

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 June 30, 2001

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 (I.R.S. Employer
 Incorporation or Organization) 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, 2001

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

CAPITAL SOUTHWEST CORPORATION AND SUBSIDIARY
 Consolidated Statements of Financial Condition

Assets	June 30, 2001	March 31, 2001
	-----	-----
	(Unaudited)	
Investments at market or fair value		
Companies more than 25% owned		
(Cost: June 30, 2001 - \$23,194,865,		
March 31, 2001 - \$23,140,865)	\$ 223,542,759	\$ 205,273,759
Companies 5% to 25% owned		
(Cost: June 30, 2001 - \$17,642,756,		
March 31, 2001 - \$17,642,756)	21,209,004	19,623,004
Companies less than 5% owned		
(Cost: June 30, 2001 - \$47,111,954,		
March 31, 2001 - \$46,818,025)	94,766,735	91,020,746
	-----	-----
Total investments		
(Cost: June 30, 2001 - \$87,949,575,		
March 31, 2001 - \$87,601,646)	339,518,498	315,917,509
Cash and cash equivalents	61,804,775	1,137,767
Receivables	135,591	264,377
Other assets	5,517,078	5,348,315
	-----	-----

Totals	\$ 406,975,942	\$ 322,667,968
	=====	=====
Liabilities and Shareholders' Equity		
Notes payable to bank	\$ 66,500,000	\$ 5,000,000
Notes payable to portfolio companies	6,000,000	6,000,000
Accrued interest and other liabilities	1,981,011	2,135,052
Deferred income taxes	85,909,903	77,924,303
Subordinated debenture	5,000,000	5,000,000
	-----	-----
Total liabilities	165,390,914	96,059,355
	-----	-----
Shareholders' equity		
Common stock, \$1 par value: authorized, 5,000,000 shares; issued, 4,252,416 shares at June 30, 2001 and March 31, 2001	4,252,416	4,252,416
Additional capital	6,450,747	6,450,747
Undistributed net investment income	3,216,928	3,550,573
Undistributed net realized gain on investments	70,382,314	70,382,314
Unrealized appreciation of investments - net of deferred income taxes	164,315,925	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 \$63.32 per share at June 30, 2001, and \$59.40 per share at March 31, 2001 on the 3,815,051 shares outstanding	241,585,028	226,608,613
	-----	-----
Totals	\$ 406,975,942	\$ 322,667,968
	=====	=====

(See Notes to Consolidated Financial Statements)

CAPITAL SOUTHWEST CORPORATION
AND SUBSIDIARY
Consolidated Statements of Operations

(Unaudited)

	Three Months Ended June 30,	
	2001	2000
	----	----
Investment income:		
Interest	\$ 91,258	\$ 166,520
Dividends	705,879	288,336
Management and directors' fees	139,100	139,100
	-----	-----
	936,237	593,956
	-----	-----
Operating expenses:		
Interest	271,801	252,546
Salaries	193,333	173,250
Net pension benefit	(121,542)	(108,996)
Other operating expenses	120,680	195,287
	-----	-----
	464,272	512,087
	-----	-----
Income before income taxes	471,965	81,869
Income tax expense	42,600	56,493
	-----	-----
Net investment income	\$ 429,365	\$ 25,376
	=====	=====
Proceeds from disposition of investments	\$ --	\$ 7,046,708
Cost of investments sold	--	4,827,045
	-----	-----
Realized gain on investments before income taxes	--	2,219,663
Income tax expense	--	777,443
	-----	-----
Net realized gain on investments	--	1,442,220
	-----	-----
Increase (decrease) in unrealized appreciation of investments before income taxes	23,253,060	(2,608,110)
Increase (decrease) in deferred income taxes on appreciation of investments	7,943,000	(1,145,000)
	-----	-----
Net increase (decrease) in unrealized appreciation of investments	15,310,060	(1,463,110)
	-----	-----
Net realized and unrealized gain (loss) on investments	\$ 15,310,060	\$ (20,890)
	=====	=====
Increase in net assets from operations	\$ 15,739,425	\$ 4,486
	=====	=====

(See Notes to Consolidated Financial Statements)

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

	Three Months Ended June 30, 2001 ----- (Unaudited)	Year Ended March 31, 2001 -----
Operations		
Net investment income	\$ 429,365	\$ 1,722,500
Net realized loss on investments	--	(3,230,987)
Net increase (decrease) in unrealized appreciation of investments	15,310,060	(6,469,835)
	-----	-----
Increase (decrease) in net assets from operations	15,739,425	(7,978,322)
Distributions from:		
Undistributed net investment income	(763,010)	(2,289,031)
	-----	-----
Increase (decrease) in net assets	14,976,415	(10,267,353)
Net assets, beginning of period	226,608,613	236,875,966
	-----	-----
Net assets, end of period	\$ 241,585,028 =====	\$ 226,608,613 =====

(See Notes to Consolidated Financial Statements)

CAPITAL SOUTHWEST CORPORATION
AND SUBSIDIARY
Consolidated Statements of Cash Flows

(Unaudited)

	Three Months Ended June 30,	
	2001 ----	2000 ----
Cash flows from operating activities		
Increase in net assets from operations	\$ 15,739,425	\$ 4,486
Adjustments to reconcile increase in net assets from operations to net cash provided by (used in) operating activities:		
Depreciation and amortization	5,821	7,221
Net pension benefit	(121,542)	(108,996)
Net realized and unrealized (gain) loss on investments	(15,310,060)	20,890
Decrease in receivables	128,786	108,940
Increase in other assets	(15,104)	(29,703)
Decrease in accrued interest and other liabilities	(139,492)	(185,137)
Decrease in accrued pension cost	(52,487)	(52,487)
Deferred income taxes	42,600	56,493
	-----	-----
Net cash provided by (used in) operating activities	277,947	(178,293)
	-----	-----
Cash flows from investing activities		
Proceeds from disposition of investments	--	7,046,708
Purchases of securities	(497,929)	(10,109,051)
Maturities of securities	150,000	240,000
	-----	-----
Net cash used in investing activities	(347,929)	(2,822,343)
	-----	-----
Cash flows from financing activities		
Increase (decrease) in notes payable to bank	61,500,000	(60,000,000)
Increase in notes payable to portfolio companies	--	4,500,000
Distributions from undistributed net investment income	(763,010)	(763,010)
	-----	-----
Net cash provided by (used in) financing activities	60,736,990	(56,263,010)
	-----	-----
Net increase (decrease) in cash and cash equivalents	60,667,008	(59,263,646)
Cash and cash equivalents at beginning of period	1,137,767	63,986,715
	-----	-----
Cash and cash equivalents at end of period	\$ 61,804,775	\$ 4,723,069
	=====	=====
Supplemental disclosure of cash flow information:		
Cash paid during the period for:		
Interest	\$ 353,874	\$ 361,104
Income taxes	\$ 0	\$ 0

(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 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	

	2001	2000
	----	----
Investment income	\$.24	\$.15
Operating expenses	(.05)	(.07)
Interest expense	(.07)	(.07)
Income taxes	(.01)	(.01)
	-----	-----
Net investment income	.11	-
Net realized gain on investments	-	.38
Net increase (decrease) in unrealized appreciation of investments	4.01	(.38)
Distributions from undistributed net investment income	(.20)	(.20)
	-----	-----
Net increase (decrease) in net asset value	3.92	(.20)
Net asset value:		
Beginning of period	59.40	62.09
	-----	-----
End of period	\$ 63.32	\$ 61.89
	=====	=====
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, 2001 was \$241,585,028, equivalent to \$63.32 per share after deducting an allowance of \$22.87 per share for deferred taxes on net unrealized appreciation. Assuming reinvestment of all dividends, this represents an increase of 3.4% during the past twelve months and 6.9% during the past three months.

	June 30, 2001 -----	June 30, 2000 -----
Net assets	\$241,585,028	\$236,117,442
Shares outstanding	3,815,051	3,815,051
Net assets per share	\$63.32	\$61.89

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

	Three Months Ended June 30 -----	
	2001 -----	2000 -----
AT&T Corp.	\$ 4,997	\$ 29,314
Alamo Group Inc.	169,278	169,278
Kimberly-Clark Corporation	21,610	20,839
The RectorSeal Corporation	240,000	-
Skylawn Corporation	150,000	-
TCI Holdings, Inc.	20,318	20,318
The Whitmore Manufacturing Company	60,000	-
Other	39,676	48,587
	-----	-----
	\$ 705,879	\$ 288,336
	=====	=====

Interest expense in the three months ended June 30, 2001 increased from the year-ago period due to increased borrowings from the bank. Other operating expenses in the three months ended June 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.

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 -----	
	2001 ----	2000 ----
AT&T Corp.	93,271	(3,306,142)
AT&T-Liberty Media Group	2,364,168	(3,577,582)
Alamo Group Inc.	-	1,410,000
Concert Industries Ltd.	1,430,000	-
Encore Wire Corporation	4,086,000	(2,725,000)
Mail-Well, Inc.	(1,048,000)	-
Media Recovery, Inc.	-	5,000,000
Mylan Laboratories, Inc.	292,492	(1,202,681)
Organized Living, Inc.	(2,500,000)	-
Palm Harbor Homes, Inc.	15,710,000	-
PETSMART, Inc.	1,668,262	204,444
The RectorSeal Corporation	2,500,000	3,500,000
Skylawn Corporation	-	3,000,000

During the quarter ended June 30, 2001, the Company made new investments of \$26,000 and additional investments of \$471,929 in existing portfolio companies.

On July 2, 2001, 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 \$3,686,874 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 \$5,497,971 at June 30, 2001, equivalent to 1.62% 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

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: August 10, 2001 By: /s/ William R. Thomas

William R. Thomas, President

Date: August 10, 2001 By: /s/ Susan K. Hodgson

Susan K. Hodgson, Secretary-Treasurer