

FORM 10-Q

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

For the quarterly period ended September 30, 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 October 31, 2001

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

CAPITAL SOUTHWEST CORPORATION AND SUBSIDIARY
Consolidated Statements of Financial Condition

Assets	September 30, 2001 ----- (Unaudited)	March 31, 2001 -----
Investments at market or fair value		
Companies more than 25% owned		
(Cost: September 30, 2001 - \$23,194,865		
March 31, 2001 - \$23,140,865)	\$ 223,893,999	\$ 205,273,759
Companies 5% to 25% owned		
(Cost: September 30, 2001 - \$27,167,649		
March 31, 2001 - \$17,642,756)	37,066,001	19,623,004
Companies less than 5% owned		
(Cost: September 30, 2001 - \$37,303,756		
March 31, 2001 - \$46,818,025)	76,479,988	91,020,746
	-----	-----
Total investments		
(Cost: September 30, 2001- \$87,666,270		
March 31, 2001 - \$87,601,646)	337,439,988	315,917,509
Cash and cash equivalents	1,981,821	1,137,767
Receivables	809,373	264,377
Other assets	5,654,483	5,348,315
	-----	-----
Totals	\$ 345,885,665	\$ 322,667,968
	=====	=====

Liabilities and Shareholders' Equity

Note payable to bank	\$ 6,500,000	\$ 5,000,000
Notes payable to portfolio companies	6,500,000	6,000,000
Accrued interest and other liabilities	2,040,393	2,135,052
Deferred income taxes	84,967,745	77,924,303
Subordinated debenture	5,000,000	5,000,000
	-----	-----
Total liabilities	105,008,138	96,059,355
	-----	-----
Shareholders' equity		
Common stock, \$1 par value: authorized, 5,000,000 shares; issued, 4,266,416 shares at September 30, 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	3,600,260	3,550,573
Undistributed net realized gain on investments	69,931,936	70,382,314
Unrealized appreciation of investments - net of deferred income taxes	163,176,720	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 \$62.91 per share on the 3,829,051 shares outstanding at September 30, 2001, and \$59.40 per share on the 3,815,051 shares outstanding at March 31, 2001	240,877,527	226,608,613
	-----	-----
Totals	\$ 345,885,665	\$ 322,667,968
	=====	=====

(See Notes to Consolidated Financial Statements)

CAPITAL SOUTHWEST CORPORATION
AND SUBSIDIARY
Consolidated Statements of Operations

(Unaudited)

	Three Months Ended September 30		Six Months Ended September 30	
	2001	2000	2001	2000
	-----	-----	-----	-----
Investment income:				
Interest	\$ 81,901	\$ 159,801	\$ 173,159	\$ 326,321
Dividends	705,879	1,188,336	1,411,758	1,476,672
Management and directors' fees	121,148	128,600	260,248	267,700
	-----	-----	-----	-----
	908,928	1,476,737	1,845,165	2,070,693
	-----	-----	-----	-----
Operating expenses:				
Interest	262,418	282,474	534,219	535,020
Salaries	206,160	188,750	399,493	362,000
Net pension benefit	(130,728)	(134,088)	(252,270)	(243,084)
Other operating expenses	142,026	124,304	262,706	319,591
	-----	-----	-----	-----
	479,876	461,440	944,148	973,527
	-----	-----	-----	-----
Income before income taxes	429,052	1,015,297	901,017	1,097,166
Income tax expense	45,720	28,706	88,320	85,199
	-----	-----	-----	-----
Net investment income	\$ 383,332	\$ 986,591	\$ 812,697	\$ 1,011,967
	=====	=====	=====	=====
Proceeds from disposition of investments	\$ 783,978	\$ --	\$ 783,978	\$ 7,046,708
Cost of investments sold	1,566,234	--	1,566,234	4,827,045
	-----	-----	-----	-----
Realized gain (loss) on investments before income taxes	(782,256)	--	(782,256)	2,219,663
Income tax expense (benefit)	(331,878)	--	(331,878)	777,443
	-----	-----	-----	-----
Net realized gain (loss) on investments	(450,378)	--	(450,378)	1,442,220
	-----	-----	-----	-----
Increase (decrease) in unrealized appreciation of investments before income taxes	(1,795,205)	(4,121,223)	21,457,855	(6,729,333)
Increase (decrease) in deferred income taxes on appreciation of investments	(656,000)	(1,443,000)	7,287,000	(2,588,000)
	-----	-----	-----	-----
Net increase (decrease) in unrealized appreciation of investments	(1,139,205)	(2,678,223)	14,170,855	(4,141,333)
	-----	-----	-----	-----
Net realized and unrealized gain (loss) on investments	\$ (1,589,583)	\$ (2,678,223)	\$ 13,720,477	\$ (2,699,113)
	=====	=====	=====	=====
Increase (decrease) in net assets from operations	\$ (1,206,251)	\$ (1,691,632)	\$ 14,533,174	\$ (1,687,146)
	=====	=====	=====	=====

(See Notes to Consolidated Financial Statements)

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

	Six Months Ended September 30, 2001 ----- (Unaudited)	Year Ended March 31, 2001 -----
Operations		
Net investment income	\$ 812,697	\$ 1,722,500
Net realized loss on investments	(450,378)	(3,230,987)
Net increase (decrease) in unrealized appreciation of investments	14,170,855	(6,469,835)
	-----	-----
Increase (decrease)in net assets from operations	14,533,174	(7,978,322)
Distributions from:		
Undistributed net investment income	(763,010)	(2,289,031)
Capital share transactions		
Exercise of stock options	498,750	--
	-----	-----
Increase (decrease) in net assets	14,268,914	(10,267,353)
Net assets, beginning of period	226,608,613	236,875,966
	-----	-----
Net assets, end of period	\$ 240,877,527 =====	\$ 226,608,613 =====

(See Notes to Consolidated Financial Statements)

CAPITAL SOUTHWEST CORPORATION
AND SUBSIDIARY
Consolidated Statements of Cash Flows

(Unaudited)

	Three Months Ended September 30		Six Months Ended September 30	
	2001	2000	2001	2000
Cash flows from operating activities				
Increase (decrease) in net assets from operations	\$ (1,206,251)	\$ (1,691,632)	\$ 14,533,174	\$ (1,687,146)
Adjustments to reconcile increase (decrease) in net assets from operations to net cash provided by (used in) operating activities:				
Depreciation and amortization	5,999	7,242	11,820	14,463
Net pension benefit	(130,728)	(134,088)	(252,270)	(243,084)
Net realized and unrealized (gain) loss on investments	1,589,583	2,678,223	(13,720,477)	2,699,113
Increase in receivables	(673,782)	(201,142)	(544,996)	(92,202)
(Increase) decrease in other assets	12,806	10,891	(2,298)	(18,812)
Increase (decrease) in accrued interest and other liabilities	86,386	105,586	(53,106)	(79,551)
Decrease in accrued pension cost	(52,486)	(52,487)	(104,973)	(104,974)
Deferred income taxes	45,720	28,706	88,320	85,199
	-----	-----	-----	-----
Net cash provided by (used in) operating activities	(322,753)	751,299	(44,806)	573,006
	-----	-----	-----	-----
Cash flows from investing activities				
Proceeds from disposition of investments	783,978	--	783,978	7,046,708
Purchases of securities	(1,282,929)	(262,500)	(1,780,858)	(10,371,551)
Maturities of securities	--	--	150,000	240,000
	-----	-----	-----	-----
Net cash used in investing activities	(498,951)	(262,500)	(846,880)	(3,084,843)
	-----	-----	-----	-----
Cash flows from financing activities				
Increase (decrease) in note payable to bank	(60,000,000)	5,000,000	1,500,000	(55,000,000)
Increase (decrease) in notes payable to portfolio companies	500,000	(5,000,000)	500,000	(500,000)
Distributions from undistributed net investment income	--	--	(763,010)	(763,010)
Proceeds from exercise of employee stock options	498,750	--	498,750	--
	-----	-----	-----	-----
Net cash provided by (used in) financing activities	(59,001,250)	--	1,735,740	(56,263,010)
	-----	-----	-----	-----
Net increase (decrease) in cash and cash equivalents	(59,822,954)	488,799	844,054	(58,774,847)
Cash and cash equivalents at beginning of period	61,804,775	4,723,069	1,137,767	63,986,715
	-----	-----	-----	-----
Cash and cash equivalents at end of period	\$ 1,981,821	\$ 5,211,868	\$ 1,981,821	\$ 5,211,868
	=====	=====	=====	=====
Supplemental disclosure of cash flow information:				
Cash paid during the period for:				
Interest	\$ 176,452	\$ 177,220	\$ 530,326	\$ 538,324
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 September 30		Six Months Ended September 30	
	----- 2001 ----	----- 2000 ----	----- 2001 ----	----- 2000 ----
Investment income	\$.24	\$.39	\$.48	\$.54
Operating expenses	(.06)	(.05)	(.11)	(.12)
Interest expense	(.07)	(.07)	(.14)	(.14)
Income taxes	(.01)	(.01)	(.02)	(.02)
	-----	-----	-----	-----
Net investment income	.10	.26	.21	.26
Net realized gain (loss) on investments	(.12)	-	(.12)	.38
Net increase (decrease) in unrealized appreciation of investments	(.31)	(.70)	3.70	(1.08)
Distributions from undistributed net investment income	-	-	(.20)	(.20)
Exercise of employee stock options (1)	(.08)	-	(.08)	-
	-----	-----	-----	-----
Net increase (decrease) in net asset value	(.41)	(.44)	3.51	(.64)
Net asset value:				
Beginning of period	63.32	61.89	59.40	62.09
	-----	-----	-----	-----
End of period	\$62.91	\$61.45	\$62.91	\$61.45
	=====	=====	=====	=====
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 September 30, 2001 was \$240,877,527 equivalent to \$62.91 per share after deducting an allowance of \$22.62 per share for deferred taxes on net unrealized appreciation. Assuming reinvestment of all dividends, this represents an increase of 3.5% during the past twelve months.

	September 30, 2001	September 30, 2000
Net assets	\$240,877,527	\$234,425,810
Shares outstanding	3,829,051	3,815,051
Net assets per share	\$62.91	\$61.45

Interest income in the six months ended September 30, 2001 decreased from the year-ago period primarily because of a decrease in average idle funds invested. During the six months ended September 30, 2001 and 2000, the Company recorded dividend income from the following sources:

	Six Months Ended September 30	
	2001	2000
AT&T Corp.	\$ 9,993	\$ 58,628
Alamo Group Inc.	338,556	338,556
Dennis Tool Company	24,999	24,999
Kimberly-Clark Corporation	43,221	41,677
The RectorSeal Corporation	480,000	480,000
Skylawn Corporation	300,000	300,000
TCI Holdings, Inc	40,635	40,635
Texas Shredder, Inc.	20,230	20,230
The Whitmore Manufacturing Company	120,000	120,000
Other	34,124	51,947
	-----	-----
	\$ 1,411,758	\$ 1,476,672
	=====	=====

Other operating expenses in the six months ended September 30, 2001 decreased from the year-ago period primarily due to legal fees incurred in the prior year related to documentation of the exchange of an investment.

During the six months ended September 30, 2001, the Company reported a realized loss before income taxes of \$782,256 which included a loss of \$830,238 on our investment in CyberSource Corporation. It should be noted that a realized loss before income taxes occurs when a depreciated portfolio security is sold to realize a loss and a corresponding increase in unrealized appreciation occurs by transferring the loss associated with the transaction from being "unrealized" to being "realized." Conversely, when a gain is realized on an appreciated portfolio security, a decrease 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 September 30		Six Months Ended September 30	
	2001	2000	2001	2000
AT&T Corp.	\$ (359,751)	\$ (299,801)	\$ (266,480)	\$ (3,605,943)
Alamo Group Inc	--	--	--	1,410,000
All Components, Inc.	(1,750,000)	3,450,000	(1,750,000)	3,450,000
Balco, Inc.	1,482,240	--	1,482,240	--
Concert Industries Ltd.	902,000	90,000	2,332,000	90,000
Dennis Tool Company	(1,130,000)	842,000	(1,130,000)	842,000
Encore Wire Corporation	1,363,000	2,725,000	5,449,000	--
Liberty Media Corporation	(3,244,804)	(4,149,149)	(880,636)	(7,726,731)
Mail-Well, Inc.	(524,000)	(5,766,000)	(1,572,000)	(5,766,000)
Media Recovery, Inc.	--	--	--	5,000,000
Mylan Laboratories, Inc.	576,004	1,130,520	868,496	(72,161)
Organized Living, Inc.	--	--	(2,500,000)	--
Palm Harbor Homes, Inc.	--	--	15,710,000	--
PETSMART, Inc.	307,482	899,552	1,975,744	1,103,996
The RectorSeal Corporation	--	--	2,500,000	3,500,000
Skylawn Corporation	--	--	--	3,000,000
Sprint Corporation-FON Group	190,800	(1,597,500)	145,440	(2,425,500)
Sprint Corporation-PCS Group	77,040	(877,500)	262,440	(1,093,500)
VocalData, Inc.	(749,998)	--	(1,489,803)	--

During the quarter ended September 30, 2001, the Company made new investments of \$774,000 and additional investments of \$508,929 in existing portfolio companies.

The Company has agreed, subject to certain conditions, to invest up to \$4,053,946 in seven 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 \$4,997,970 at September 30, 2001, equivalent to 1.5% 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 4. Submission of Matters to a Vote of Security Holders

The Company's Annual Meeting of Stockholders was held on July 16, 2001, with the following results of elections and approval:

	Votes Cast		
	For	Against/ Withheld	Abstentions/ Non-Votes
	-----	-----	-----
a. The following Directors were elected to serve until the next Annual Meeting of Stockholders:			
Graeme W. Henderson	3,444,147	15,397	355,507
Gary L. Martin	3,443,747	15,797	355,507
James M. Nolan	3,444,147	15,397	355,507
William R. Thomas	3,443,746	15,798	355,507
John H. Wilson	3,443,547	15,997	355,507
b. KPMG LLP was approved as the Company's auditors for the 2002 fiscal year.	3,450,739	4,980	359,332

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: November 2, 2001

By: /s/ William R. Thomas

William R. Thomas
President

Date: November 2, 2001

By: /s/ Susan K. Hodgson

Susan K. Hodgson
Secretary-Treasurer