

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, 1997

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 July 31, 1997

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

CAPITAL SOUTHWEST CORPORATION AND SUBSIDIARY
Consolidated Statements of Financial Condition

Assets	June 30, 1997 ----- (Unaudited)	March 31, 1997 -----
Investments at market or fair value		
Companies more than 25% owned (Cost: June 30, 1997 - \$20,552,361, March 31, 1997 - \$20,552,361)	\$222,027,920	\$203,399,920
Companies 5% to 25% owned (Cost: June 30, 1997 - \$19,979,904, March 31, 1997 - \$19,979,904)	50,100,002	35,747,002
Companies less than 5% owned (Cost: June 30, 1997 - \$17,318,611, March 31, 1997 - \$19,375,650)	44,508,521 -----	54,144,104 -----

Total investments		
(Cost: June 30, 1997 - \$57,850,876,		
March 31, 1997 - \$59,907,915)	316,636,443	293,291,026
Cash and cash equivalents	15,885,184	14,009,481
Receivables	240,937	279,815
Receivable for securities sold	12,808,110	-
Other assets	3,325,507	3,180,171
	-----	-----
Totals	\$348,896,181	\$310,760,493
	=====	=====
Liabilities and Shareholders' Equity		
Accrued interest and other liabilities	\$ 1,570,342	\$ 1,735,372
Income taxes payable	7,627,295	3,184,373
Deferred income taxes	90,790,228	81,868,628
Subordinated debentures	5,000,000	5,000,000
	-----	-----
Total liabilities	104,987,865	91,788,373
	-----	-----
Shareholders' equity		
Common stock, \$1 par value: authorized,		
5,000,000 shares; issued, 4,204,416 shares		
at June 30, 1997 and March 31, 1997	4,204,416	4,204,416
Additional capital	4,813,121	4,813,121
Undistributed net investment income	4,977,804	4,804,205
Undistributed net realized gain on investments	68,364,709	60,113,568
Unrealized appreciation of investments -		
net of deferred income taxes	168,581,568	152,070,112
Treasury stock - at cost (437,365 shares)	(7,033,302)	(7,033,302)
	-----	-----
Net assets at market or fair value, equivalent		
to \$64.75 per share at June 30, 1997, and		
\$58.13 per share at March 31, 1997 on the		
3,767,051 shares outstanding	243,908,316	218,972,120
	-----	-----
Totals	\$348,896,181	\$310,760,493
	=====	=====

(See Notes to Consolidated Financial Statements)

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CAPITAL SOUTHWEST CORPORATION
AND SUBSIDIARY
Consolidated Statements of Operations

(Unaudited)

	Three Months Ended	
	June 30	
	1997	1996
	----	----
Investment income:		
Interest	\$ 400,032	\$ 369,947
Dividends	773,857	802,484
Management and directors' fees	131,100	157,100
	-----	-----
	1,304,989	1,329,531
	-----	-----
Operating expenses:		
Interest	102,008	235,613
Salaries	209,624	190,271
Net pension expense (benefit)	(87,476)	(52,175)
Other operating expenses	123,224	121,124
	-----	-----
	347,380	494,833
	-----	-----
Income before income taxes	957,609	834,698
Income tax expense	30,600	18,000
	-----	-----
Net investment income	\$ 927,009	\$ 816,698
	=====	=====
Proceeds from disposition of investments	\$15,174,179	\$ -

Cost of investments sold	2,480,116	-
Realized gain on investments before income taxes	12,694,063	-
Income tax expense	4,442,922	-
Net realized gain on investments	8,251,141	-
Increase in unrealized appreciation of investments before income taxes	25,402,456	12,753,660
Increase in deferred income taxes on appreciation of investments	8,891,000	4,463,000
Net increase in unrealized appreciation of investments	16,511,456	8,290,660
Net realized and unrealized gain on investments	\$24,762,597	\$ 8,290,660
Increase in net assets from operations	\$25,689,606	\$ 9,107,358

(See Notes to Consolidated Financial Statements)

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

	Three Months Ended June 30, 1997 ----- (Unaudited)	Year Ended March 31, 1997 -----
Operations		
Net investment income	\$ 927,009	\$ 2,574,062
Net realized gain on investments	8,251,141	6,805,786
Net increase in unrealized appreciation of investments	16,511,456	22,804,750
Increase in net assets from operations	25,689,606	32,184,598
Distributions from:		
Undistributed net investment income	(753,410)	(2,260,231)
Increase in net assets	24,936,196	29,924,367
Net assets, beginning of period	218,972,120	189,047,753
Net assets, end of period	\$243,908,316	\$218,972,120

(See Notes to Consolidated Financial Statements)

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CAPITAL SOUTHWEST CORPORATION
AND SUBSIDIARY
Consolidated Statements of Cash Flows

(Unaudited)

	Three Months Ended June 30 -----	
	1997 ----	1996 ----
Cash flows from operating activities		
Increase in net assets from operations	\$ 25,689,606	\$ 9,107,358
Adjustments to reconcile increase in net assets from operations to net cash provided by operating activities:		
Depreciation and amortization	5,943	10,471
Net pension benefit	(87,476)	(52,175)
Net realized and unrealized gain on investments	(24,762,597)	(8,290,660)
Decrease (increase) in receivables	38,878	(80,185)
Increase in other assets	(30,830)	(33,315)
Decrease in accrued interest and other liabilities	(198,004)	(68,195)
Deferred income taxes	30,600	18,000
Net cash provided by operating activities	----- 686,120	----- 611,299
Cash flows from investing activities		
Proceeds from disposition of investments	2,366,070	-
Purchases of securities	(423,077)	(3,000,000)
Maturities of securities	-	-
Net cash provided (used) by investing activities	----- 1,942,993	----- (3,000,000)
Cash flows from financing activities		
Decrease in note payable to bank	-	(50,000,000)
Distributions from undistributed net investment income	(753,410)	(753,410)
Net cash used by financing activities	----- (753,410)	----- (50,753,410)
Net increase (decrease) in cash and cash equivalents	1,875,703	(53,142,111)
Cash and cash equivalents at beginning of period	14,009,481	67,045,185
Cash and cash equivalents at end of period	=====	=====
	\$15,885,184	\$13,903,074
Supplemental disclosure of cash flow information:		
Cash paid during the period for:		
Interest	\$199,452	\$200,548
Income taxes	\$ -	\$ -

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, 1997. 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	
	1997	1996
Investment income	\$.35	\$.35
Operating expenses	(.06)	(.07)
Interest expense	(.03)	(.06)
Income taxes	(.01)	-
	.25	.22
Net investment income	.25	.22
Net realized gain on investments	2.19	-
Net increase in unrealized appreciation of investments	4.38	2.20
Distributions from undistributed net investment income	(.20)	(.20)
	6.62	2.22
Net increase in net asset value	6.62	2.22
Net asset value:		
Beginning of period	58.13	50.18
	\$64.75	\$52.40
	=====	=====
End of period	\$64.75	\$52.40
	=====	=====
Shares outstanding at end of period (000s omitted)	3,767	3,767

Interest income in the three months ended June 30, 1997 increased from the year-ago period primarily because of interest payments by a new portfolio company offset somewhat by a decrease in average idle funds invested for the quarter and the repayment of a debenture in December 1996 by a portfolio company. During the three months ended June 30, 1997 and 1996, the Company recorded dividend income from the following sources:

	Three Months Ended June 30	
	1997	1996
	-----	-----
Alamo Group Inc.	\$266,000	\$266,000
The RectorSeal Corporation	240,000	300,000
Skylawn Corporation	150,000	150,000
The Whitmore Manufacturing Company	60,000	-
Cherokee Communications, Inc.	-	36,000
Westmarc Communications, Inc.	20,318	20,318
Other	37,539	30,166
	-----	-----
	\$773,857	\$802,484
	=====	=====

Interest expense in the three months ended June 30, 1997 decreased from the year-ago period due to the repayment of a subordinated debenture on September 1, 1996.

During the three months ended June 30, 1997, the Company reported a realized gain before income taxes of \$12,694,063. 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 June 30	
	1997	1996
	-----	-----
Alamo Group Inc.	\$4,287,000	\$(4,285,000)
American Homestar Corporation	2,065,412	2,052,890
Amfibe, Inc.	-	600,000
Encore Wire Corporation	6,059,000	155,000
LiL' Things, Inc.	-	(918,130)
Mail-Well, Inc.	8,294,000	9,000
Palm Harbor Homes, Inc.	14,328,000	9,350,000
PETsmART, Inc.	(5,601,759)	3,598,210
Tecnol Medical Products, Inc.	1,148,525	252,676
Tele-Communications, Inc. - TCI Group	528,750	(90,000)

During the quarter ended June 30, 1997, the Company made a new investment of \$423,077.

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.

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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: August 12, 1997

By: /s/ William R. Thomas

William R. Thomas, President
/s/ Tim Smith

Date: August 12, 1997

By: -----
Tim Smith, Vice President and
Secretary-Treasurer

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<ARTICLE> 6

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This schedule contains summary financial information extracted from the Consolidated Statement of Financial Condition at June 30, 1997 (unaudited) and the Consolidated Statement of Operations for the three months ended June 30, 1997 (unaudited) and is qualified in its entirety by reference to such financial statements.

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