

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, 1998

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.

3,807,051 shares of Common Stock, \$1 Par Value as of January 31, 1999

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

CAPITAL SOUTHWEST CORPORATION AND SUBSIDIARY
Consolidated Statements of Financial Condition

Assets	December 31, 1998	March 31, 1998
	----- (Unaudited)	-----
Investments at market or fair value		
Companies more than 25% owned (Cost: December 31, 1998 - \$22,130,819, March 31, 1998 - \$19,370,874)	\$ 256,394,359	\$ 266,370,919
Companies 5% to 25% owned (Cost: December 31, 1998 - \$18,841,914, March 31, 1998 - \$14,984,195)	29,071,160	43,044,195
Companies less than 5% owned (Cost: December 31, 1998 - \$32,607,281, March 31, 1998 - \$26,799,352)	87,900,818	91,871,340
Total investments (Cost: December 31, 1998 - \$73,580,014, March 31, 1998 - \$61,154,421)	373,366,337	401,286,454
Cash and cash equivalents	5,023,387	117,047,920
Receivables	283,987	332,873
Other assets	4,019,378	3,656,308
	-----	-----

Totals	\$ 382,693,089	\$ 522,323,555
	=====	=====
Liabilities and Shareholders' Equity		
Note payable to bank	\$ --	\$ 100,000,000
Accrued interest and other liabilities	2,061,703	1,961,382
Income taxes payable	288,980	--
Deferred income taxes	105,301,157	119,339,357
Subordinated debenture	5,000,000	5,000,000
	-----	-----
Total liabilities	112,651,840	226,300,739
	-----	-----
Shareholders' equity		
Common stock, \$1 par value: authorized, 5,000,000 shares; issued, 4,244,416 shares at December 31, 1998 and 4,225,316 shares at March 31, 1998	4,244,416	4,225,316
Additional capital	6,173,747	5,512,409
Undistributed net investment income	4,330,410	5,261,898
Undistributed net realized gain on investments	67,093,654	66,598,460
Unrealized appreciation of investments - net of deferred income taxes	195,232,324	221,458,035
Treasury stock - at cost (437,365 shares)	(7,033,302)	(7,033,302)
	-----	-----
Net assets at market or fair value, equivalent to \$70.93 per share on the 3,807,051 shares outstanding at December 31, 1998, and \$78.15 per share on the 3,787,951 shares outstanding at March 31, 1998	270,041,249	296,022,816
	-----	-----
Totals	\$ 382,693,089	\$ 522,323,555
	=====	=====

(See Notes to Consolidated Financial Statements)

CAPITAL SOUTHWEST CORPORATION
AND SUBSIDIARY
Consolidated Statements of Operations

(Unaudited)

	Three Months Ended December 31		Nine Months Ended December 31	
	1998	1997	1998	1997
	----	----	----	----
Investment income:				
Interest	\$ 266,174	\$ 565,822	\$ 990,815	\$ 1,555,491
Dividends	385,072	345,401	1,579,387	1,443,639
Management and directors' fees	124,850	163,600	415,300	433,300
	-----	-----	-----	-----
	776,096	1,074,823	2,985,502	3,432,430
	-----	-----	-----	-----
Operating expenses				
Interest	103,104	103,103	315,305	308,214
Salaries	406,783	578,000	913,202	996,124
Net pension expense (benefit)	(77,906)	(78,378)	(233,719)	(235,133)
Other operating expenses	194,420	176,836	559,991	418,274
	-----	-----	-----	-----
	626,401	779,561	1,554,779	1,487,479
	-----	-----	-----	-----
Income before income taxes	149,695	295,262	1,430,723	1,944,951
Income tax expense	27,300	27,525	81,800	84,249
	-----	-----	-----	-----
Net investment income	\$ 122,395	\$ 267,737	\$ 1,348,923	\$ 1,860,702
	=====	=====	=====	=====
Proceeds from disposition of investments	\$ --	\$ 227,833	\$ 761,837	\$ 16,669,892
Cost of investments sold	--	4,085,592	--	6,764,823
	-----	-----	-----	-----
Realized gain (loss) on investments before income taxes	--	(3,857,759)	761,837	9,905,069
Income tax expense (benefit)	--	(1,396,813)	266,643	3,420,177
	-----	-----	-----	-----
Net realized gain (loss) on investments	--	(2,460,946)	495,194	6,484,892
	-----	-----	-----	-----
Increase (decrease) in unrealized appreciation of investments before income taxes	3,587,928	10,356,201	(40,345,711)	70,439,078
Increase (decrease) in deferred income taxes on appreciation of investments	1,256,000	3,624,000	(14,120,000)	24,653,000
	-----	-----	-----	-----
Net increase (decrease) in unrealized appreciation of investments	2,331,928	6,732,201	(26,225,711)	45,786,078
	-----	-----	-----	-----
Net realized and unrealized gain (loss) on investments	\$ 2,331,928	\$ 4,271,255	\$(25,730,517)	\$ 52,270,970
	=====	=====	=====	=====
Increase (decrease) in net assets from operations	\$ 2,454,323	\$ 4,538,992	\$(24,381,594)	\$ 54,131,672
	=====	=====	=====	=====

(See Notes to Consolidated Financial Statements)

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

	Nine Months Ended December 31, 1998	Year Ended March 31, 1998
	----- (Unaudited)	-----
Operations		
Net investment income	\$ 1,348,923	\$ 2,726,144
Net realized gain on investments	495,194	6,484,892
Net increase (decrease) in unrealized appreciation of investments	(26,225,711)	69,387,923
	-----	-----
Increase (decrease) in net assets from operations	(24,381,594)	78,598,959
Distributions from:		
Undistributed net investment income	(2,280,411)	(2,268,451)
Capital share transactions		
Exercise of employee stock options	680,438	720,188
	-----	-----
Increase (decrease) in net assets	(25,981,567)	77,050,696
Net assets, beginning of period	296,022,816	218,972,120
	-----	-----
Net assets, end of period	\$ 270,041,249	\$ 296,022,816
	=====	=====

(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	
	1998 -----	1997 -----	1998 -----	1997 -----
Cash flows from operating activities				
Increase (decrease) in net assets from operations	\$ 2,454,323	\$ 4,538,992	\$ (24,381,594)	\$ 54,131,672
Adjustments to reconcile increase (decrease) in net assets from operations to net cash provided by operating activities:				
Depreciation and amortization	6,178	5,942	18,533	17,827
Net pension benefit	(77,906)	(78,378)	(233,719)	(235,133)
Net realized and unrealized (gain) loss on investments	(2,331,929)	(4,271,255)	25,730,516	(52,270,970)
(Increase) decrease in receivables	130,098	(29,784)	48,886	(82,857)
(Increase) decrease in other assets	27,475	15,884	(34,968)	(6,172)
Increase (decrease) in accrued interest and other liabilities	152,713	262,693	9,742	161,355
Deferred income taxes	27,300	27,500	81,800	82,300
Net cash provided by operating activities	----- 388,252	----- 471,594	----- 1,239,196	----- 1,798,022
Cash flows from investing activities				
Proceeds from disposition of investments	--	227,833	761,837	16,669,892
Purchases of securities	(1,897,860)	(6,580,349)	(13,170,132)	(7,803,426)
Maturities of securities	293,000	585,987	744,539	1,585,366
Net cash provided (used) by investing activities	----- (1,604,860)	----- (5,766,529)	----- (11,663,756)	----- 10,451,832
Cash flows from financing activities				
Decrease in note payable to bank	(40,000,000)	--	(100,000,000)	--
Distributions from undistributed net investment income	(1,522,821)	(1,515,041)	(2,280,411)	(2,268,451)
Proceeds from exercise of employee stock options	498,750	548,625	680,438	707,719
Net cash used by financing activities	----- (41,024,071)	----- (966,416)	----- (101,599,973)	----- (1,560,732)
Net increase (decrease) in cash and cash equivalents	(42,240,679)	(6,261,351)	(112,024,533)	10,689,122
Cash and cash equivalents at beginning of period	47,264,066	30,959,954	117,047,920	14,009,481
Cash and cash equivalents at end of period	=====	=====	=====	=====
	\$ 5,023,387	\$ 24,698,603	\$ 5,023,387	\$ 24,698,603
Supplemental disclosure of cash flow information:				
Cash paid during the period for:				
Interest	\$ 207,638	\$ 200,548	\$ 424,926	\$ 400,000
Income taxes	\$ 5,000	\$ 2,000	\$ 13,500	\$ 8,022

(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, 1998. 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	
	-----		-----	
	1998	1997	1998	1997
	----	----	----	----
Investment income	\$.20	\$.27	\$.78	\$.90
Operating expenses	(.15)	(.18)	(.33)	(.31)
Interest expense	(.02)	(.02)	(.08)	(.08)
Income taxes	--	--	(.02)	(.02)
	-----	-----	-----	-----
Net investment income	.03	.07	.35	.49
Net realized gain (loss) on investments	--	(.66)	.13	1.71
Net increase (decrease) in unrealized appreciation of investments	.61	1.74	(6.89)	12.09
Distributions from undistributed net investment income	(.40)	(.40)	(.60)	(.60)
Exercise of employee stock options (1)	(.13)	(.07)	(.21)	(.13)
	-----	-----	-----	-----
Net increase (decrease) in net asset value	.11	.68	(7.22)	13.56
Net asset value:				
Beginning of period	70.82	71.01	78.15	58.13
	-----	-----	-----	-----
End of period	\$ 70.93	\$ 71.69	\$ 70.93	\$ 71.69
	=====	=====	=====	=====
Shares outstanding at end of period (000s omitted)	3,807	3,788	3,807	3,788

(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 nine months ended December 31, 1998 decreased from the year-ago period primarily because of a decrease in average idle funds invested. During the nine months ended December 31, 1998 and 1997, the Company recorded dividend income from the following sources:

	Nine Months Ended December 31 -----	
	1998	1997
	-----	-----
Alamo Group Inc.	\$ 877,800	\$ 798,000
The RectorSeal Corporation	240,000	261,200
Skylawn Corporation	150,000	150,000
Westmarc Communications, Inc.	60,953	60,953
The Whitmore Manufacturing Company	60,000	60,000
Kimberly-Clark Corporation	57,885	-
Texas Shredder, Inc.	30,345	28,125
Other	102,404	85,361
	-----	-----
	\$1,579,387	\$1,443,639
	=====	=====

Salaries in the nine months ended December 31, 1998 decreased from the year-ago period mainly due to a reduction in staff. Other operating expenses in the nine months ended December 31, 1998 increased from the year-ago period primarily due to the payment of a finders fee related to an investment.

During the nine months ended December 31, 1998, the Company reported a realized gain before income taxes of \$761,837. It should be noted that a realized gain before income taxes occurs when an appreciated portfolio security is sold to realize a gain and 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.

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

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	
	1998	1997	1998	1997
Alamo Group Inc.	\$ --	\$ --	\$(10,640,000)	\$ 8,308,000
All Components, Inc.	--	--	1,225,000	950,000
American Homestar Corporation	(4,975,766)	657,176	(5,820,707)	3,786,589
Amfibe, Inc.	(2,400,000)	--	(2,400,000)	2,400,000
Balco, Inc.	1,517,760	--	3,422,440	--
Dennis Tool Company	(800,000)	--	(2,799,944)	--
Encore Wire Corporation	(300,000)	--	(16,288,000)	17,279,000
Intelligent Reasoning Systems, Inc.	(1,542,754)	--	(1,542,754)	--
Kimberly-Clark Corporation	1,080,520	130,708	337,662	911,705
Mail-Well, Inc.	2,085,140	5,726,000	(10,407,860)	14,020,000
Mylan Laboratories, Inc.	256,572	(192,429)	1,090,431	777,734
Palm Harbor Homes, Inc.	--	--	(4,713,000)	28,656,000
PETSMART, Inc.	2,514,659	(1,921,771)	40,890	(8,382,194)
Tele-Communications-LM Group	955,547	459,844	1,189,687	1,105,312
Tele-Communications-TCI Group	1,853,727	851,713	2,777,013	1,054,659
Tele-Communications-TCI Ventures	744,881	503,408	785,808	1,853,991
Texas Shredder, Inc.	--	--	--	1,125,000
The Whitmore Manufacturing Co.	800,000	--	2,000,000	--

During the quarter ended December 31, 1998, the Company made additional investments of \$1,897,860 in existing portfolio companies.

The Company has agreed, subject to certain conditions, to invest up to \$2,900,000 in three portfolio companies.

Many computer software systems in use today cannot properly process date-related information from and after January 1, 2000. Should any of the computer systems employed by our major portfolio companies fail to process this type of information properly, it could have a negative impact to our shareholders. The Company has reviewed its computer system and determined that it will be Year 2000 compliant. In addition, the Company has inquired of its major service providers as well as its major portfolio companies to determine if they will be prepared for the Year 2000. All have indicated they are taking the necessary steps to be Year 2000 compliant. It is anticipated that the Company will incur no material expenses related to the Year 2000 issues.

PART II. OTHER INFORMATION

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: February 5, 1999

By: /s/ William R. Thomas

William R. Thomas, President

Date: February 5, 1999

By: /s/ Tim Smith

Tim Smith, Vice President
& Secretary-Treasurer

This schedule contains summary financial information extracted from the Consolidated Statement of Financial Condition at December 31, 1998 (unaudited) and the Consolidated Statement of Operations for the nine months ended December 31, 1998 (unaudited) and is qualified in its entirety by reference to such financial statements.

0000017313
Capital Southwest Corporation

1
US DOLLARS

3-MOS

	MAR-31-1998	APR-01-1998	DEC-31-1998
	1		
	73,580,014		
	373,366,337		
	283,987		
	4,019,378		
	5,023,387		
	382,693,089		
0			
	5,000,000		
107,651,840			
	112,651,840		
	0		
	3,384,861		
	3,807,951		
	3,787,951		
4,330,410			
	0		
	67,093,654		
0			
	195,232,324		
	270,041,249		
	1,579,387		
	990,815		
	415,300		
	1,554,779		
	1,348,923		
	495,194		
(26,225,711)			
	(24,381,594)		
	0		
2,280,411			
0			
	0		
	14,000		
0			
	0		
	(24,381,594)		
	5,261,898		
66,598,460			
	0		
0			
	0		
	315,305		
	1,554,779		
	0		
	78.15		
	.35		
(6.76)			
	(.60)		
0			
	0		
	70.93		
	0		
0			
	0		