

SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
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FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934  
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For the Quarter Ended June 30, 2000

Commission File Number: 814-61

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

Texas  
(State or other Jurisdiction of  
Incorporation or Organization)

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

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter periods that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes X No  
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Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

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

PART I. FINANCIAL INFORMATION  
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Item 1. Financial Statements

CAPITAL SOUTHWEST CORPORATION AND SUBSIDIARY  
Consolidated Statements of Financial Condition  
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Assets	June 30, 2000 ----- (Unaudited)	March 31, 2000 -----
Investments at market or fair value		
Companies more than 25% owned (Cost: June 30, 2000 - \$23,140,865, March 31, 2000 - \$23,380,865)	\$ 208,276,759	\$ 200,608,759
Companies 5% to 25% owned (Cost: June 30, 2000 - \$23,329,414, March 31, 2000 - \$22,579,414)	20,785,505	22,760,506
Companies less than 5% owned (Cost: June 30, 2000 - \$43,574,164, March 31, 2000 - \$39,042,158)	97,000,767	100,259,870
	-----	-----
Total investments (Cost: June 30, 2000 - \$90,044,443, March 31, 2000 - \$85,002,437)	326,063,031	323,629,135
Cash and cash equivalents	4,723,069	63,986,715
Receivables	129,654	238,594

Other assets	4,898,205	4,731,360
	-----	-----
Totals	\$ 335,813,959	\$ 392,585,804
	=====	=====
Liabilities and Shareholders' Equity		
Note payable to bank	\$ --	\$ 60,000,000
Notes payable to subsidiaries	9,500,000	5,000,000
Accrued interest and other liabilities	2,018,171	2,220,753
Income taxes payable	566,540	--
Deferred income taxes	82,611,806	83,489,085
Subordinated debenture	5,000,000	5,000,000
	-----	-----
Total liabilities	99,696,517	155,709,838
	-----	-----
Shareholders' equity		
Common stock, \$1 par value: authorized, 5,000,000 shares; issued, 4,252,416 shares at June 30, 2000 and March 31, 2000	4,252,416	4,252,416
Additional capital	6,450,747	6,450,747
Undistributed net investment income	3,379,470	4,117,104
Undistributed net realized gain on investments	75,055,521	73,613,301
Unrealized appreciation of investments - net of deferred income taxes	154,012,590	155,475,700
Treasury stock - at cost (437,365 shares)	(7,033,302)	(7,033,302)
	-----	-----
Net assets at market or fair value, equivalent to \$61.89 per share at June 30, 2000, and \$62.09 per share at March 31, 2000 on the 3,815,051 shares outstanding	236,117,442	236,875,966
	-----	-----
Totals	\$ 335,813,959	\$ 392,585,804
	=====	=====

(See Notes to Consolidated Financial Statements)

CAPITAL SOUTHWEST CORPORATION  
AND SUBSIDIARY  
Consolidated Statements of Operations

-----  
(Unaudited)

	Three Months Ended June 30,	
	2000	1999
	-----	-----
Investment income:		
Interest	\$ 166,520	\$ 331,288
Dividends	288,336	403,319
Management and directors' fees	139,100	159,076
	-----	-----
	593,956	893,683
	-----	-----
Operating expenses:		
Interest	252,546	102,008
Salaries	173,250	163,623
Net pension expense (benefit)	(108,996)	(77,906)
Other operating expenses	195,287	131,248
	-----	-----
	512,087	318,973
	-----	-----
Income before income taxes	81,869	574,710
Income tax expense	56,493	27,300
	-----	-----
Net investment income	\$ 25,376	\$ 547,410
	=====	=====
Proceeds from disposition of investments	\$ 7,046,708	\$ 12,885,369
Cost of investments sold	4,827,045	5,054,000
	-----	-----
Realized gain on investments before income taxes	2,219,663	7,831,369
Income tax expense	777,443	2,740,979
	-----	-----
Net realized gain on investments	1,442,220	5,090,390
	-----	-----
Increase (decrease) in unrealized appreciation of investments before income taxes	(2,608,110)	367,343
Increase (decrease) in deferred income taxes on appreciation of investments	(1,145,000)	129,000
	-----	-----
Net increase (decrease) in unrealized appreciation of investments	(1,463,110)	238,343
	-----	-----
Net realized and unrealized gain (loss) on investments	\$ (20,890)	\$ 5,328,733
	=====	=====
Increase in net assets from operations	\$ 4,486	\$ 5,876,143
	=====	=====

(See Notes to Consolidated Financial Statements)

CAPITAL SOUTHWEST CORPORATION  
AND SUBSIDIARY  
Consolidated Statements of Changes in Net Assets  
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	Three Months Ended June 30, 2000 ----- (Unaudited)	Year Ended March 31, 2000 -----
Operations		
Net investment income	\$ 25,376	\$ 1,662,930
Net realized gain on investments	1,442,220	6,019,892
Net decrease in unrealized appreciation of investments	(1,463,110)	(24,749,790)
	-----	-----
Increase (decrease) in net assets from operations	4,486	(17,066,968)
Distributions from:		
Undistributed net investment income	(763,010)	(2,289,031)
	-----	-----
Decrease in net assets	(758,524)	(19,355,999)
Net assets, beginning of period	236,875,966	256,231,965
	-----	-----
Net assets, end of period	\$ 236,117,442 =====	\$ 236,875,966 =====

(See Notes to Consolidated Financial Statements)

CAPITAL SOUTHWEST CORPORATION  
AND SUBSIDIARY  
Consolidated Statements of Cash Flows

-----  
(Unaudited)

	Three Months Ended June 30,	
	2000	1999
Cash flows from operating activities		
Increase in net assets from operations	\$ 4,486	\$ 5,876,143
Adjustments to reconcile increase in net assets from operations to net cash provided (used) by operating activities:		
Depreciation and amortization	7,221	6,975
Net pension benefit	(108,996)	(77,906)
Net realized and unrealized (gain) loss on investments	20,890	(5,328,733)
(Increase) decrease in receivables	108,940	(61,321)
Increase in other assets	(29,703)	(24,282)
Decrease in accrued interest and other liabilities	(185,137)	(181,361)
Decrease in accrued pension cost	(52,487)	--
Deferred income taxes	56,493	27,300
	(178,293)	236,815
	-----	-----
Cash flows from investing activities		
Proceeds from disposition of investments	7,046,708	12,885,369
Purchases of securities	(10,109,051)	(400,000)
Maturities of securities	240,000	840,000
	(2,822,343)	13,325,369
	-----	-----
Cash flows from financing activities		
Decrease in note payable to bank	(60,000,000)	--
Increase in notes payable to subsidiaries	4,500,000	--
Distributions from undistributed net investment income	(763,010)	(763,010)
	(56,263,010)	(763,010)
	-----	-----
Net increase (decrease) in cash and cash equivalents	(59,263,646)	12,799,174
Cash and cash equivalents at beginning of period	63,986,715	6,050,443
	\$ 4,723,069	\$ 18,849,617
	=====	=====
Supplemental disclosure of cash flow information:		
Cash paid during the period for:		
Interest	\$ 361,104	\$ 199,452
Income taxes	\$ 0	\$ 10,500

(See Notes to Consolidated Financial Statements)

CAPITAL SOUTHWEST CORPORATION  
AND SUBSIDIARY  
Notes to Consolidated Financial Statements  
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(Unaudited)

1. Basis of Presentation

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

The financial statements included herein have been prepared in accordance with generally accepted accounting principles for interim financial information and the instructions to Form 10-Q and Article 6 of Regulation S-X. The financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's annual report on Form 10-K for the year ended March 31, 2000. Certain information and footnotes normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted, although the Company believes that the disclosures are adequate for a fair presentation. The information reflects all adjustments (consisting of normal recurring adjustments) which are, in the opinion of management, necessary for a fair presentation of the results of operations for the interim periods.

2. Summary of Per Share Information

	Three Months Ended June 30 -----	
	2000	1999
	-----	-----
Investment income	\$ .15	\$ .23
Operating expenses	(.07)	(.05)
Interest expense	(.07)	(.03)
Income taxes	(.01)	(.01)
	-----	-----
Net investment income	-	.14
Net realized gain on investments	.38	1.34
Net increase (decrease) in unrealized appreciation of investments	(.38)	.06
Distributions from undistributed net investment income	(.20)	(.20)
	-----	-----
Net increase (decrease) in net asset value	(.20)	1.34
Net asset value:		
Beginning of period	62.09	67.16
	-----	-----
End of period	\$61.89	\$68.50
	=====	=====
Shares outstanding at end of period (000s omitted)	3,815	3,815

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

Net asset value at June 30, 2000 was \$236,117,442, equivalent to \$61.89 per share after deducting an allowance of \$21.50 per share for deferred taxes on net unrealized appreciation. Assuming reinvestment of all dividends and tax credits on retained long term capital gains, this represents a decrease of 9.3% during the past twelve months and basically no change during the past three months.

	June 30, 2000 ----	June 30, 1999 ----
Net assets	\$236,117,442	\$261,345,098
Shares outstanding	3,815,051	3,815,051
Net assets per share	\$61.89	\$68.50

Interest income in the three months ended June 30, 2000 decreased from the year-ago period primarily because of the suspension of interest accruals related to one of our portfolio companies. During the three months ended June 30, 2000 and 1999, the Company recorded dividend income from the following sources:

	Three Months Ended June 30 -----	
	2000	1999
AT&T	\$ 29,314	\$ 29,314
Alamo Group Inc.	169,278	292,600
Kimberly-Clark Corporation	20,839	20,067
TCI Holdings, Inc./Westmarc Communications, Inc.	20,318	20,318
Other	48,587	41,020
	----- \$ 288,336	----- \$ 403,319
	=====	=====

Interest expense in the three months ended June 30, 2000 increased from the year-ago period due to borrowings from subsidiaries. Other operating expenses in the three months ended June 30, 2000 increased from the year-ago period primarily due to legal fees incurred related to documentation of the exchange of an investment.

During the three months ended June 30, 2000, the Company reported a realized gain before income taxes of \$2,219,663 including a gain of \$5,973,990 on our investment in Amfibe, Inc. and a loss of \$4,329,835 on our investment in Dyntec, Inc. It should be noted that a realized gain before income taxes occurs when an appreciated portfolio security is sold to realize a gain and a corresponding decrease in unrealized appreciation occurs by transferring the gain associated with the transaction from being "unrealized" to being "realized." Conversely, when a loss is realized on a depreciated portfolio security, an increase in unrealized appreciation occurs.

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

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

	Three Months Ended June 30 -----	
	2000 -----	1999 -----
AT&T	(3,306,142)	346,993
AT&T-Liberty Media Group	(3,577,582)	3,541,206
Alamo Group Inc.	1,410,000	-
Dyntec, Inc.	-	(3,749,998)
Encore Wire Corporation	(2,725,000)	-
iChoose, Inc.	(1,100,000)	-
Mail-Well, Inc.	-	2,097,000
Media Recovery, Inc.	5,000,000	-
Mylan Laboratories, Inc.	(1,202,681)	(120,268)
PETSMART, Inc.	204,444	1,431,106
The RectorSeal Corporation	3,500,000	-
Skylawn Corporation	3,000,000	-

During the quarter ended June 30, 2000, the Company made new investments of \$8,600,006 and additional investments of \$1,509,045 in existing portfolio companies.

On April 3, 2000, the Company repaid the \$60,000,000 note payable to bank from its cash and cash equivalents.

The Company has agreed, subject to certain conditions, to invest up to \$3,828,125 in four portfolio companies.

Item 3. Quantitative and Qualitative Disclosure About Market Risk

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

The Company's investment in portfolio securities consists of fixed rate debt securities which totalled \$11,641,971 at June 30, 2000, equivalent to 3.57% 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.



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

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

PART II. OTHER INFORMATION

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Item 6. Exhibits and Reports on Form 8-K

- (a) Exhibits  
Exhibit 27 - Financial Data Schedule
- (b) Reports on Form 8-K  
No reports on Form 8-K have been filed during the quarter for which this report is filed.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

CAPITAL SOUTHWEST CORPORATION

Date: August 11, 2000  
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By: /s/ William R. Thomas  
-----  
William R. Thomas, President

Date: August 11, 2000  
-----

By: /s/ Tim Smith  
-----  
Tim Smith, Vice President and  
Secretary-Treasurer

(A) This schedule contains summary financial information extracted from the Consolidated Statement of Financial Condition at June 30, 2000 (unaudited) and the Consolidated Statement of Operations for the three months ended June 30, 2000 (unaudited) and is qualified in its entirety by reference to such financial statements.

0000017313  
 Capital Southwest Corporation  
 1  
 US Dollars

3-MOS

	Mar-31-2000	Apr-01-2000	Jun-30-2000
			1
	90,044,443		
	326,063,031		
		129,654	
		4,898,205	
	4,723,069		
		335,813,959	
		0	
	5,000,000		
	94,696,517		
		99,696,517	
		0	
	3,669,861		
	3,815,051		
	3,815,051		
	3,379,470		
		0	
	75,055,521		
		0	
	154,012,590		
		236,117,442	
		288,336	
		166,520	
		139,100	
		512,087	
	25,376		
	1,442,220		
	(1,463,110)		
		4,486	
		0	
	763,010		
		0	
		0	
		0	
		0	
	(758,524)		
	4,117,104		
	73,613,301		
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		252,546	
		512,087	
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	61.89		
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