

SECURITIES AND EXCHANGE COMMISSION
 Washington, D.C. 20549

FORM 10-Q

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

For the Quarter Ended December 31, 2001

Commission File Number: 814-61

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

Texas
 (State or other Jurisdiction of
 Incorporation or Organization)

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

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

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

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

Yes X No
 --- ---

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

3,829,051 shares of Common Stock, \$1 Par Value as of January 31, 2002

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

CAPITAL SOUTHWEST CORPORATION AND SUBSIDIARY
 Consolidated Statements of Financial Condition

Assets	December 31, 2001	March 31, 2001
	-----	-----
	(Unaudited)	
Investments at market or fair value		
Companies more than 25% owned		
(Cost: December 31, 2001 - \$23,194,865, March 31, 2001 - \$23,140,865)	\$ 239,605,999	\$ 205,273,759
Companies 5% to 25% owned		
(Cost: December 31, 2001 - \$27,167,649, March 31, 2001 - \$17,642,756)	34,307,001	19,623,004
Companies less than 5% owned		
(Cost: December 31, 2001 - \$34,972,684, March 31, 2001 - \$46,818,025)	72,418,320	91,020,746
	-----	-----
Total investments		
(Cost: December 31, 2001 - \$85,335,198, March 31, 2001 - \$87,601,646)	346,331,320	315,917,509
Cash and cash equivalents	3,147,843	1,137,767
Receivables	1,438,116	264,377
Other assets	5,799,172	5,348,315
	-----	-----
Totals	\$ 356,716,451	\$ 322,667,968
	=====	=====

Liabilities and Shareholders' Equity

Note payable to bank	\$ 6,500,000	\$ 5,000,000
Notes payable to portfolio companies	5,000,000	6,000,000
Accrued interest and other liabilities	1,924,797	2,135,052
Deferred income taxes	89,644,765	77,924,303
Subordinated debenture	5,000,000	5,000,000
	-----	-----
Total liabilities	108,069,562	96,059,355
	-----	-----
Shareholders' equity		
Common stock, \$1 par value: authorized, 5,000,000 shares; issued, 4,266,416 shares at December 31, 2001 and 4,252,416 shares at March 31, 2001	4,266,416	4,252,416
Additional capital	6,935,497	6,450,747
Undistributed net investment income	2,988,642	3,550,573
Undistributed net realized gain on investments	71,016,512	70,382,314
Unrealized appreciation of investments - net of deferred income taxes	170,473,124	149,005,865
Treasury stock - at cost (437,365 shares)	(7,033,302)	(7,033,302)
	-----	-----
Net assets at market or fair value, equivalent to \$64.94 per share on the 3,829,051 shares outstanding at December 31, 2001, and \$59.40 per share on the 3,815,051 shares outstanding at March 31, 2001	248,646,889	226,608,613
	-----	-----
Totals	\$ 356,716,451	\$ 322,667,968
	=====	=====

(See Notes to Consolidated Financial Statements)

CAPITAL SOUTHWEST CORPORATION
AND SUBSIDIARY
Consolidated Statements of Operations
(Unaudited)

	Three Months Ended December 31		Nine Months Ended December 31	
	2001	2000	2001	2000
Investment income:				
Interest	\$ 85,171	\$ 111,955	\$ 258,330	\$ 438,276
Dividends	1,172,883	772,382	2,584,641	2,249,054
Management and directors' fees	138,072	121,108	398,320	388,808
	-----	-----	-----	-----
	1,396,126	1,005,445	3,241,291	3,076,138
	-----	-----	-----	-----
Operating expenses				
Interest	218,303	313,701	752,522	848,721
Salaries	236,119	220,209	635,612	582,209
Net pension benefit	(126,135)	(121,542)	(378,405)	(364,626)
Other operating expenses	128,587	116,707	391,293	436,298
	-----	-----	-----	-----
	456,874	529,075	1,401,022	1,502,602
	-----	-----	-----	-----
Income before income taxes	939,252	476,370	1,840,269	1,573,536
Income tax expense	19,249	42,601	107,569	127,800
	-----	-----	-----	-----
Net investment income	\$ 920,003	\$ 433,769	\$ 1,732,700	\$ 1,445,736
	=====	=====	=====	=====
Proceeds from disposition of investments	\$ 3,612,518	\$ 160,669	\$ 4,396,496	\$ 7,207,377
Cost of investments sold	1,821,102	1,455,730	3,387,336	6,282,775
	-----	-----	-----	-----
Realized gain (loss) on investments before income taxes	1,791,416	(1,295,061)	1,009,160	924,602
Income tax expense (benefit)	706,840	(526,803)	374,962	250,640
	-----	-----	-----	-----
Net realized gain (loss) on investments	1,084,576	(768,258)	634,198	673,962
	-----	-----	-----	-----
Increase (decrease) in unrealized appreciation of investments before income taxes	11,222,404	(15,055,062)	32,680,259	(21,784,395)
Increase (decrease) in deferred income taxes on appreciation of investments	3,926,000	(5,234,000)	11,213,000	(7,822,000)
	-----	-----	-----	-----
Net increase (decrease) in unrealized appreciation of investments	7,296,404	(9,821,062)	21,467,259	(13,962,395)
	-----	-----	-----	-----
Net realized and unrealized gain (loss) on investments	\$ 8,380,980	\$(10,589,320)	\$ 22,101,457	\$(13,288,433)
	=====	=====	=====	=====
Increase (decrease) in net assets from operations	\$ 9,300,983	\$(10,155,551)	\$ 23,834,157	\$(11,842,697)
	=====	=====	=====	=====

(See Notes to Consolidated Financial Statements)

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

	Nine Months Ended December 31, 2001 ----- (Unaudited)	Year Ended March 31, 2001 -----
Operations		
Net investment income	\$ 1,732,700	\$ 1,722,500
Net realized gain (loss) on investments	634,198	(3,230,987)
Net increase (decrease) in unrealized appreciation of investments	21,467,259	(6,469,835)
	-----	-----
Increase (decrease) in net assets from operations	23,834,157	(7,978,322)
Distributions from:		
Undistributed net investment income	(2,294,631)	(2,289,031)
Capital share transactions		
Exercise of employee stock options	498,750	--
	-----	-----
Increase (decrease) in net assets	22,038,276	(10,267,353)
Net assets, beginning of period	226,608,613	236,875,966
	-----	-----
Net assets, end of period	\$ 248,646,889	\$ 226,608,613
	=====	=====

(See Notes to Consolidated Financial Statements)

CAPITAL SOUTHWEST CORPORATION
AND SUBSIDIARY
Consolidated Statements of Cash Flows

(Unaudited)

	Three Months Ended December 31		Nine Months Ended December 31	
	2001	2000	2001	2000
	----	----	----	----
Cash flows from operating activities				
Increase (decrease) in net assets from operations	\$ 9,300,983	\$(10,155,551)	\$ 23,834,157	\$(11,842,697)
Adjustments to reconcile increase (decrease) in net assets from operations to net cash provided by operating activities:				
Depreciation and amortization	6,841	7,298	18,661	21,761
Net pension benefit	(126,135)	(121,542)	(378,405)	(364,626)
Net realized and unrealized (gain) loss on investments	(8,380,980)	10,589,320	(22,101,457)	13,288,433
(Increase) decrease in receivables	(628,743)	50,086	(1,173,739)	(42,116)
Decrease in other assets	6,315	21,174	4,017	2,362
Increase (decrease) in accrued interest and other liabilities	(94,819)	12,973	(147,925)	(66,578)
Decrease in accrued pension cost	(52,487)	(52,488)	(157,460)	(157,462)
Deferred income taxes	44,180	42,601	132,500	127,800
	-----	-----	-----	-----
Net cash provided by operating activities	75,155	393,871	30,349	966,877
	-----	-----	-----	-----
Cash flows from investing activities				
Proceeds from disposition of investments	3,612,518	160,669	4,396,496	7,207,377
Purchases of securities	(1,608,000)	(4,854,456)	(3,388,858)	(15,226,007)
Maturities of securities	2,117,970	--	2,267,970	240,000
Net cash provided by (used in) investing activities	4,122,488	(4,693,787)	3,275,608	(7,778,630)
	-----	-----	-----	-----
Cash flows from financing activities				
Increase (decrease) in note payable to bank	--	35,000,000	1,500,000	(20,000,000)
Increase (decrease) in notes payable to portfolio companies	(1,500,000)	2,500,000	(1,000,000)	2,000,000
Distributions from undistributed net investment income	(1,531,621)	(1,526,021)	(2,294,631)	(2,289,031)
Proceeds from exercise of employee stock options	--	--	498,750	--
	-----	-----	-----	-----
Net cash provided by (used in) financing activities	(3,031,621)	35,973,979	(1,295,881)	(20,289,031)
	-----	-----	-----	-----
Net increase (decrease) in cash and cash equivalents	1,166,022	31,674,063	2,010,076	(27,100,784)
Cash and cash equivalents at beginning of period	1,981,821	5,211,868	1,137,767	63,986,715
	-----	-----	-----	-----
Cash and cash equivalents at end of period	\$ 3,147,843	\$ 36,885,931	\$ 3,147,843	\$ 36,885,931
	=====	=====	=====	=====
Supplemental disclosure of cash flow information:				
Cash paid during the period for:				
Interest	\$ 315,153	\$ 298,898	\$ 845,479	\$ 837,222
Income taxes	\$ --	\$ --	\$ --	\$ --

(See Notes to Consolidated Financial Statements)

CAPITAL SOUTHWEST CORPORATION
AND SUBSIDIARY
Notes to Consolidated Financial Statements

(Unaudited)

1. Basis of Presentation

The accompanying consolidated financial statements, which include the accounts of Capital Southwest Corporation and its wholly-owned small business investment company subsidiary (the "Company"), have been prepared on the value basis in accordance with accounting principles generally accepted in the United States of America 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 accounting principles generally accepted in the United States of America 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, 2001. Certain information and footnotes normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted, although the Company believes that the disclosures are adequate for a fair presentation. The information reflects all adjustments (consisting of normal recurring adjustments) which are, in the opinion of management, necessary for a fair presentation of the results of operations for the interim periods.

2. Summary of Per Share Information

	Three Months Ended December 31 -----		Nine Months Ended December 31 -----	
	2001 ----	2000 ----	2001 ----	2000 ----
Investment income	\$.37	\$.26	\$.85	\$.80
Operating expenses	(.06)	(.05)	(.17)	(.17)
Interest expense	(.06)	(.08)	(.20)	(.22)
Income taxes	(.01)	(.01)	(.03)	(.03)
	-----	-----	-----	-----
Net investment income	.24	.12	.45	.38
Net realized gain (loss) on investments	.28	(.20)	.16	.18
Net increase (decrease) in unrealized appreciation of investments	1.91	(2.58)	5.61	(3.66)
Distributions from undistributed net investment income	(.40)	(.40)	(.60)	(.60)
Exercise of employee stock options (1)	--	--	(.08)	--
	-----	-----	-----	-----
Net increase (decrease) in net asset value	2.03	(3.06)	5.54	(3.70)
Net asset value:				
Beginning of period	62.91	61.45	59.40	62.09
	-----	-----	-----	-----
End of period	\$ 64.94	\$ 58.39	\$ 64.94	\$ 58.39
	=====	=====	=====	=====
Shares outstanding at end of period (000s omitted)	3,829	3,815	3,829	3,815

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

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

Net asset value at December 31, 2001 was \$248,646,889, equivalent to \$64.94 per share after deducting an allowance of \$23.64 per share for deferred taxes on net unrealized appreciation. Assuming reinvestment of all dividends, this represents an increase of 12.3% during the past twelve months.

	December 31 2001 ----	December 31 2000 ----
Net assets	\$248,646,889	\$222,744,238
Shares outstanding	3,829,051	3,815,051
Net assets per share	\$64.94	\$58.39

Interest income in the nine months ended December 31, 2001 decreased from the year-ago period primarily because of a decrease in average idle funds invested. During the nine months ended December 31, 2001 and 2000, the Company recorded dividend income from the following sources:

	Nine Months Ended December 31	
	2001 ----	2000 ----
AT&T Corp.	\$ 14,990	\$ 63,624
Alamo Group Inc.	507,834	507,834
Dennis Tool Company	37,499	37,499
Kimberly-Clark Corporation	64,831	62,516
The RectorSeal Corporation	720,000	720,000
Skylawn Corporation	919,480	508,275
TCI Holdings, Inc.	60,953	60,953
Texas Shredder, Inc.	30,345	30,345
The Whitmore Manufacturing Company	180,000	180,000
Other	48,709	78,008
	----- \$2,584,641 =====	----- \$2,249,054 =====

Interest expense related to the notes payable to portfolio companies during the three months ended December 31, 2001 and 2000 was \$45,469 and \$98,350, respectively and for the nine months ended December 31, 2001 and 2000 was \$190,938 and \$339,662, respectively.

During the nine months ended December 31, 2001, the Company reported a realized gain before income taxes of \$1,009,160 which included a gain of \$2,152,594 on our investment in Mylan Laboratories, Inc., a loss of \$813,117 on our investment in CyberSource Corporation and a loss of \$396,589 on our investment in Photon Dynamics, Inc. It should be noted that a realized gain before income taxes occurs when an appreciated portfolio security is sold to realize a gain and a corresponding decrease in unrealized appreciation occurs by transferring the gain associated with the transaction from being "unrealized" to being "realized". Conversely, when a loss is realized on a depreciated portfolio security, an increase in unrealized appreciation occurs.

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

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

	Three Months Ended December 31		Nine Months Ended December 31	
	2001 ----	2000 ----	2001 ----	2000 ----
AT&T Corp.	\$ (154,565)	\$ (1,615,596)	\$ (421,045)	\$ (5,221,539)
All Components, Inc.	--	--	(1,750,000)	3,450,000
Concert Industries Ltd.	(2,259,000)	615,351	73,000	705,351
Encore Wire Corporation	--	(1,363,000)	5,449,000	(1,363,000)
Liberty Media Corporation (formerly AT&T-Liberty Media Group)	880,636	(3,175,369)	--	(10,902,100)
Mail-Well, Inc.	(525,000)	(524,000)	(2,097,000)	(6,290,000)
Media Recovery, Inc.	(3,000,000)	5,000,000	(3,000,000)	10,000,000
Organized Living, Inc.	--	--	(2,500,000)	--
Palm Harbor Homes, Inc.	15,710,000	(7,855,000)	31,420,000	(7,855,000)
PETSMART, Inc.	1,910,322	(1,185,773)	3,886,066	(81,777)
The RectorSeal Corporation	--	--	2,500,000	3,500,000
Skylawn Corporation	--	--	--	3,000,000
Sprint Corporation-FON Group	(282,960)	(648,000)	(137,520)	(3,073,500)
Sprint Corporation-PCS Group	(67,680)	(528,750)	194,760	(1,622,250)

During the quarter ended December 31, 2001, the Company made a new investment of \$1,500,000 and an additional investment of \$108,000 in an existing portfolio company.

The Company has agreed, subject to certain conditions, to invest up to \$3,395,946 in six portfolio companies.

Item 3. Quantitative and Qualitative Disclosure About Market Risk

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

The Company's investment in portfolio securities consists of fixed rate debt securities which totaled \$2,880,000 at December 31, 2001, equivalent to 0.8% of the value of the Company's total investments. Since these debt securities usually have relatively high fixed rates of interest, minor changes in market yields of publicly-traded debt securities have little or no effect on the values of debt securities in the Company's portfolio and no effect on interest income. On the other hand, significant changes in the market yields of publicly-traded debt securities may have a material effect on the values of debt securities in our portfolio. The Company's investments in debt securities are generally held to maturity and their fair values are determined on the basis of the terms of the debt security and the financial condition of the issuer.

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

PART II. OTHER INFORMATION

Item 6. Exhibits and Reports on Form 8-K

(a) Reports on Form 8-K

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

SIGNATURES

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

CAPITAL SOUTHWEST CORPORATION

Date: February 8, 2002

By: /s/ William R. Thomas

William R. Thomas
President

Date: February 8, 2002

By: /s/ Susan K. Hodgson

Susan K. Hodgson, Secretary-Treasurer