

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 September 30, 1995

Commission File Number: 811-1056

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)

(214) 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.

3,767,051 shares of Common Stock, \$1 Par Value as of October 31, 1995

## PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements

CAPITAL SOUTHWEST CORPORATION AND SUBSIDIARY  
Consolidated Statements of Financial Condition

ASSETS	September 30, 1995 ----- (Unaudited)	March 31, 1995 -----
Investments at market or fair value		
Companies more than 25% owned (Cost: September 30, 1995 - \$25,408,361, March 31, 1995 - \$15,147,834)	\$165,178,000	\$143,715,000
Companies 5% to 25% owned (Cost: September 30, 1995 - \$14,509,509, March 31, 1995 - \$17,030,438)	38,312,000	31,459,238
Companies less than 5% owned (Cost: September 30, 1995 - \$20,440,634 March 31, 1995 - \$17,551,303)	41,623,224	27,586,335
	-----	-----
Total investments (Cost: September 30, 1995- \$60,358,504 March 31, 1995 - \$49,729,575)	245,113,224	202,760,573
Cash and cash equivalents	80,650,944	8,372,976
Receivables	334,262	243,633
Other assets	2,606,548	2,434,231
	-----	-----
Totals	\$328,704,978 =====	\$213,811,413 =====
 LIABILITIES AND SHAREHOLDERS' EQUITY		
Notes payable to bank	\$ 79,500,000	\$ -
Note payable to Skylawn Corporation	2,500,000	-
Accrued interest and other liabilities	1,499,962	1,490,506
Deferred income taxes	65,091,003	53,951,003
Subordinated debentures	11,000,000	11,000,000
	-----	-----
Total liabilities	159,590,965	66,441,509
	-----	-----
Shareholders' equity		
Common stock, \$1 par value: authorized, 5,000,000 shares; issued, 4,204,416 shares at September 30, 1995 and 4,172,416 shares at March 31, 1995	4,204,416	4,172,416
Additional capital	4,813,121	4,270,371
Undistributed net investment income	4,729,066	3,889,288
Undistributed net realized gain on investments	41,995,992	42,287,133
Unrealized appreciation of investments - net of deferred income taxes	120,404,720	99,783,998
Treasury stock - at cost (437,365 shares)	(7,033,302)	(7,033,302)
	-----	-----
Net assets at market or fair value, equivalent to \$44.89 per share on the 3,767,051 shares outstanding at September 30, 1995, and \$39.46 per share on the 3,735,051 shares outstanding at March 31, 1995	169,114,013	147,369,904
	-----	-----
Totals	\$328,704,978 =====	\$213,811,413 =====

(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	
	1995	1994	1995	1994
	-----	-----	-----	-----
Investment income:				
Interest	\$ 507,221	\$ 477,044	\$ 1,034,274	\$ 934,103
Dividends	646,449	654,994	1,292,103	1,271,133
Management and directors' fees	127,750	128,750	268,300	262,250
	-----	-----	-----	-----
	1,281,420	1,260,788	2,594,677	2,467,486
	-----	-----	-----	-----
Operating expenses:				
Interest	350,686	361,779	587,395	719,693
Salaries	214,607	175,349	394,206	339,566
Net pension benefit	(43,993)	(60,832)	(104,351)	(120,715)
Other operating expenses	110,630	106,269	231,290	217,300
	-----	-----	-----	-----
	631,930	582,565	1,108,540	1,155,844
	-----	-----	-----	-----
Income before income taxes	649,490	678,223	1,486,137	1,311,642
Income tax expense	16,114	22,663	37,114	43,663
	-----	-----	-----	-----
NET INVESTMENT INCOME	\$ 633,376	\$ 655,560	\$ 1,449,023	\$1,267,979
	=====	=====	=====	=====
Proceeds from disposition of investments	\$ -	\$ 257,125	-	\$1,502,569
Cost of investments sold	-	434,698	-	730,606
	-----	-----	-----	-----
Realized gain (loss) on investments before income taxes	-	(177,573)	-	771,963
Income tax expense (benefit)	-	(62,151)	-	270,186
	-----	-----	-----	-----
NET REALIZED GAIN (LOSS) ON INVESTMENTS	-	(115,422)	-	501,777
	-----	-----	-----	-----
Increase (decrease) in unrealized appreciation of investments before income taxes and distributions	36,968,158	5,665,555	40,988,026	(771,416)
Increase (decrease) in deferred income taxes on appreciation of investments	9,696,000	1,984,000	11,103,000	(269,000)
	-----	-----	-----	-----
NET INCREASE (DECREASE) IN UNREALIZED APPRECIATION OF INVESTMENTS BEFORE DISTRIBUTIONS	27,272,158	3,681,555	29,885,026	(502,416)
	-----	-----	-----	-----
NET REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS	\$27,272,158	\$ 3,566,133	\$29,885,026	\$ (639)
	=====	=====	=====	=====
INCREASE IN NET ASSETS FROM OPERATIONS BEFORE DISTRIBUTIONS	\$27,905,534	\$ 4,221,693	\$31,334,049	\$1,267,340
	=====	=====	=====	=====

(See Notes to Consolidated Financial Statements)

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

	Six Months Ended September 30, 1995	Year Ended March 31, 1995
	----- (Unaudited)	-----
Operations		
Net investment income	\$ 1,449,023	\$ 2,446,653
Net realized gain on investments	-	142,403
Net increase in unrealized appreciation of investments before distributions	29,885,026	13,583,731
	-----	-----
Increase in net assets from operations before distributions	31,334,049	16,172,787
Distributions from:		
Undistributed net investment income	(747,010)	(2,241,031)
Undistributed net realized gain on investments	(153,376)	-
Unrealized appreciation of investments	(9,264,304)	-
Capital share transactions		
Exercise of employee stock options	574,750	384,750
	-----	-----
Increase in net assets	21,744,109	14,316,506
Net assets, beginning of period	147,369,904	133,053,398
	-----	-----
Net assets, end of period	\$169,114,013	\$147,369,904
	=====	=====

(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	
	1995	1994	1995	1994
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Increase in net assets from operations before distributions	\$27,905,534	\$ 4,221,693	\$31,334,049	\$ 1,267,340
Adjustments to reconcile increase in net assets from operations before distributions to net cash provided by operating activities:				
Depreciation and amortization	7,606	11,336	15,214	22,170
Net pension benefit	(43,993)	(60,832)	(104,351)	(120,715)
Net realized and unrealized gain on investments	(27,272,158)	(3,566,133)	(29,885,026)	(66,850)
Increase in receivables	(78,381)	(278,601)	(90,630)	(304,184)
(Increase) decrease in other assets	14,695	4,258	(17,550)	(34,232)
Decrease in accrued interest and other liabilities	(7,396)	(296,933)	(56,173)	(26,206)
Deferred income taxes	16,000	21,000	37,000	42,000
Net cash provided by operating activities	541,907	55,788	1,232,533	779,323
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Proceeds from disposition of investments	-	257,125	-	1,502,569
Purchases of securities	(10,877,132)	(3,981,200)	(10,877,132)	(6,846,935)
Maturities of securities	-	-	110,669	-
Net cash used by investing activities	(10,877,132)	(3,724,075)	(10,766,463)	(5,344,366)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>				
Increase (decrease) in notes payable to bank	79,500,000	-	79,500,000	(75,000,000)
Increase in note payable to Skylawn Corporation	2,500,000	-	2,500,000	-
Distributions from undistributed net investment income	-	-	(747,010)	(747,010)
Distributions from undistributed net realized gain on investments	(15,842)	-	(15,842)	-
Proceeds from exercise of employee stock options	574,750	-	574,750	384,750
Net cash provided (used) by financing activities	82,558,908	-	81,811,898	(75,362,260)
Net increase (decrease) in cash and cash equivalents	72,223,683	(3,668,287)	72,277,968	(79,927,303)
Cash and cash equivalents at beginning of period	8,427,261	18,023,621	8,372,976	94,282,637
Cash and cash equivalents at end of period	<u>\$80,650,944</u>	<u>\$14,355,334</u>	<u>\$80,650,944</u>	<u>\$14,355,334</u>

(Continued)

(See Notes to Consolidated Financial Statements)

CAPITAL SOUTHWEST CORPORATION  
AND SUBSIDIARY  
Consolidated Statements of Cash Flows  
(Unaudited)

Continued

	Three Months Ended September 30		Six Months Ended September 30	
	1995	1994	1995	1994
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:</b>				
Cash paid during the period for:				
Interest	\$ 354,305	\$ 509,554	\$ 553,757	\$ 718,089
Income taxes	\$ 114	\$ 49	\$ 114	\$ 15,049

**SUPPLEMENTAL DISCLOSURE OF FINANCING ACTIVITIES:**

On July 31, 1995, Capital Southwest Corporation distributed to its shareholders 752,147 shares of common stock of Palm Harbor Homes, Inc., which had a fair market value of \$12.50 per share, or \$9,401,838.

(See Notes to Consolidated Financial Statements)

CAPITAL SOUTHWEST VENTURE CORPORATION  
(wholly-owned subsidiary of Capital Southwest Corporation)  
Statement of Financial Condition  
September 30, 1995  
(Unaudited)

## ASSETS

Investments at market or fair value	
Companies more than 25% owned (Cost - \$8,223,737)	\$ 49,584,706
Companies 5% to 25% owned (Cost - \$3,444,369)	8,267,400
Companies less than 5% owned (Cost - \$11,479,146)	21,594,048
	-----
Total investments (Cost - \$23,147,252)	79,446,154
Cash and cash equivalents	80,326,319
Interest and dividends receivable	142,964
Other assets	73,575
	-----
Total	\$159,989,012
	=====

## LIABILITIES AND SHAREHOLDER'S EQUITY

Note payable to Capital Southwest Corporation	\$ 75,000,000
Accrued interest and other liabilities	339,726
Deferred income taxes	19,575,959
Subordinated debentures	11,000,000
	-----
Total liabilities	105,915,685
	-----

## Shareholder's equity

Common stock, \$1 par value: authorized 5,000,000 shares; issued and outstanding, 1,000,000 shares	1,000,000
Additional capital	15,606,949
Undistributed net investment income	1,120,703
Accumulated net realized loss on investments	(264,227)
Unrealized appreciation of investments - net of deferred income taxes	36,609,902
	-----
Shareholder's equity	54,073,327
	-----
Total	\$159,989,012
	=====

(See Notes to Consolidated Financial Statements)

CAPITAL SOUTHWEST VENTURE CORPORATION  
(wholly-owned subsidiary of Capital Southwest Corporation)  
Statement of Operations  
Six Months Ended September 30, 1995  
(Unaudited)

Investment income:		
Interest	\$	816,607
Dividends		598,468
		-----
		1,415,075
		-----
Operating expenses:		
Interest		496,731
Management fee		102,350
Miscellaneous		7,500
		-----
		606,581
		-----
NET INVESTMENT INCOME	\$	808,494
		=====
Net increase in unrealized appreciation of investments before distribution (net of increase in deferred income taxes of \$44,000)		9,363,091
		-----
NET REALIZED AND UNREALIZED GAIN ON INVESTMENTS	\$	9,363,091
		=====
INCREASE IN SHAREHOLDER'S EQUITY FROM OPERATIONS BEFORE DISTRIBUTION		\$10,171,585
		=====

Statements of Changes in Shareholder's Equity

	Six Months Ended September 30, 1995 ----- (Unaudited)	Year Ended March 31, 1995 -----
Net investment income	\$ 808,494	\$ 784,699
Net realized gain on investments	-	15,097
Net increase in unrealized appreciation of investments before distribution	9,363,091	5,412,310
	-----	-----
Increase in shareholder's equity from operations before distribution	10,171,585	6,212,106
Capital contribution by Capital Southwest Corporation	2,500,000	-
Distributions to Capital Southwest Corporation from:		
Undistributed net investment income	-	(718,146)
Accumulated net realized loss on investments	(137,765)	-
Unrealized appreciation of investments	(9,279,873)	-
	-----	-----
Increase in shareholder's equity	3,253,947	5,493,960
Shareholder's equity, beginning of period	50,819,380	45,325,420
	-----	-----
SHAREHOLDER'S EQUITY, END OF PERIOD	\$54,073,327	\$50,819,380
	=====	=====

(See Notes to Consolidated Financial Statements)



CAPITAL SOUTHWEST VENTURE CORPORATION  
(wholly-owned subsidiary of Capital Southwest Corporation)  
Statement of Cash Flows  
Six Months Ended September 30, 1995  
(Unaudited)

CASH FLOWS FROM OPERATING ACTIVITIES

Increase in shareholder's equity from operations before distribution	\$ 10,171,585
Adjustments to reconcile increase in shareholder's equity from operations before distribution to net cash provided by operating activities:	
Net realized and unrealized gain on investments	(9,363,091)
Decrease in interest and dividends receivable	38,300
Decrease in other assets	8,216
Increase in accrued interest and other liabilities	22,238
	-----
Net cash provided by operating activities	877,248
	-----

CASH FLOWS FROM INVESTING ACTIVITIES

Purchases of securities	(77,667)
Maturities of securities	99,572
	-----
Net cash provided by investing activities	21,905
	-----

CASH FLOWS FROM FINANCING ACTIVITIES

Increase in note payable to Capital Southwest Corporation	75,000,000
	-----

Net increase in cash and cash equivalents	75,899,153
Cash and cash equivalents at beginning of period	4,427,166
	-----
Cash and cash equivalents at end of period	\$ 80,326,319
	=====

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:

Cash paid during the period for:

Interest	\$ 464,110
Income taxes	\$ 114

SUPPLEMENTAL DISCLOSURE OF FINANCING ACTIVITIES:

On July 31, 1995, Capital Southwest Venture Corporation distributed to Capital Southwest Corporation 753,411 shares of common stock of Palm Harbor Homes, Inc., which had a fair market value of \$12.50 per share, or \$9,417,638.

(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 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, 1995. 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 September 30		Six Months Ended September 30	
	1995	1994	1995	1994
Investment income	\$ .34	\$ .34	\$ .69	\$ .66
Operating expenses	(.08)	(.05)	(.14)	(.12)
Interest expense	(.09)	(.10)	(.16)	(.19)
Income taxes	-	(.01)	(.01)	(.01)
Net investment income	.17	.18	.38	.34
Distributions from undistributed net investment income	-	-	(.20)	(.20)
Distributions from net realized gain on investments	(.04)	-	(.04)	-
Distributions from unrealized appreciation of investments	(2.46)	-	(2.46)	-
Net realized gain (loss) on investments	-	(.03)	-	.14
Net increase (decrease) in unrealized appreciation of investments before distributions	7.24	.99	7.94	(.13)
Exercise of employee stock options (1)	(.19)	-	(.19)	(.09)
Net increase in net asset value	4.72	1.14	5.43	.06
Net asset value:				
Beginning of period	40.17	34.73	39.46	35.81
End of period	\$44.89	\$35.87	\$44.89	\$35.87
Shares outstanding at end of period (000s omitted)	3,767	3,735	3,767	3,735

(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

Interest income in the six months ended September 30, 1995 increased from the year-ago period primarily because of additional interest payments by portfolio companies offset somewhat by a decrease in cash and cash equivalents (excluding the \$75,000,000 loan proceeds) arising from (a) additional investments in non-interest bearing securities and (b) the repayment by the Company of a \$4,000,000 12.145% subordinated debenture on March 1, 1995. During the six months ended September 30, 1995 and 1994, the Company recorded dividend income from the following sources:

	Six Months Ended September 30	
	1995	1994
The RectorSeal Corporation	\$ 600,001	\$ 600,001
Alamo Group Inc.	532,000	478,800
Cherokee Communications, Inc.	72,000	108,000
Westmarc Communications, Inc.	40,635	40,635
Other	47,467	43,697
	-----	-----
	\$ 1,292,103	\$ 1,271,133
	=====	=====

Interest expense in the six months ended September 30, 1995 decreased from the year-ago period due to the repayment of the subordinated debenture as described above. Salaries in the six months ended September 30, 1995 increased from the year-ago period due to one additional staff member and routine annual compensation increases.

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	
	1995	1994	1995	1994
Alamo Group Inc.	\$ 1,609,000	\$ (1,172,000)	\$ 3,920,000	\$ (6,928,000)
American Homestar Corporation	970,025	559,758	1,258,113	648,508
CrossTies Software Corporation	-	(75,000)	-	(575,000)
Data Race, Inc.	(2,621,300)	-	(1,809,300)	(277,200)
Dennis Tool Company	-	-	(800,000)	-
Encore Wire Corporation	(455,400)	2,438,750	(3,567,000)	5,013,250
Intelligent Electronics, Inc.	(512,500)	181,250	(112,500)	(806,250)
Mail-Well, Inc.	3,669,990	-	3,669,990	-
MESC Holdings, Inc.	13,000,000	-	13,000,000	-
Mylan Laboratories, Inc.	(48,107)	363,477	(133,631)	684,192
Palm Harbor Homes, Inc.	17,290,777	4,484,600	17,290,777	4,484,600
PETSMART, Inc. (formerly Petstuff, Inc.)	4,168,906	-	6,622,950	615,120
The RectorSeal Corporation	-	-	-	1,000,000
Skylawn Corporation	-	(2,000,000)	-	(5,000,000)
Tecnol Medical Products, Inc.	(505,351)	186,164	45,941	282,702
Tele-Communications, Inc.	135,000	326,250	573,750	258,750

On July 31, 1995, Capital Southwest Corporation distributed 752,147 shares of common stock of Palm Harbor Homes, Inc. on the basis of one share for each five shares of Capital Southwest common stock of record on July 17, 1995. Cash payments were made in lieu of Palm Harbor common stock to record holders of fewer than 50 shares of Capital Southwest common stock and in lieu of fractional shares. The fair market value of Palm Harbor common stock on the July 31, 1995 distribution date was determined to be \$12.50 per share.

During the quarter ended September 30, 1995, the Company made additional investments of \$10,877,132 in existing portfolio companies.

On October 2, 1995, the Company repaid \$75,000,000 of the notes payable to bank from its cash and cash equivalents.

## 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 17, 1995, 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	3,239,278	2,848	492,925
Gary L. Martin	3,228,964	13,162	492,925
James M. Nolan	3,239,278	2,848	492,925
William R. Thomas	3,239,404	2,722	492,925
John H. Wilson	3,238,378	3,748	492,925
b. KPMG Peat Marwick LLP was approved as the Company's auditors for the 1996 fiscal year.	3,209,067	3,988	521,996

### 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: November 13, 1995 -----	By: /s/William R. Thomas ----- William R. Thomas, President
Date: November 13, 1995 -----	By: /s/Tim Smith ----- Tim Smith, Vice President and Secretary-Treasurer

EXHIBIT INDEX

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Exhibit Number

Description

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27

Financial Data Schedule

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE CONSOLIDATED STATEMENT OF FINANCIAL CONDITION AT SEPTEMBER 30, 1995 (UNAUDITED) AND THE CONSOLIDATED STATEMENT OF OPERATIONS FOR THE SIX MONTHS ENDED SEPTEMBER 30, 1995 (UNAUDITED) AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

6-MOS		
	MAR-31-1995	
	APR-01-1995	
	SEP-30-1995	
	60,358,504	
	245,113,224	
		334,262
		2,606,548
	80,650,944	
		328,704,978
		0
	11,000,000	
148,590,965		
	159,590,965	
		0
	4,813,121	
	4,204,416	
	4,172,416	
4,729,066		
		0
	41,995,992	
		0
120,404,720		
		169,114,013
		1,292,103
		1,034,274
		268,300
		1,108,540
	1,449,023	
		0
29,885,026		
	31,334,049	
		0
	747,010	
	153,376	
	9,264,304	
	32,000	
		0
		0
	21,744,109	
	3,889,288	
42,287,133		
		0
		0
		0
		587,395
		1,108,540
		0
	39.46	
		.38
	7.94	
		.20
.04		
	2.65	
	44.89	
		0
		0
		0