

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, 1996

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.

3,767,051 shares of Common Stock, \$1 Par Value as of January 31, 1997

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

CAPITAL SOUTHWEST CORPORATION AND SUBSIDIARY  
Consolidated Statements of Financial Condition

Assets	December 31, 1996 ----- (Unaudited)	March 31, 1996 -----
Investments at market or fair value		
Companies more than 25% owned		
(Cost: December 31, 1996 - \$20,552,361, March 31, 1996 - \$21,480,361)	\$211,078,840	\$191,043,920
Companies 5% to 25% owned		
(Cost: December 31, 1996 - \$20,937,071, March 31, 1996 - \$18,750,404)	37,959,002	19,633,672
Companies less than 5% owned		
(Cost: December 31, 1996 - \$21,313,336, March 31, 1996 - \$18,313,335)	61,211,426	46,252,869
Total investments		
(Cost: December 31, 1996 - \$62,802,768, March 31, 1996 - \$58,544,100)	310,249,268	256,930,461
Cash and cash equivalents	7,424,267	67,045,185
Receivables	506,035	285,002
Other assets	3,059,790	2,711,802
Totals	\$321,239,360 =====	\$326,972,450 =====

Liabilities and Shareholders' Equity

Note payable to bank	\$ -	\$ 50,000,000
Accrued interest and other liabilities	1,497,310	1,669,839
Income taxes payable	6,268,782	6,050,730
Deferred income taxes	86,760,128	69,204,128
Subordinated debentures	5,000,000	11,000,000
Total liabilities	99,526,220	137,924,697

Shareholders' equity		
Common stock, \$1 par value: authorized, 5,000,000 shares; issued, 4,204,416 shares at December 31, 1996 and March 31, 1996	4,204,416	4,204,416
Additional capital	4,813,121	4,813,121
Undistributed net investment income	4,317,669	4,490,374
Undistributed net realized gain on investments	54,199,736	53,307,782
Unrealized appreciation of investments - net of deferred income taxes	161,211,500	129,265,362
Treasury stock - at cost (437,365 shares)	(7,033,302)	(7,033,302)
	-----	-----
Net assets at market or fair value, equivalent to \$58.86 per share at December 31, 1996, and \$50.18 per share at March 31, 1996 on the 3,767,051 shares outstanding	221,713,140	189,047,753
	-----	-----
Totals	\$321,239,360	\$326,972,450
	=====	=====

(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	
	1996 ----	1995 ----	1996 ----	1995 ----
Investment income:				
Interest	\$ 296,204	\$ 463,764	\$ 980,906	\$1,498,038
Dividends	393,377	1,502,418	1,998,344	2,794,521
Management and directors' fees	153,100	149,350	451,300	417,650
	-----	-----	-----	-----
	842,681	2,115,532	3,430,550	4,710,209
	-----	-----	-----	-----
Operating expenses:				
Interest	103,103	829,393	533,713	1,416,788
Salaries	231,757	221,142	620,639	615,348
Net pension expense (benefit)	(87,475)	(52,175)	(262,427)	(156,526)
Other operating expenses	122,235	163,226	354,274	394,516
	-----	-----	-----	-----
	369,620	1,161,586	1,246,199	2,270,126
	-----	-----	-----	-----
Income before income taxes	473,061	953,946	2,184,351	2,440,083
Income tax expense	31,000	20,334	96,825	57,448
	-----	-----	-----	-----
Net investment income	\$ 442,061	\$ 933,612	\$ 2,087,526	\$ 2,382,635
	=====	=====	=====	=====
Proceeds from disposition of investments	\$ 2,273,338	\$20,919,308	\$ 2,273,338	\$20,919,308
Cost of investments sold	813,333	2,621,266	813,333	2,621,266
	-----	-----	-----	-----
Realized gain on investments before income taxes	1,460,005	18,298,042	1,460,005	18,298,042
Income tax expense	568,052	5,940,235	568,052	5,940,235
	-----	-----	-----	-----
Net realized gain on investments	891,953	12,357,807	891,953	12,357,807
	-----	-----	-----	-----
Increase (decrease) in unrealized appreciation of investments before income taxes and distributions	17,067,558	(3,353,503)	49,060,139	37,634,523
Increase (decrease) in deferred income taxes on appreciation of investments	5,917,000	(1,174,000)	17,114,000	9,929,000
	-----	-----	-----	-----
Net increase (decrease) in unrealized appreciation of investments before distributions	11,150,558	(2,179,503)	31,946,139	27,705,523
	-----	-----	-----	-----
Net realized and unrealized gain on investments	\$12,042,511	\$10,178,304	\$32,838,092	\$40,063,330
	=====	=====	=====	=====
Increase in net assets from operations before distributions	\$12,484,572	\$11,111,916	\$34,925,618	\$42,445,965
	=====	=====	=====	=====

(See Notes to Consolidated Financial Statements)

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

	Nine Months Ended December 31, 1996 ----- (Unaudited)	Year Ended March 31, 1996 -----
Operations		
Net investment income	\$ 2,087,526	\$ 2,854,917
Net realized gain on investments	891,953	11,174,025
Net increase in unrealized appreciation of investments before distributions	31,946,139	38,745,668
	-----	-----
Increase in net assets from operations before distributions	34,925,618	52,774,610
Distributions from:		
Undistributed net investment income	(2,260,231)	(2,253,831)
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
	-----	-----
Increase in net assets	32,665,387	41,677,849
Net assets, beginning of period	189,047,753	147,369,904
	-----	-----
Net assets, end of period	\$221,713,140 =====	\$189,047,753 =====

(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	
	1996	1995	1996	1995
	-----	-----	-----	-----
Cash flows from operating activities				
Increase in net assets from operations before distributions	\$ 12,484,572	\$ 11,111,916	\$ 34,925,618	\$ 42,445,965
Adjustments to reconcile increase in net assets from operations before distributions to net cash provided by operating activities:				
Depreciation and amortization	5,710	8,147	21,890	23,361
Net pension benefit	(87,475)	(52,175)	(262,427)	(156,526)
Net realized and unrealized gain on investments	(12,042,511)	(10,178,304)	(32,838,092)	(40,063,330)
Increase in receivables	(353,656)	(429,008)	(221,033)	(519,638)
(Increase) decrease in other assets	5,165	57,832	(8,531)	40,282
Increase (decrease) in accrued interest and other liabilities	(96,948)	602,499	(271,450)	546,326
Deferred income taxes	31,000	18,000	92,000	55,000
	-----	-----	-----	-----
Net cash provided (used) by operating activities	(54,143)	1,138,907	1,437,975	2,371,440
	-----	-----	-----	-----
Cash flows from investing activities				
Proceeds from disposition of investments	2,273,338	964,708	2,273,338	964,708
Purchases of securities	(3,000,000)	(1,101,684)	(6,000,000)	(11,978,816)
Maturities of securities	928,000	4,941,155	928,000	5,051,824
	-----	-----	-----	-----
Net cash provided (used) by investing activities	201,338	4,804,179	(2,798,662)	(5,962,284)
	-----	-----	-----	-----
Cash flows from financing activities				
Increase (decrease) in notes payable to bank	-	(25,075,000)	(50,000,000)	54,425,000
Increase in note payable to Skylawn Corp.	-	-	-	2,500,000
Repayment of subordinated debenture	-	-	(6,000,000)	-
Distributions from undistributed net investment income	(1,506,821)	(1,506,821)	(2,260,231)	(2,253,831)
Distributions from undistributed net realized gain on investments	-	-	-	(15,842)
Proceeds from exercise of employee stock options	-	-	-	574,750
	-----	-----	-----	-----
Net cash provided (used) by financing activities	(1,506,821)	(26,581,821)	(58,260,231)	55,230,077
	-----	-----	-----	-----
Net increase (decrease) in cash and cash equivalents	(1,359,626)	(20,638,735)	(59,620,918)	51,639,233
Cash and cash equivalents at beginning of period	8,783,893	80,650,944	67,045,185	8,372,976
	-----	-----	-----	-----
Cash and cash equivalents at end of period	\$ 7,424,267	\$ 60,012,209	\$ 7,424,267	\$ 60,012,209
	=====	=====	=====	=====

(Continued)

(See Notes to Consolidated Financial Statements)

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

Continued  
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	Three Months Ended December 31		Nine Months Ended December 31	
	1996	1995	1996	1995
	-----	-----	-----	-----
Supplemental disclosure of cash flow information:				
Cash paid during the period for:				
Interest	\$200,548	\$233,360	\$691,397	\$787,117
Income taxes	\$ -	\$ 9	\$ 9	\$ 123

Supplemental disclosure of financing activities:  
On July 31, 1995, Capital Southwest Corporation distributed to its shareholders 940,184 shares of common stock of Palm Harbor Homes, Inc., which had a fair market value of \$10.00 per share, or \$9,401,838, as adjusted for a 5-for-4 stock split on August 2, 1996.

(See Notes to Consolidated Financial Statements)

CAPITAL SOUTHWEST VENTURE CORPORATION  
(wholly-owned subsidiary of Capital Southwest Corporation)  
Statement of Financial Condition

-----  
December 31, 1996  
-----

(Unaudited)

Assets	
Investments at market or fair value	
Companies more than 25% owned (Cost - \$3,367,737)	\$48,257,782
Companies 5% to 25% owned (Cost - \$3,001,483)	12,048,001
Companies less than 5% owned (Cost - \$12,260,983)	33,346,522
	-----
Total investments (Cost - \$18,630,203)	93,652,305
Cash and cash equivalents	3,594,240
Interest and dividends receivable	132,123
Other assets	49,432
	-----
Total	\$97,428,100
	=====
Liabilities and Shareholder's Equity	
Accrued interest and other liabilities	\$ 81,401
Deferred income taxes	26,185,000
Subordinated debenture	5,000,000
	-----
Total liabilities	31,266,401
	-----
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	16,011,904
Undistributed net investment income	642,163
Accumulated net realized loss on investments	(329,470)
Unrealized appreciation of investments - net of deferred income taxes	48,837,102
	-----
Shareholder's equity	66,161,699
	-----
Total	\$97,428,100
	=====

(See Notes to Consolidated Financial Statements)

CAPITAL SOUTHWEST VENTURE CORPORATION  
(wholly-owned subsidiary of Capital Southwest Corporation)  
Statement of Operations

-----  
Nine Months Ended December 31, 1996  
-----

(Unaudited)

Investment income:		
Interest		\$ 750,787
Dividends		941,372
		-----
		1,692,159
		-----
Operating expenses:		
Interest		533,713
Management fee		107,844
Miscellaneous		10,917
		-----
		652,474
		-----
Net investment income		\$ 1,039,685
		=====
Proceeds from disposition of investments		\$ 2,273,338
Cost of investments sold		813,333
		-----
Realized gain on investments before income taxes		1,460,005
Income tax expense		350,000
		-----
Net realized gain on investments		1,110,005
		-----
Net increase in unrealized appreciation of investments before distribution (net of increase in deferred income taxes of \$4,719,000)		\$ 8,927,766
		-----
Net realized and unrealized gain on investments		\$ 10,037,771
		-----
Increase in shareholder's equity from operations before distribution		\$ 11,077,456
		=====

Statements of Changes in Shareholder's Equity  
-----

	Nine Months Ended December 31, 1996	Year Ended March 31, 1996
	----- (Unaudited)	-----
Net investment income	\$ 1,039,685	\$ 1,508,704
Net realized gain (loss) on investments	1,110,005	(552,240)
Net increase in unrealized appreciation of investments before distribution	8,927,766	12,662,525
	-----	-----
Increase in shareholder's equity from operations before distribution	11,077,456	13,618,989
Capital contribution by Capital Southwest Corporation	404,955	2,500,000
Distributions to Capital Southwest Corporation from:		
Undistributed net investment income	(1,129,184)	(1,089,251)
Accumulated net realized loss on investments	(623,008)	(137,765)
Unrealized appreciation of investments	-	(9,279,873)
	-----	-----
Increase in shareholder's equity	9,730,219	5,612,100
Shareholder's equity, beginning of period	56,431,480	50,819,380
	-----	-----
Shareholder's equity, end of period	\$66,161,699	\$ 56,431,480
	=====	=====

(See Notes to Consolidated Financial Statements)



CAPITAL SOUTHWEST VENTURE CORPORATION  
(wholly-owned subsidiary of Capital Southwest Corporation)  
Statement of Cash Flows

-----  
Nine Months Ended December 31, 1996  
-----

(Unaudited)

Cash flows from operating activities	
Increase in shareholder's equity from operations before distribution	\$ 11,077,456
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	(10,037,771)
Increase in interest and dividends receivable	(28,841)
Decrease in other assets	12,317
Decrease in accrued interest and other liabilities	(258,817)
	-----
Net cash provided by operating activities	764,344
	-----
Cash flows from investing activities	
Proceeds from disposition of investments	2,273,338
Purchase of securities	(3,000,000)
Maturities of securities	928,000
	-----
Net cash provided by investing activities	201,338
	-----
Cash flows from financing activities	
Repayment of subordinated debenture	(6,000,000)
Capital contribution by Capital Southwest Corporation	404,955
Distributions from undistributed net investment income	(1,129,184)
Distributions from accumulated net realized loss on investments	(623,008)
	-----
	(7,347,237)
	-----
Net increase in cash and cash equivalents	(6,381,555)
Cash and cash equivalents at beginning of period	9,975,795
	-----
Cash and cash equivalents at end of period	\$ 3,594,240
	=====
Supplemental disclosure of cash flow information:	
Cash paid during the period for:	
Interest	\$ 665,753
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 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, 1996. 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 December 31		Nine Months Ended December 31	
	1996	1995	1996	1995
	-----	-----	-----	-----
Investment income	\$ .22	\$ .56	\$ .91	\$ 1.25
Operating expenses	(.07)	(.09)	(.19)	(.23)
Interest expense	(.03)	(.22)	(.14)	(.38)
Income taxes	-	-	(.02)	(.01)
	-----	-----	-----	-----
Net investment income	.12	.25	.56	.63
Net realized gain on investments	.24	3.28	.24	3.28
Net increase (decrease) in unrealized appreciation of investments before distributions	2.96	(.58)	8.48	7.36
Distributions from undistributed net investment income	(.40)	(.40)	(.60)	(.60)
Distributions from undistributed net realized gain on investments	-	-	-	(.04)
Distributions from unrealized appreciation of investments	-	-	-	(2.46)
Exercise of employee stock options (1)	-	-	-	(.19)
	-----	-----	-----	-----
Net increase in net asset value	2.92	2.55	8.68	7.98
Net asset value:				
Beginning of period	55.94	44.89	50.18	39.46
	-----	-----	-----	-----
End of period	\$58.86	\$47.44	\$58.86	\$47.44
	=====	=====	=====	=====
Shares outstanding at end of period (000s omitted)	3,767	3,767	3,767	3,767

(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 nine months ended December 31, 1996 decreased from the year-ago period primarily because of the repayment of debentures by portfolio companies offset somewhat by an increase in invested idle funds. During the nine months ended December 31, 1996 and 1995, the Company recorded dividend income from the following sources:

	Nine Months Ended December 31	
	1996	1995
Alamo Group Inc.	\$ 798,000	\$ 798,000
The RectorSeal Corporation	640,895	1,229,019
Skylawn Corporation	300,000	150,000
Cherokee Communications, Inc.	108,000	108,000
Westmarc Communications, Inc.	60,953	60,953
Humac Company	-	208,200
Texas Shredder, Inc.	28,125	168,750
Other	62,371	71,599
	-----	-----
	\$1,998,344	\$2,794,521
	=====	=====

Interest expense in the nine months ended December 31, 1996 decreased from the year-ago period due to the repayment of bank debt and a subordinated debenture and due to the accrual of interest in the prior year on the deferred tax related to the installment sale of MESC Holdings, Inc.

During the nine months ended December 31, 1996, the Company reported a realized gain before income taxes of \$1,460,005. It should be noted that a realized gain before income taxes and a decrease in unrealized appreciation before income taxes are directly related in that when an appreciated portfolio security is sold to realize a gain, 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.

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	
	1996	1995	1996	1995
Alamo Group Inc.	\$ 5,359,000	\$ -	\$(1,609,000)	\$ 3,920,000
All Components, Inc.	1,000,000	-	1,000,000	-
American Homestar Corporation	(500,704)	1,266,255	1,051,481	2,524,368
Cherokee Communications, Inc.	5,752,958	1,000,000	5,752,938	1,000,000
Data Race, Inc.	5,259,721	223,900	5,764,886	(1,585,400)
Encore Wire Corporation	1,539,000	(2,789,000)	6,865,000	(6,356,000)
LiL'Things, Inc.	-	(318,284)	(1,835,670)	(318,284)
Mail-Well, Inc.	3,123,000	(607,000)	4,956,000	3,062,990
PTS Holdings, Inc.	-	-	3,000,000	-
Palm Harbor Homes, Inc.	-	14,461,000	21,918,000	31,751,777
PETSMART, Inc.	(2,535,101)	(899,000)	2,371,549	5,434,755
The RectorSeal Corporation	-	1,000,000	2,000,000	1,000,000
Skylawn Corporation	(3,000,000)	-	(3,000,000)	-
The Whitmore Manufacturing Co.	1,200,000	(800,000)	1,200,000	(800,000)

On July 31, 1995, Capital Southwest Corporation distributed 940,184 shares (adjusted for the 8/96 stock split) of common stock of Palm Harbor Homes, Inc. on the basis of 1.25 shares 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 \$10.00 per share (adjusted for the 8/96 stock split).

During the quarter ended December 31, 1996, the Company made a new investment of \$3,000,000.

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

February 10, 1997  
Date: \_\_\_\_\_

/s/William R. Thomas  
By: \_\_\_\_\_  
William R. Thomas, President

February 10, 1997  
Date: \_\_\_\_\_

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

EXHIBIT INDEX

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Exhibit Number

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Description

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27

Financial Data Schedule

WARNING: THE EDGAR SYSTEM ENCOUNTERED ERROR(S) WHILE PROCESSING THIS SCHEDULE.

This schedule contains summary financial information extracted from the consolidated statement of financial condition at December 31, 1996 (unaudited) and the consolidated statement of operations for the nine months ended December 31, 1996 (unaudited) and is qualified in its entirety by reference to such financial statements.

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US DOLLARS

9-MOS		
	MAR-31-1996	
	APR-01-1996	
	DEC-31-1996	
		1
	62,802,768	
	310,249,268	
		506,035
		3,059,790
	7,424,267	
		321,239,360
		0
	5,000,000	
	94,526,220	
		99,526,220
		0
	1,984,235	
		3,767,051
		3,767,051
	4,317,669	
		0
	54,199,736	
		0
	161,211,500	
		221,713,140
		1,998,344
		980,906
		451,300
		1,246,199
	2,087,526	
		891,953
	31,946,139	
		34,925,618
		0
	2,260,231	
		0
		0
		0
		0
		0
	32,665,387	
		4,490,374
	53,307,782	
		0
		0
		0
		533,713
		1,246,199
		0
	50.18	
		.56
	8.72	
		(.60)
		0
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		58.86
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