board of Directors  
Capital Southwest Corporation:

We consent to incorporation by reference in the registration statement (No. 33-43881) on Form S-8 of Capital Southwest Corporation of our report dated April 21, 2000, with respect to the consolidated statements of financial condition of Capital Southwest Corporation and subsidiary as of March 31, 2000 and 1999, the portfolio of investments as of March 31, 2000, 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, 2000, and the selected per share data and ratios for each of the years in the five-year period ended March 31, 2000, which report appears in the annual report to shareholders for the year ended March 31, 2000, and is incorporated by reference in the annual report on Form 10-K of Capital Southwest Corporation.

KPMG LLP

Dallas, Texas  
June 15, 2000

This schedule contains summary financial information extracted from the Consolidated Statement of Financial Condition at March 31, 2000 (audited) and the Consolidated Statement of Operations for the year ended March 31, 2000 (audited) and is qualified in its entirety by reference to such financial statements.

0000017313  
Capital Southwest Corporation  
1  
US DOLLARS

Year	MAR-31-2000	APR-01-1999	MAR-31-2000
	1		
	85,002,437		
	323,629,135		
		238,594	
		4,731,360	
	63,986,715		
		392,585,804	
	0		
	5,000,000		
150,709,838			
	155,709,838		
		0	
	3,669,861		
	3,815,051		
	3,815,051		
4,117,104			
	0		
	73,613,301		
	0		
155,475,700			
		236,875,966	
		1,878,853	
		884,152	
		525,400	
		1,482,981	
	1,662,930		
	6,019,892		
(24,749,790)			
(17,066,968)			
		0	
2,289,031			
	0		
	0		
	0		
		0	
(19,355,999)			
4,743,205			
67,593,409			
	0		
	0		
	456,262		
	1,482,981		
	0		
67.16		.44	
(4.91)			
	(.60)		
0			
	0		
	62.09		
		0	