

Capital Southwest Corporation  
12900 Preston Road, Suite 700  
Dallas, Texas 75230

(214) 233-8242 Telephone

Fax (214) 233-7362

August 9, 1996

Securities and Exchange Commission  
450 5th Street, N.W.  
Judiciary Plaza  
Washington, DC 20549

Gentlemen:

Pursuant to regulations of the Securities and Exchange Commission, submitted for filing on behalf of Capital Southwest Corporation is the Company's Form 10-Q for the quarter ended June 30, 1996.

This filing is being effected by direct transmission to the Commission's EDGAR System.

Sincerely,

Susan Patterson  
Controller

SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
-----

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934  
-----

For the Quarter Ended June 30, 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)

(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 July 31, 1996

## PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements

CAPITAL SOUTHWEST CORPORATION AND SUBSIDIARY  
Consolidated Statements of Financial Condition

Assets	June 30, 1996 ----- (Unaudited)	March 31, 1996 -----
Investments at market or fair value		
Companies more than 25% owned (Cost: June 30, 1996 - \$21,480,361, March 31, 1996 - \$21,480,361)	\$195,575,920	\$191,043,920
Companies 5% to 25% owned (Cost: June 30, 1996 - \$21,750,404, March 31, 1996 - \$18,750,404)	21,879,542	19,633,672
Companies less than 5% owned (Cost: June 30, 1996 - \$18,313,335, March 31, 1996 - \$18,313,335)	55,228,659 -----	46,252,869 -----
Total investments (Cost: June 30, 1996 - \$61,544,100, March 31, 1996 - \$58,544,100)	272,684,121	256,930,461
Cash and cash equivalents	13,903,074	67,045,185
Receivables	365,187	285,002
Other assets	2,819,636 -----	2,711,802 -----
Totals	\$289,772,018 =====	\$326,972,450 =====
Liabilities and Shareholders' Equity		
Note payable to bank	\$ -	\$ 50,000,000
Accrued interest and other liabilities	1,634,459	1,669,839
Income taxes payable	6,050,730	6,050,730
Deferred income taxes	73,685,128	69,204,128
Subordinated debentures	11,000,000 -----	11,000,000 -----
Total liabilities	92,370,317 -----	137,924,697 -----
Shareholders' equity		
Common stock, \$1 par value: authorized, 5,000,000 shares; issued, 4,204,416 shares at June 30, 1996 and March 31, 1996	4,204,416	4,204,416
Additional capital	4,813,121	4,813,121
Undistributed net investment income	4,553,662	4,490,374
Undistributed net realized gain on investments	53,307,782	53,307,782
Unrealized appreciation of investments - net of deferred income taxes	137,556,022	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 \$52.40 per share at June 30, 1996, and \$50.18 per share at March 31, 1996 on the 3,767,051 shares outstanding	197,401,701 -----	189,047,753 -----
Totals	\$289,772,018 =====	\$326,972,450 =====

(See Notes to Consolidated Financial Statements)

CAPITAL SOUTHWEST CORPORATION  
AND SUBSIDIARY  
Consolidated Statements of Operations  
(Unaudited)

	Three Months Ended June 30	
	1996 ----	1995 ----
Investment income:		
Interest	\$ 369,947	\$ 527,053
Dividends	802,484	645,654
Management and directors' fees	157,100	140,550
	-----	-----
	1,329,531	1,313,257
Operating expenses:		
Interest	235,613	236,709
Salaries	190,271	179,599
Net pension expense (benefit)	(52,175)	(60,358)
Other operating expenses	121,124	120,660
	-----	-----
	494,833	476,610
Income before income taxes	834,698	836,647
Income tax expense	18,000	21,000
	-----	-----
Net investment income	\$ 816,698	\$ 815,647
	=====	=====
Increase in unrealized appreciation of investments before income taxes	12,753,660	4,019,868
Increase in deferred income taxes on appreciation of investments	4,463,000	1,407,000
	-----	-----
Net increase in unrealized appreciation of investments	8,290,660	2,612,868
	-----	-----
Net realized and unrealized gain on investments	\$ 8,290,660	\$2,612,868
	=====	=====
Increase in net assets from operations	\$ 9,107,358	\$3,428,515
	=====	=====

(See Notes to Consolidated Financial Statements)

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

	Three Months Ended June 30, 1996 ----- (Unaudited)	Year Ended March 31, 1996 -----
Operations		
Net investment income	\$ 816,698	\$ 2,854,917
Net realized gain on investments	-	11,174,025
Net increase in unrealized appreciation of investments before distributions	8,290,660 -----	38,745,668 -----
Increase in net assets from operations before distributions	9,107,358	52,774,610
Distributions from:		
Undistributed net investment income	(753,410)	(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	8,353,948	41,677,849
Net assets, beginning of period	189,047,753 -----	147,369,904 -----
Net assets, end of period	\$197,401,701 =====	\$189,047,753 =====

(See Notes to Consolidated Financial Statements)

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

	Three Months Ended June 30	
	1996 -----	1995 -----
Cash flows from operating activities		
Increase in net assets from operations	\$9,107,358	\$3,428,515
Adjustments to reconcile increase in net assets from operations before distributions to net cash provided by operating activities:		
Depreciation and amortization	10,471	7,608
Net pension benefit	(52,175)	(60,358)
Net realized and unrealized gain on investments	(8,290,660)	(2,612,868)
Increase in receivables	(80,185)	(12,249)
Increase in other assets	(33,315)	(32,245)
Decrease in accrued interest and other liabilities	(68,195)	(48,777)
Deferred income taxes	18,000	21,000
	-----	-----
Net cash provided by operating activities	611,299	690,626
	-----	-----
Cash flows from investing activities		
Purchases of securities	(3,000,000)	-
Maturities of securities	-	110,669
	-----	-----
Net cash provided (used) by investing activities	(3,000,000)	110,669
	-----	-----
Cash flows from financing activities		
Decrease in note payable to bank	(50,000,000)	-
Distributions from undistributed net investment income	(753,410)	(747,010)
	-----	-----
Net cash used by financing activities	(50,753,410)	(747,010)
	-----	-----
Net increase (decrease) in cash and cash equivalents	(53,142,111)	54,285
Cash and cash equivalents at beginning of period	67,045,185	8,372,976
	-----	-----
Cash and cash equivalents at end of period	\$13,903,074	\$8,427,261
	=====	=====
Supplemental disclosure of cash flow information:		
Cash paid during the period for:		
Interest	\$ 200,548	\$ 199,452
Income taxes	\$ -	\$ -

(See Notes to Consolidated Financial Statements)

CAPITAL SOUTHWEST VENTURE CORPORATION  
(wholly-owned subsidiary of Capital Southwest Corporation)  
Statement of Financial Condition  
June 30, 1996  
(Unaudited)

Assets	
Investments at market or fair value	
Companies more than 25% owned (Cost - \$4,295,737)	\$44,416,862
Companies 5% to 25% owned (Cost - \$3,814,816)	5,359,771
Companies less than 5% owned (Cost - \$9,260,982)	27,708,376
	-----
Total investments (Cost - \$17,371,535)	77,485,009
Cash and cash equivalents	10,172,434
Interest and dividends receivable	118,713
Other assets	60,488
	-----
Total	\$87,836,644
	=====
Liabilities and Shareholder's Equity	
Accrued interest and other liabilities	\$ 243,123
Deferred income taxes	20,674,000
Subordinated debentures	11,000,000
	-----
Total liabilities	31,917,123
	-----
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	1,039,565
Accumulated net realized loss on investments	(816,467)
Unrealized appreciation of investments - net of deferred income taxes	39,089,474
	-----
Shareholder's equity	55,919,521
	-----
Total	\$87,836,644
	=====

(See Notes to Consolidated Financial Statements)

CAPITAL SOUTHWEST VENTURE CORPORATION  
(wholly-owned subsidiary of Capital Southwest Corporation)  
Statement of Operations  
Three Months Ended June 30, 1996  
(Unaudited)

Investment income:	
Interest	\$266,681
Dividends	313,791
	-----
	580,472
	-----
Operating expenses:	
Interest	235,613
Management fee	32,103
Miscellaneous	4,853
	-----
	272,569
	-----
Net investment income	\$307,903
	=====
Net decrease in unrealized appreciation of investments (net of decrease in deferred income taxes of \$442,000)	\$ (819,862)
	-----
Net realized and unrealized loss on investments	\$ (819,862)
	=====
Decrease in shareholder's equity from operations	\$ (511,959)
	=====

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

	Three Months Ended June 30, 1996 ----- (Unaudited)	Year Ended March 31, 1996 -----
Net investment income	\$307,903	\$ 1,508,704
Net realized loss on investments	-	(552,240)
Net increase (decrease) in unrealized appreciation of investments before distribution	(819,862)	12,662,525
	-----	-----
Increase (decrease) in shareholder's equity from operations before distribution	(511,959)	13,618,989
Capital contribution by Capital Southwest Corporation	-	2,500,000
Distributions to Capital Southwest Corporation from:		
Undistributed net investment income	-	(1,089,251)
Accumulated net realized loss on investments	-	(137,765)
Unrealized appreciation of investments	-	(9,279,873)
	-----	-----
Increase (decrease) in shareholder's equity	(511,959)	5,612,100
Shareholder's equity, beginning of period	56,431,480	50,819,380
	-----	-----
Shareholder's equity, end of period	\$55,919,521	\$56,431,480
	=====	=====

(See Notes to Consolidated Financial Statements)



CAPITAL SOUTHWEST VENTURE CORPORATION  
(wholly-owned subsidiary of Capital Southwest Corporation)  
Statement of Cash Flows  
Three Months Ended June 30, 1996  
(Unaudited)

Cash flows from operating activities	
Decrease in shareholder's equity from operations	\$(511,959)
Adjustments to reconcile decrease in shareholder's equity from operations to net cash provided by operating activities:	
Net realized and unrealized loss on investments	819,862
Increase in interest and dividends receivable	(15,431)
Decrease in other assets	1,262
Decrease in accrued interest and other liabilities	(97,095)
	-----
Net cash provided by operating activities	196,639
	-----
Cash flows from investing activities	-
	-----
Cash flows from financing activities	-
	-----
Net increase in cash and cash equivalents	196,639
Cash and cash equivalents at beginning of period	9,975,795
	-----
Cash and cash equivalents at end of period	\$10,172,434
	=====
Supplemental disclosure of cash flow information:	
Cash paid during the period for:	
Interest	\$ 200,548
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 June 30	
	1996	1995
Investment income	\$ .35	\$ .35
Operating expenses	(.07)	(.07)
Interest expense	(.06)	(.06)
Income taxes	-	(.01)
	-----	-----
Net investment income	.22	.21
Distributions from undistributed net investment income	(.20)	(.20)
Net increase in unrealized appreciation of investments	2.20	.70
	-----	-----
Increase in net asset value	2.22	.71
Net asset value:		
Beginning of period	50.18	39.46
	-----	-----
End of period	\$52.40	\$40.17
	=====	=====
Shares outstanding at end of period (000s omitted)	3,767	3,735

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Interest income in the three months ended June 30, 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 three months ended June 30, 1996 and 1995, the Company recorded dividend income from the following sources:

	Three Months Ended June 30	
	1996	1995
The RectorSeal Corporation	\$300,000	\$300,000
Alamo Group Inc.	266,000	266,000
Skylawn Corporation	150,000	-
Cherokee Communications, Inc.	36,000	36,000
Westmarc Communications, Inc.	20,318	20,318
Other	30,166	23,336
	-----	-----
	\$802,484	\$645,654
	=====	=====

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 June 30	
	1996	1995
Alamo Group Inc.	\$ (4,825,000)	\$2,311,000
American Homestar Corporation	2,052,890	288,088
Amfibe, Inc.	600,000	-
Data Race, Inc.	-	812,000
Dennis Tool Company	-	(800,000)
Encore Wire Corporation	155,000	(3,111,600)
LiL' Things, Inc.	(918,130)	-
PTS Holdings, Inc.	3,000,000	-
Palm Harbor Homes, Inc.	9,350,000	-
PETSMART, Inc.	3,598,210	2,454,044
Tecnol Medical Products, Inc.	252,676	551,292

During the quarter ended June 30, 1996, the Company made a new investment of \$3,000,000.

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

August 9, 1996 /s/William R. Thomas  
Date: \_\_\_\_\_ By: \_\_\_\_\_  
William R. Thomas, President

August 9, 1996 /s/Tim Smith  
Date: \_\_\_\_\_ By: \_\_\_\_\_  
Tim Smith, Vice President and Secretary-Treasurer

EXHIBIT INDEX  
-----

Exhibit Number  
-----

Description  
-----

Exhibit 27

Financial Data Schedule



This schedule contains summary financial information extracted from the consolidated statement of financial condition at June 30, 1996 (unaudited) and the consolidated statement of operations for the three months ended June 30, 1996 (unaudited) and is qualified in its entirety by reference to such financial statements.

3-MOS	MAR-31-1996	JUN-30-1996
	61,544,100	
	272,684,121	
		365,187
		2,819,636
	13,903,074	
		289,772,018
	0	
	11,000,000	
	81,370,317	
	92,370,317	0
	9,017,537	
	3,767,051	
	3,767,051	
	4,553,662	
	0	
	53,307,782	
	0	
	137,556,022	
		197,401,701
		802,484
		369,947
		157,100
		494,833
	816,698	
	0	
	8,290,660	
	9,107,358	
		0
	753,410	
	0	
		0
		0
	0	
		0
	8,353,948	
	4,490,374	
	53,307,782	
	0	
	0	
		0
		235,613
		494,833
		0
	50.18	
		.22
	2.20	
	(.20)	
	0	
		0
	52.40	
		0
	0	
	0	