

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, 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 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, 1996

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

CAPITAL SOUTHWEST CORPORATION AND SUBSIDIARY
Consolidated Statements of Financial Condition

Assets	December 31, 1995 ----- (Unaudited)	March 31, 1995 -----
Investments at market or fair value		
Companies more than 25% owned		
(Cost: December 31, 1995 - \$21,944,361, March 31, 1995 - \$15,147,834)	\$ 176,219,000	\$ 143,715,000
Companies 5% to 25% owned		
(Cost: December 31, 1995 - \$12,750,404, March 31, 1995 - \$17,030,438)	17,062,510	31,459,238
Companies less than 5% owned		
(Cost: December 31, 1995 - \$39,157,601, March 31, 1995 - \$17,551,303)	61,972,073	27,586,335
	-----	-----
Total investments		
(Cost: December 31, 1995 - \$73,852,366, March 31, 1995 - \$49,729,575)	255,253,583	202,760,573
Cash and cash equivalents	60,012,209	8,372,976
Receivables	763,271	243,633
Other assets	2,625,557	2,434,231
	-----	-----
Totals	\$ 318,654,620	\$ 213,811,413
	=====	=====
Liabilities and Shareholders' Equity		
Notes payable to bank	\$ 54,425,000	\$ -
Note payable to Skylawn Corporation	2,500,000	-
Accrued interest and other liabilities	2,135,274	1,490,506
Income taxes payable	6,284,110	-
Deferred income taxes	63,591,128	53,951,003
Subordinated debentures	11,000,000	11,000,000
	-----	-----
Total liabilities	139,935,512	66,441,509
	-----	-----
Shareholders' equity		
Common stock, \$1 par value: authorized, 5,000,000 shares; issued, 4,204,416 shares at December 31, 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	4,018,092	3,889,288
Undistributed net realized gain on investments	54,491,564	42,287,133
Unrealized appreciation of investments - net of deferred income taxes	118,225,217	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 \$47.44 per share on the 3,767,051 shares outstanding at December 31, 1995, and \$39.46 per share on the 3,735,051 shares outstanding at March 31, 1995	178,719,108 -----	147,369,904 -----
Totals	\$ 318,654,620 =====	\$ 213,811,413 =====

(See Notes to Consolidated Financial Statements)

CAPITAL SOUTHWEST CORPORATION
AND SUBSIDIARY
Consolidated Statements of Operations

(Unaudited)

	Three Months Ended		Nine Months Ended	
	December 31		December 31	
	1995	1994	1995	1994
	-----	-----	-----	-----
Investment income:				
Interest	\$ 463,764	\$ 458,211	\$ 1,498,038	\$ 1,392,314
Dividends	1,502,418	712,657	2,794,521	1,983,790
Management and directors' fees	149,350	127,750	417,650	390,000
	-----	-----	-----	-----
	2,115,532	1,298,618	4,710,209	3,766,104
	-----	-----	-----	-----
Operating expenses:				
Interest	829,393	361,778	1,416,788	1,081,471
Salaries	221,142	212,301	615,348	551,867
Net pension benefit	(52,175)	(60,357)	(156,526)	(181,072)
Other operating expenses	163,226	161,201	394,516	378,501
	-----	-----	-----	-----
	1,161,586	674,923	2,270,126	1,830,767
	-----	-----	-----	-----
Income before income taxes	953,946	623,695	2,440,083	1,935,337
Income tax expense (benefit)	20,334	(13,760)	57,448	29,903
	-----	-----	-----	-----
Net investment income	\$ 933,612	\$ 637,455	\$ 2,382,635	\$ 1,905,434
	=====	=====	=====	=====
Proceeds from disposition of investments	20,919,308	199,706	20,919,308	1,702,275
Cost of investments sold	2,621,266	602,588	2,621,266	1,333,194
	-----	-----	-----	-----
Realized gain (loss) on investments				
before income taxes	18,298,042	(402,882)	18,298,042	369,081
Income tax expense (benefit)	5,940,235	(141,007)	5,940,235	129,179
	-----	-----	-----	-----
Net realized gain (loss) on investments	12,357,807	(261,875)	12,357,807	239,902
	-----	-----	-----	-----
Increase (decrease) in unrealized appreciation of investments before income taxes and distributions	(3,353,503)	2,735,654	37,634,523	1,964,238
Increase (decrease) in deferred income taxes on appreciation of investments	(1,174,000)	956,000	9,929,000	687,000
	-----	-----	-----	-----
Net increase (decrease) in unrealized appreciation of investments before distributions	(2,179,503)	1,779,654	27,705,523	1,277,238
	-----	-----	-----	-----
Net realized and unrealized gain on investments	\$ 10,178,304	\$ 1,517,779	\$ 40,063,330	\$ 1,517,140
	=====	=====	=====	=====
Increase in net assets from operations before distributions	\$ 11,111,916	\$ 2,155,234	\$ 42,445,965	\$ 3,422,574
	=====	=====	=====	=====

(See Notes to Consolidated Financial Statements)

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

	Nine Months Ended December 31, 1995 ----- (Unaudited)	Year Ended March 31, 1995 -----
Operations		
Net investment income	\$ 2,382,635	\$ 2,446,653
Net realized gain on investments	12,357,807	142,403
Net increase in unrealized appreciation of investments before distributions	27,705,523 -----	13,583,731 -----
Increase in net assets from operations before distributions	42,445,965	16,172,787
Distributions from:		
Undistributed net investment income	(2,253,831)	(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	31,349,204	14,316,506
Net assets, beginning of period	147,369,904 -----	133,053,398 -----
Net assets, end of period	\$ 178,719,108 =====	\$147,369,904 =====

(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	
	----- 1995 -----	----- 1994 -----	----- 1995 -----	----- 1994 -----
Cash flows from operating activities				
Increase in net assets from operations before distributions	\$ 11,111,916	\$ 2,155,234	\$ 42,445,965	\$ 3,422,574
Adjustments to reconcile increase in net assets from operations before distributions to net cash provided by operating activities:				
Depreciation and amortization	8,147	9,566	23,361	31,736
Net pension benefit	(52,175)	(60,357)	(156,526)	(181,072)
Net realized and unrealized gain on investments	(10,178,304)	(1,517,779)	(40,063,330)	(1,584,629)
Decrease (increase) in receivables	(429,008)	278,775	(519,638)	(25,409)
(Increase) decrease in other assets	57,832	20,250	40,282	(13,982)
Increase in accrued interest and other liabilities	602,499	196,028	546,326	169,822
Deferred income taxes	18,000	21,000	55,000	63,000
Net cash provided by operating activities	----- 1,138,907 -----	----- 1,102,717 -----	----- 2,371,440 -----	----- 1,882,040 -----
Cash flows from investing activities				
Proceeds from disposition of investments	964,708	109,406	964,708	1,611,975
Purchases of securities	(1,101,684)	(2,709,941)	(11,978,816)	(9,556,876)
Maturities of securities	4,941,155	574,625	5,051,824	574,625
Net cash provided (used) by investing activities	----- 4,804,179 -----	----- (2,025,910) -----	----- (5,962,284) -----	----- (7,370,276) -----
Cash flows from financing activities				
Increase (decrease) in notes payable to bank	(25,075,000)	-	54,425,000	(75,000,000)
Increase in note payable to Skylawn Corporation	-	-	2,500,000	-
Distributions from undistributed net investment income	(1,506,821)	(1,494,021)	(2,253,831)	(2,241,031)
Distributions from undistributed net realized gain on investments	-	-	(15,842)	-
Proceeds from exercise of employee stock options	-	-	574,750	384,750
Net cash provided (used) by financing activities	----- (26,581,821) -----	----- (1,494,021) -----	----- 55,230,077 -----	----- (76,856,281) -----
Net increase (decrease) in cash and cash equivalents	(20,638,735)	(2,417,214)	51,639,233	(82,344,517)
Cash and cash equivalents at beginning of period	80,650,944	14,355,334	8,372,976	94,282,637
Cash and cash equivalents at end of period	\$ 60,012,209 =====	\$ 11,938,120 =====	\$ 60,012,209 =====	\$ 11,938,120 =====

(Continued)
(See Notes to Consolidated Financial Statements)

CAPITAL SOUTHWEST CORPORATION
AND SUBSIDIARY
Consolidated Statements of Cash Flows

(Unaudited)

Continued

	Three Months Ended December 31		Nine Months Ended December 31	
	1995	1994	1995	1994
	-----	-----	-----	-----
Supplemental disclosure of cash flow information:				
Cash paid during the period for:				
Interest	\$ 233,360	\$ 200,548	\$ 787,117	\$ 918,637
Income taxes	\$ 9	\$ -	\$ 123	\$ 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

 December 31, 1995

(Unaudited)

Assets

Investments at market or fair value	
Companies more than 25% owned (Cost - \$4,759,737)	\$ 47,448,706
Companies 5% to 25% owned (Cost - \$3,814,816)	6,667,905
Companies less than 5% owned (Cost - \$10,360,982)	22,017,263

Total investments (Cost - \$18,935,535)	76,133,874
Cash and cash equivalents	9,705,700
Receivables	537,167
Other assets	66,760

Total	\$ 86,443,501 =====

Liabilities and Shareholder's Equity

Accrued interest and other liabilities	\$ 1,162,484
Deferred income taxes	20,004,000
Subordinated debentures	11,000,000

Total liabilities	32,166,484 -----

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	542,164
Accumulated net realized loss on investments	(66,435)
Unrealized appreciation of investments - net of deferred income taxes	37,194,339

Shareholder's equity	54,277,017 -----

Total	\$ 86,443,501 =====

(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, 1995

(Unaudited)

Investment income:	
Interest	\$ 1,192,671
Dividends	1,033,099

	2,225,770

Operating expenses:	
Interest	711,907
Management fee	151,332
Miscellaneous	43,325

	906,564

Net investment income	\$ 1,319,206
	=====
Proceeds from disposition of investments	\$ 432,100
Cost of investments sold	121,267

Realized gain on investments before income taxes	310,833
Income tax expense	113,041

Net realized gain on investments	197,792

Net increase in unrealized appreciation of investments before distribution (net of increase in deferred income taxes of \$359,000)	9,947,528

Net realized and unrealized gain on investments	\$10,145,320
	=====
Increase in shareholder's equity from operations before distribution	\$11,464,526
	=====

Statements of Changes in Shareholder's Equity

	Nine Months Ended December 31, 1995	Year Ended March 31, 1995
	----- (Unaudited)	-----
Net investment income	\$ 1,319,206	\$ 784,699
Net realized gain on investments	197,792	15,097
Net increase in unrealized appreciation of investments before distribution	9,947,528	5,412,310
	-----	-----
Increase in shareholder's equity from operations before distribution	11,464,526	6,212,106
Capital contribution by Capital Southwest Corporation	2,500,000	-
Distributions to Capital Southwest Corporation from:		
Undistributed net investment income	(1,089,251)	(718,146)
Accumulated net realized loss on investments	(137,765)	-
Unrealized appreciation of investments	(9,279,873)	-
	-----	-----
Increase in shareholder's equity	3,457,637	5,493,960
Shareholder's equity, beginning of period	50,819,380	45,325,420
	-----	-----
Shareholder's equity, end of period	\$ 54,277,017	\$50,819,380
	=====	=====

(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, 1995

(Unaudited)

Cash flows from operating activities	
Increase in shareholder's equity from operations before distribution	\$ 11,464,526
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	(10,145,320)
Increase in receivables	(355,903)
Decrease in other assets	15,031
Increase in accrued interest and other liabilities	844,996

Net cash provided by operating activities	1,823,330

Cash flows from investing activities	
Proceeds from disposition of investments	432,100
Purchases of securities	(667,682)
Maturities of securities	4,780,037

Net cash provided by investing activities	4,544,455

Cash flows from financing activities	
Distributions from undistributed net investment income	(1,089,251)

Net increase in cash and cash equivalents	5,278,534
Cash and cash equivalents at beginning of period	4,427,166

Cash and cash equivalents at end of period	\$ 9,705,700
	=====
Supplemental disclosure of cash flow information:	
Cash paid during the period for:	
Interest	\$ 664,658
Income taxes	\$ 123

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 December 31		Nine Months Ended December 31	
	1995	1994	1995	1994
Investment income	\$.56	\$.35	\$ 1.25	\$ 1.01
Operating expenses	(.09)	(.08)	(.23)	(.20)
Interest expense	(.22)	(.10)	(.38)	(.29)
Income taxes	-	-	(.01)	(.01)
Net investment income	.25	.17	.63	.51
Distributions from undistributed net investment income	(.40)	(.40)	(.60)	(.60)
Distributions from net realized gain on investments	-	-	(.04)	
Distributions from unrealized appreciation of investments	-	-	(2.46)	
Net realized gain (loss) on investments	3.28	(.07)	3.28	.07
Net increase (decrease) in unrealized appreciation of investments before distributions	(.58)	.47	7.36	.34
Exercise of employee stock options	-	-	(.19)	(.09)
Net increase in net asset value	2.55	.17	7.98	.23
Net asset value:				
Beginning of period	44.89	35.87	39.46	35.81
End of period	\$47.44	\$36.04	\$47.44	\$36.04
Shares outstanding at end of period(000s omitted)	3,767	3,735	3,767	3,735

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, 1995 increased from the year-ago period primarily because of additional interest payments by portfolio companies offset somewhat by (a) the repayment of debentures by portfolio companies and (b) the repayment by the Company of a \$4,000,000 12.145% subordinated debenture on March 1, 1995. During the nine months ended December 31, 1995 and 1994, the Company recorded dividend income from the following sources:

	Nine Months Ended December 31	
	1995	1994
	-----	-----
The RectorSeal Corporation	\$1,229,019	\$ 985,112
Alamo Group Inc.	798,000	718,200
Humac Company	208,200	-
Texas Shredder, Inc.	168,750	-
Skylawn Corporation	150,000	-
Cherokee Communications, Inc.	108,000	144,000
Westmarc Communications, Inc.	60,953	60,953
Other	71,599	75,525
	-----	-----
	\$2,794,521	\$1,983,790
	=====	=====

Interest expense in the nine months ended December 31, 1995 increased from the year-ago period primarily due to the interest accrual on the deferred tax related to the installment sale of MESC Holdings, Inc., offset somewhat by the repayment of the subordinated debenture as described above. Salaries in the nine months ended December 31, 1995 increased from the year-ago period due to one additional staff member and routine annual compensation increases.

During the nine months ended December 31, 1995, the Company reported a realized gain before income taxes of \$18,298,042, including a gain of \$17,954,600 from the sale of its investment in MESC Holdings, Inc. mentioned above. 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	
	1995	1994	1995	1994
Alamo Group Inc.	\$ -	\$4,770,000	\$ 3,920,000	\$ (2,158,000)
American Homestar Corporation	1,266,255	(60,650)	2,524,368	587,858
Cherokee Communications, Inc.	1,000,000	1,600,000	1,000,000	1,600,000
CrossTies Software Corporation	-	(674,999)	-	(1,249,999)
Data Race, Inc.	223,900	(379,700)	(1,585,400)	(656,900)
Dennis Tool Company	-	-	(800,000)	-
Encore Wire Corporation	(2,789,000)	(1,552,000)	(6,356,000)	3,461,250
Intelligent Electronics, Inc.	(250,000)	(893,750)	(362,500)	(1,700,000)
Mail-Well, Inc.	(607,000)	-	3,062,990	-
Mylan Laboratories, Inc.	432,965	128,286	299,334	812,478
Palm Harbor Homes, Inc.	14,461,000	-	31,751,777	4,484,600
PETsMART, Inc.	(899,553)	-	5,434,755	615,120
The RectorSeal Corporation	1,000,000	-	1,000,000	1,000,000
Skylawn Corporation	-	-	-	(5,000,000)
The Whitmore Manufacturing Company	(800,000)	-	(800,000)	(400,000)

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 December 31, 1995, the Company made additional investments of \$1,101,684 in existing portfolio companies.

On January 2, 1996, the Company repaid \$50,000,000 of the notes payable to bank from its cash and cash equivalents.

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.

EXHIBIT INDEX

Exhibit Number

Description

27

Financial Data Schedule

PAGE

This schedule contains summary financial information extracted from the Consolidated Statement of Financial Condition at December 31, 1995 (unaudited) and the Consolidated Statement of Operations for the nine months ended December 31, 1995 (unaudited) and is qualified in its entirety by reference to such financial statements.

	9-MOS	
	MAR-31-1995	
	APR-01-1995	
	DEC-31-1995	
	73,852,366	
255,253,583		
	763,271	
	2,625,557	
60,012,209		
	318,654,620	
	0	
11,000,000		
128,935,512		
	139,935,512	
		0
9,017,537		
	3,767,051	
	3,735,051	
4,018,092		
	0	
54,491,564		
	0	
118,225,217		
	178,719,108	
	2,794,521	
	1,498,038	
	417,650	
	2,270,126	
2,382,635		
12,357,807		
27,705,523		
	42,445,965	
		0
2,253,831		
	153,376	
	9,264,304	
	32,000	
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31,349,204		
3,889,288		
42,287,133		
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	1,416,788	
	2,270,126	
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