

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 September 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.

3,773,601 shares of Common Stock, \$1 Par Value as of October 31, 1997

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

CAPITAL SOUTHWEST CORPORATION AND SUBSIDIARY
 Consolidated Statements of Financial Condition

Assets	September 30, 1997	March 31, 1997
	-----	-----
	(Unaudited)	
Investments at market or fair value		
Companies more than 25% owned		
(Cost: September 30, 1997 - \$20,552,361, March 31, 1997 - \$20,552,361)	\$ 240,374,920	\$ 203,399,920
Companies 5% to 25% owned		
(Cost: September 30, 1997 - \$19,979,904, March 31, 1997 - \$19,979,904)	60,420,002	35,747,002
Companies less than 5% owned		
(Cost: September 30, 1997 - \$16,920,117, March 31, 1997 - \$19,375,650)	50,123,448	54,144,104
	-----	-----
Total investments		
(Cost: September 30, 1997- \$57,452,382, March 31, 1997 - \$59,907,915)	350,918,370	293,291,026
Cash and cash equivalents	30,959,954	14,009,481
Receivables	332,888	279,815
Other assets	3,436,777	3,180,171
	-----	-----
Totals	\$ 385,647,989	\$ 310,760,493
	=====	=====
Liabilities and Shareholders' Equity		
Accrued interest and other liabilities	\$ 1,723,714	\$ 1,735,372
Income taxes payable	8,001,363	3,184,373
Deferred income taxes	102,952,428	81,868,628
Subordinated debentures	5,000,000	5,000,000

Total liabilities	----- 117,677,505 -----	----- 91,788,373 -----
Shareholders' equity		
Common stock, \$1 par value: authorized, 5,000,000 shares; issued, 4,210,966 shares at September 30, 1997 and 4,204,416 shares at March 31, 1997	4,210,966	4,204,416
Additional capital	4,965,665	4,813,121
Undistributed net investment income	5,643,760	4,804,205
Undistributed net realized gain on investments	69,059,406	60,113,568
Unrealized appreciation of investments - net of deferred income taxes	191,123,989	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 \$71.01 per share on the 3,773,601 shares outstanding at September 30, 1997, and \$58.13 per share on the 3,767,051 shares outstanding at March 31, 1997	267,970,484	218,972,120
	-----	-----
Totals	\$ 385,647,989 =====	\$ 310,760,493 =====

(See Notes to Consolidated Financial Statements)

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

	Three Months Ended September 30		Six Months Ended September 30	
	1997	1996	1997	1996
Investment income:				
Interest	\$ 589,637	\$ 314,755	\$ 989,669	\$ 684,702
Dividends	324,381	802,483	1,098,238	1,604,967
Management and directors' fees	138,600	141,100	269,700	298,200
	-----	-----	-----	-----
	1,052,618	1,258,338	2,357,607	2,587,869
	-----	-----	-----	-----
Operating expenses:				
Interest	103,103	194,997	205,111	430,610
Salaries	208,500	198,611	418,124	388,882
Net pension expense (benefit)	(69,279)	(122,777)	(156,755)	(174,952)
Other operating expenses	118,214	110,915	241,438	232,039
	-----	-----	-----	-----
	360,538	381,746	707,918	876,579
	-----	-----	-----	-----
Income before income taxes	692,080	876,592	1,649,689	1,711,290
Income tax expense	26,124	47,825	56,724	65,825
	-----	-----	-----	-----
Net investment income	\$ 665,956	\$ 828,767	\$ 1,592,965	\$ 1,645,465
	=====	=====	=====	=====
Proceeds from disposition of investments	\$ 1,267,880	\$ --	\$ 16,442,059	\$ --
Cost of investments sold	199,115	--	2,679,231	--
	-----	-----	-----	-----
Realized gain on investments before income taxes	1,068,765	--	13,762,828	--
Income tax expense	374,068	--	4,816,990	--
	-----	-----	-----	-----
Net realized gain on investments	694,697	--	8,945,838	--
	-----	-----	-----	-----
Increase in unrealized appreciation of investments before income taxes	34,680,421	19,238,921	60,082,877	31,992,581
Increase in deferred income taxes on appreciation of investments	12,138,000	6,734,000	21,029,000	11,197,000
	-----	-----	-----	-----
Net increase in unrealized appreciation of investments	22,542,421	12,504,921	39,053,877	20,795,581
	-----	-----	-----	-----
Net realized and unrealized gain on investments	\$ 23,237,118	\$ 12,504,921	\$ 47,999,715	\$ 20,795,581
	=====	=====	=====	=====
Increase in net assets from operations	\$ 23,903,074	\$ 13,333,688	\$ 49,592,680	\$ 22,441,046
	=====	=====	=====	=====

(See Notes to Consolidated Financial Statements)

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

	Six Months Ended September 30, 1997 ----- (Unaudited)	Year Ended March 31, 1997 -----
Operations		
Net investment income	\$ 1,592,965	\$ 2,574,062
Net realized gain on investments	8,945,838	6,805,786
Net increase in unrealized appreciation of investments	39,053,877	22,804,750
	-----	-----
Increase in net assets from operations	49,592,680	32,184,598
Distributions from:		
Undistributed net investment income	(753,410)	(2,260,231)
Capital share transactions		
Exercise of employee stock options	159,094	--
	-----	-----
Increase in net assets	48,998,364	29,924,367
Net assets, beginning of period	218,972,120	189,047,753
	-----	-----
Net assets, end of period	\$ 267,970,484 =====	\$ 218,972,120 =====

(See Notes to Consolidated Financial Statements)

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

	Three Months Ended September 30		Six Months Ended September 30	
	1997	1996	1997	1996
Cash flows from operating activities				
Increase in net assets from operations	\$ 23,903,074	\$ 13,333,688	\$ 49,592,680	\$ 22,441,046
Adjustments to reconcile increase in net assets from operations to net cash provided by operating activities:				
Depreciation and amortization	5,942	5,709	11,885	16,180
Net pension benefit	(69,279)	(122,777)	(156,755)	(174,952)
Net realized and unrealized gain on investments	(23,237,118)	(12,504,921)	(47,999,715)	(20,795,581)
(Increase) decrease in receivables	(91,951)	212,808	(53,073)	132,623
(Increase) decrease in other assets	8,774	19,619	(22,056)	(13,696)
Increase (decrease) in accrued interest and other liabilities	96,666	(106,307)	(101,338)	(174,502)
Deferred income taxes	24,200	43,000	54,800	61,000
Net cash provided by operating activities	640,308	880,819	1,326,428	1,492,118
Cash flows from investing activities				
Proceeds from disposition of investments	14,075,989	--	16,442,059	--
Purchases of securities	(800,000)	--	(1,223,077)	(3,000,000)
Maturities of securities	999,379	--	999,379	--
Net cash provided (used) by investing activities	14,275,368	--	16,218,361	(3,000,000)
Cash flows from financing activities				
Decrease in note payable to bank	--	--	--	(50,000,000)
Repayment of subordinated debenture	--	(6,000,000)	--	(6,000,000)
Distributions from undistributed net investment income	--	--	(753,410)	(753,410)
Proceeds from exercise of employee stock options	159,094	--	159,094	--
Net cash provided (used) by financing activities	159,094	(6,000,000)	(594,316)	(56,753,410)
Net increase (decrease) in cash and cash equivalents	15,074,770	(5,119,181)	16,950,473	(58,261,292)
Cash and cash equivalents at beginning of period	15,885,184	13,903,074	14,009,481	67,045,185
Cash and cash equivalents at end of period	\$ 30,959,954	\$ 8,783,893	\$ 30,959,954	\$ 8,783,893
Supplemental disclosure of cash flow information:				
Cash paid during the period for:				
Interest	\$ --	\$ 264,658	\$ 199,452	\$ 490,849
Income taxes	\$ 6,022	\$ 9	\$ 6,022	\$ 9

(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, 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 September 30		Six Months Ended September 30	
	1997	1996	1997	1996
Investment income	\$.28	\$.33	\$.63	\$.69
Operating expenses	(.07)	(.05)	(.13)	(.12)
Interest expense	(.03)	(.05)	(.06)	(.11)
Income taxes	(.01)	(.01)	(.02)	(.02)
Net investment income	.17	.22	.42	.44
Net realized gain on investments	.18	--	2.37	--
Net increase in unrealized appreciation of investments	5.97	3.32	10.35	5.52
Distributions from undistributed net investment income	--	--	(.20)	(.20)
Exercise of employee stock options (1)	(.06)	--	(.06)	--
Net increase in net asset value	6.26	3.54	12.88	5.76
Net asset value:				
Beginning of period	64.75	52.40	58.13	50.18
End of period	\$ 71.01	\$ 55.94	\$ 71.01	\$ 55.94
Shares outstanding at end of period (000s omitted)	3,774	3,767	3,774	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 six months ended September 30, 1997 increased from the year-ago period primarily because of interest payments by a new portfolio company and an increase in average idle funds invested. During the six months ended September 30, 1997 and 1996, the Company recorded dividend income from the following sources:

	Six Months Ended September 30	
	1997	1996
The RectorSeal Corporation	\$ 240,000	\$ 600,001
Alamo Group Inc.	532,000	532,000
Skylawn Corporation	150,000	300,000
Cherokee Communications, Inc.	-	72,000
Westmarc Communications, Inc.	40,635	40,635
The Whitmore Manufacturing Company	60,000	-
Other	75,603	60,331
	-----	-----
	\$1,098,238	\$1,604,967
	=====	=====

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

During the six months ended September 30, 1997, the Company reported a realized gain before income taxes of \$13,762,828. 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 September 30		Six Months Ended September 30	
	1997	1996	1997	1996
Alamo Group Inc.	\$4,021,000	\$(2,143,000)	\$ 8,308,000	\$(6,968,000)
All Components, Inc.	950,000	-	950,000	-
American Homestar Corporation	1,064,001	(500,705)	3,129,413	1,552,185
Amfibe, Inc.	2,400,000	-	2,400,000	600,000
Data Race, Inc.	(142,028)	830,000	71,248	830,000
Encore Wire Corporation	11,220,000	5,171,000	17,279,000	5,326,000
LiL' Things, Inc.	-	(917,540)	-	(1,835,670)
Mail-Well, Inc.	-	1,824,000	8,294,000	1,833,000
Mylan Laboratories, Inc.	986,198	(32,071)	970,163	(497,108)
Palm Harbor Homes, Inc.	14,328,000	12,568,000	28,656,000	21,918,000
PETSMART, Inc.	(858,664)	1,308,440	(6,460,423)	4,906,650
The RectorSeal Corporation	-	2,000,000	-	2,000,000
Tecnol Medical Products, Inc.	(367,528)	(826,938)	780,997	(574,262)
Tele-Communications - TCI Group	(325,804)	(562,500)	202,946	(652,500)
Tele-Communications - LM Group	383,906	95,625	645,468	112,500
Tele-Communications - TCI Ventures	1,350,583	-	1,350,583	-
Texas Petrochemical Holdings, Inc.	(900,000)	-	(900,000)	-
Texas Shredder, Inc.	1,125,000	250,000	1,125,000	250,000

During the quarter ended September 30, 1997, the Company made two new investments totaling \$800,000.

The Company has agreed, subject to certain conditions, to invest up to \$12,544,923 in four portfolio companies.

PART II. OTHER INFORMATION

Item 4. Submission of Matters to a Vote of Security Holders

The Company's Annual Meeting of Stockholders was held on July 21, 1997, with the following results of elections and approval:

		Votes Cast		
		For	Against/ Withheld	Abstentions/ Non-Votes
		----	-----	-----
a.	The following Directors were elected to serve until the next Annual Meeting of Stockholders:			
	Graeme W. Henderson	3,029,754	7,068	730,229
	Gary L. Martin	3,036,241	583	730,227
	James M. Nolan	3,036,241	583	730,227
	William R. Thomas	3,035,841	983	730,227
	John H. Wilson	3,036,241	583	730,227
b.	KPMG Peat Marwick LLP was approved as the Company's auditors for the 1998 fiscal year.	3,025,211	6,688	735,152

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

Date: November 13, 1997

By: /s/ William R. Thomas

William R. Thomas, President

Date: November 13, 1997

By: /s/ Tim Smith

Tim Smith, Vice President
and Secretary-Treasurer

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

0000017313

Capital Southwest Corporation

1

US Dollars

6-MOS

	MAR-31-1997	APR-01-1997	SEP-30-1997
	1		
	57,452,382		
	350,918,370		
		332,888	
		3,436,777	
	30,959,954		
		385,647,989	
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112,677,505			
	117,677,505		
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	2,143,329		
		3,773,601	
		3,767,051	
5,643,760			
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	69,059,406		
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	191,123,989		
		267,970,484	
		1,098,238	
		989,669	
		269,700	
		707,918	
	1,592,965		
	8,945,838		
39,053,877			
	49,592,680		
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753,410			
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	48,998,364		
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