

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 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)

(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

1

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

CAPITAL SOUTHWEST CORPORATION AND SUBSIDIARY  
Consolidated Statements of Financial Condition

| Assets   | December 31, 1995 | March 31, 1995 |
|--|-------------------|----------------|
| (Unaudited)  |                   |                |
| Investments at market or fair value  |                   |                |
| Companies more than 25% owned  |                   |                |
| (Cost: December 31, 1995 - \$21,944,361,<br>March 31, 1995 - \$15,147,834) | \$ 176,219,000    | \$ 143,715,000 |
| Companies 5% to 25% owned  |                   |                |
| (Cost: December 31, 1995 - \$12,750,404,<br>March 31, 1995 - \$17,030,438) | 17,062,510        | 31,459,238     |
| Companies less than 5% owned   |                   |                |
| (Cost: December 31, 1995 - \$39,157,601,<br>March 31, 1995 - \$17,551,303) | 61,972,073        | 27,586,335     |
| Total investments  |                   |                |
| (Cost: December 31, 1995 - \$73,852,366,<br>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,<br>5,000,000 shares; issued, 4,204,416 shares<br>at December 31, 1995 and 4,172,416 shares<br>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 -<br>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<br>to \$47.44 per share on the 3,767,051 shares<br>outstanding at December 31, 1995, and<br>\$39.46 per share on the 3,735,051 shares<br>outstanding at March 31, 1995 | 178,719,108    | 147,369,904    |
| Totals  | \$ 318,654,620 | \$ 213,811,413 |

(See Notes to Consolidated Financial Statements)

2

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   |
| Dividends                      |                    |           | 1,502,418         | 712,657      |
| Management and directors' fees |                    |           | 149,350           | 127,750      |
|                                | 2,115,532          | 1,298,618 | 4,710,209         | 3,766,104    |
| Operating expenses:            |                    |           |                   |              |
| Interest                       |                    |           | 829,393           | 361,778      |
| Salaries                       |                    |           | 221,142           | 212,301      |
| Net pension benefit            |                    |           | (52,175)          | (60,357)     |
| Other operating expenses       |                    |           | 163,226           | 161,201      |
|                                | 1,161,586          | 674,923   | 2,270,126         | 1,830,767    |
| Income before income taxes     |                    |           | 953,946           | 623,695      |
| Income tax expense (benefit)   |                    |           | 20,334            | (13,760)     |
| 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)

3

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

Nine Months Ended      Year Ended  
December 31, 1995      March 31, 1995  
-----

(Unaudited)

|   |                |               |
|---|----------------|---------------|
| 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)

4

CAPITAL SOUTHWEST CORPORATION  
AND SUBSIDIARY  
Consolidated Statements of Cash Flows

(Unaudited)

|  | Three Months Ended |               | Nine Months Ended |               |
|--|--------------------|---------------|-------------------|---------------|
|  | December 31        |               | 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  |
| 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        |
| Net pension benefit  |                    | (52,175)      | (60,357)          | (156,526)     |
| Net realized and unrealized gain on investments  |                    | (10,178,304)  | (1,517,779)       | (40,063,330)  |
| Decrease (increase) in receivables   |                    | (429,008)     | 278,775           | (519,638)     |
| (Increase) decrease in other assets  |                    | 57,832        | 20,250            | 40,282        |
| Increase in accrued interest and other liabilities   |                    | 602,499       | 196,028           | 546,326       |
| Deferred income taxes  |                    | 18,000        | 21,000            | 55,000        |
| Net cash provided by operating activities  |                    | 1,138,907     | 1,102,717         | 2,371,440     |
| Cash flows from investing activities   |                    |               |                   |               |
| Proceeds from disposition of investments   |                    | 964,708       | 109,406           | 964,708       |
| Purchases of securities  |                    | (1,101,684)   | (2,709,941)       | (11,978,816)  |
| Maturities of securities   |                    | 4,941,155     | 574,625           | 5,051,824     |
| Net cash provided (used) by investing activities   |                    | 4,804,179     | (2,025,910)       | (5,962,284)   |
| Cash flows from financing activities   |                    |               |                   |               |
| Increase (decrease) in notes payable to bank   |                    | (25,075,000)  | -                 | 54,425,000    |
| 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)   |
| 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   |                    | (26,581,821)  | (1,494,021)       | 55,230,077    |
| Net increase (decrease) in cash and cash equivalents   |                    | (20,638,735)  | (2,417,214)       | 51,639,233    |
| Cash and cash equivalents at beginning of period   |                    | 80,650,944    | 14,355,334        | 8,372,976     |
| Cash and cash equivalents at end of period   |                    | \$ 60,012,209 | \$ 11,938,120     | \$ 60,012,209 |

(Continued)

(See Notes to Consolidated Financial Statements)

5

CAPITAL SOUTHWEST CORPORATION  
AND SUBSIDIARY  
Consolidated Statements of Cash Flows

(Unaudited)

Continued

|  | Three Months Ended |      | Nine Months Ended |      |
|--|--------------------|------|-------------------|------|
|  | December 31        |      | 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)

6

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;<br>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<br>income taxes                              | 37,194,339    |
| -----   |               |
| Shareholder's equity  | 54,277,017    |
| -----   |               |
| Total   | \$ 86,443,501 |
| =====   |               |

(See Notes to Consolidated Financial Statements)

7

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<br>before distribution (net of increase in deferred<br>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<br>before distribution  | \$11,464,526 |
|  | =====        |

8

Statements of Changes in Shareholder's Equity

|   | Nine Months Ended<br>December 31, 1995 | Year Ended<br>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<br>investments before distribution | 9,947,528                              | 5,412,310                    |
|   | -----                                  | -----                        |
| Increase in shareholder's equity from<br>operations before distribution       | 11,464,526                             | 6,212,106                    |
| Capital contribution by Capital<br>Southwest Corporation                      | 2,500,000                              | -                            |
| Distributions to Capital Southwest<br>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)

10

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.

11

2. Summary of Per Share Information

|   | Three Months Ended<br>December 31 |      | Nine Months Ended<br>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<br>net investment income                                       |                                   |      | (.40)                            | (.40)   | (.60)   | (.60)   |
| Distributions from net realized<br>gain on investments  |                                   |      | -                                | -       | (.04)   |         |
| Distributions from unrealized<br>appreciation of investments                                    |                                   |      | -                                | -       | (2.46)  |         |
| Net realized gain (loss) on<br>investments  |                                   |      | 3.28                             | (.07)   | 3.28    | .07     |
| Net increase (decrease) in<br>unrealized appreciation of<br>investments before<br>distributions |                                   |      | (.58)                            | .47     | 7.36    | .34     |
| Exercise of employee stock<br>options<F1>   |                                   |      | -                                | -       | (.19)   | (.09)   |
| Net increase in net asset<br>value  |                                   |      | 2.55                             | .17     | 7.98    | .23     |
| Net asset value:<br>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<br>of period(000s omitted)  |                                   |      | 3,767                            | 3,735   | 3,767   | 3,735   |

<FN>

<F1> Net decrease is due to the exercise of employee stock options at prices less than beginning of period net asset value.

</FN>

12

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<br>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.

13

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  |             | Nine Months Ended   |                |
|------------------------------------|---------------------|-------------|---------------------|----------------|
|                                    | December 31<br>1995 | 1994        | December 31<br>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.

14

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: February 13, 1996           By: /s/ William R. Thomas  
  William R. Thomas, President

Date: February 13, 1996           By: /s/ Tim Smith  
  Tim Smith, Vice President  
and Secretary-Treasurer

15

EXHIBIT INDEX

-----

| Exhibit Number | Description             |
|----------------|-------------------------|
| -----          | -----                   |
| 27             | Financial Data Schedule |

PAGE

<ARTICLE> 6

<LEGEND>

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.

</LEGEND>

|                             |             |
|-----------------------------|-------------|
| <PERIOD-TYPE>               | 9-MOS       |
| <FISCAL-YEAR-END>           | MAR-31-1995 |
| <PERIOD-START>              | APR-01-1995 |
| <PERIOD-END>                | DEC-31-1995 |
| <INVESTMENTS-AT-COST>       | 73,852,366  |
| <INVESTMENTS-AT-VALUE>      | 255,253,583 |
| <RECEIVABLES>               | 763,271     |
| <ASSETS-OTHER>              | 2,625,557   |
| <OTHER-ITEMS-ASSETS>        | 60,012,209  |
| <TOTAL-ASSETS>              | 318,654,620 |
| <PAYABLE-FOR-SECURITIES>    | 0           |
| <SENIOR-LONG-TERM-DEBT>     | 11,000,000  |
| <OTHER-ITEMS-LIABILITIES>   | 128,935,512 |
| <TOTAL-LIABILITIES>         | 139,935,512 |
| <SENIOR-EQUITY>             | 0           |
| <PAID-IN-CAPITAL-COMMON>    | 9,017,537   |
| <SHARES-COMMON-STOCK>       | 3,767,051   |
| <SHARES-COMMON-PRIOR>       | 3,735,051   |
| <ACCUMULATED-NII-CURRENT>   | 4,018,092   |
| <OVERDISTRIBUTION-NII>      | 0           |
| <ACCUMULATED-NET-GAINS>     | 54,491,564  |
| <OVERDISTRIBUTION-GAINS>    | 0           |
| <ACCUM-APPREC-OR-DEPREC>    | 118,225,217 |
| <NET-ASSETS>                | 178,719,108 |
| <DIVIDEND-INCOME>           | 2,794,521   |
| <INTEREST-INCOME>           | 1,498,038   |
| <OTHER-INCOME>              | 417,650     |
| <EXPENSES-NET>              | 2,270,126   |
| <NET-INVESTMENT-INCOME>     | 2,382,635   |
| <REALIZED-GAINS-CURRENT>    | 12,357,807  |
| <APPREC-INCREASE-CURRENT>   | 27,705,523  |
| <NET-CHANGE-FROM-OPS>       | 42,445,965  |
| <EQUALIZATION>              | 0           |
| <DISTRIBUTIONS-OF-INCOME>   | 2,253,831   |
| <DISTRIBUTIONS-OF-GAINS>    | 153,376     |
| <DISTRIBUTIONS-OTHER>       | 9,264,304   |
| <NUMBER-OF-SHARES-SOLD>     | 32,000      |
| <NUMBER-OF-SHARES-REDEEMED> | 0           |
| <SHARES-REINVESTED>         | 0           |
| <NET-CHANGE-IN-ASSETS>      | 31,349,204  |
| <ACCUMULATED-NII-PRIOR>     | 3,889,288   |
| <ACCUMULATED-GAINS-PRIOR>   | 42,287,133  |
| <OVERDISTRIB-NII-PRIOR>     | 0           |
| <OVERDIST-NET-GAINS-PRIOR>  | 0           |
| <GROSS-ADVISORY-FEES>       | 0           |
| <INTEREST-EXPENSE>          | 1,416,788   |
| <GROSS-EXPENSE>             | 2,270,126   |
| <AVERAGE-NET-ASSETS>        | 0           |
| <PER-SHARE-NAV-BEGIN>       | 39.46       |
| <PER-SHARE-NII>             | 0.63        |
| <PER-SHARE-GAIN-APPREC>     | 10.64       |
| <PER-SHARE-DIVIDEND>        | (0.60)      |
| <PER-SHARE-DISTRIBUTIONS>   | (0.04)      |
| <RETURNS-OF-CAPITAL>        | (2.46)      |
| <PER-SHARE-NAV-END>         | 47.44       |
| <EXPENSE-RATIO>             | 0           |
| <AVG-DEBT-OUTSTANDING>      | 0           |
| <AVG-DEBT-PER-SHARE>        | 0           |

