

SECURITIES AND EXCHANGE COMMISSION  
 Washington, D.C. 20549  
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FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)  
 OF THE SECURITIES EXCHANGE ACT OF 1934  
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For the Quarter Ended December 31, 1997

Commission File Number: 814-61

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)

(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.

3,787,601 shares of Common Stock, \$1 Par Value as of January 31, 1998

PART I. FINANCIAL INFORMATION  
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Item 1. Financial Statements

CAPITAL SOUTHWEST CORPORATION AND SUBSIDIARY  
 Consolidated Statements of Financial Condition  
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Assets	December 31, 1997	March 31, 1997
	-----	-----
	(Unaudited)	
Investments at market or fair value		
Companies more than 25% owned		
(Cost: December 31, 1997 - \$19,370,874,		
March 31, 1997 - \$20,552,361)	\$ 240,059,919	\$ 203,399,920
Companies 5% to 25% owned		
(Cost: December 31, 1997 - \$17,238,589,		
March 31, 1997 - \$19,979,904)	67,395,579	35,747,002
Companies less than 5% owned		
(Cost: December 31, 1997 - \$22,751,688,		
March 31, 1997 - \$19,375,650)	55,727,842	54,144,104
	-----	-----
Total investments		
(Cost: December 31, 1997 - \$59,361,151,		
March 31, 1997 - \$59,907,915)	363,183,340	293,291,026
Cash and cash equivalents	24,698,603	14,009,481
Receivables	362,672	279,815
Other assets	3,538,170	3,180,171
	-----	-----
Totals	\$ 391,782,785	\$ 310,760,493
	=====	=====
Liabilities and Shareholders' Equity		
Accrued interest and other liabilities	\$ 2,025,361	\$ 1,735,372
Income taxes payable	6,610,436	3,184,373

Deferred income taxes	106,603,928	81,868,628
Subordinated debenture	5,000,000	5,000,000
	-----	-----
Total liabilities	120,239,725	91,788,373
	-----	-----
Shareholders' equity		
Common stock, \$1 par value: authorized, 5,000,000 shares; issued, 4,224,966 shares at December 31, 1997 and 4,204,416 shares at March 31, 1997	4,224,966	4,204,416
Additional capital	5,500,290	4,813,121
Undistributed net investment income	4,396,456	4,804,205
Undistributed net realized gain on investments	66,598,460	60,113,568
Unrealized appreciation of investments - net of deferred income taxes	197,856,190	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 \$71.69 per share on the 3,787,601 shares outstanding at December 31, 1997, and \$58.13 per share on the 3,767,051 shares outstanding at March 31, 1997	271,543,060	218,972,120
	-----	-----
Totals	\$ 391,782,785	\$ 310,760,493
	=====	=====

(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	
	1997	1996	1997	1996
Investment income:				
Interest	\$ 565,822	\$ 296,204	\$ 1,555,491	\$ 980,906
Dividends	345,401	393,377	1,443,639	1,998,344
Management and directors' fees	163,600	153,100	433,300	451,300
	-----	-----	-----	-----
	1,074,823	842,681	3,432,430	3,430,550
	-----	-----	-----	-----
Operating expenses:				
Interest	103,103	103,103	308,214	533,713
Salaries	578,000	231,757	996,124	620,639
Net pension expense (benefit)	(78,378)	(87,475)	(235,133)	(262,427)
Other operating expenses	176,836	122,235	418,274	354,274
	-----	-----	-----	-----
	779,561	369,620	1,487,479	1,246,199
	-----	-----	-----	-----
Income before income taxes	295,262	473,061	1,944,951	2,184,351
Income tax expense	27,525	31,000	84,249	96,825
	-----	-----	-----	-----
Net investment income	\$ 267,737	\$ 442,061	\$ 1,860,702	\$ 2,087,526
	=====	=====	=====	=====
Proceeds from disposition of investments	\$ 227,833	\$ 2,273,338	\$ 16,669,892	\$ 2,273,338
Cost of investments sold	4,085,592	813,333	6,764,823	813,333
	-----	-----	-----	-----
Realized gain (loss) on investments before income taxes	(3,857,759)	1,460,005	9,905,069	1,460,005
Income tax expense (benefit)	(1,396,813)	568,052	3,420,177	568,052
	-----	-----	-----	-----
Net realized gain (loss) on investments	(2,460,946)	891,953	6,484,892	891,953
	-----	-----	-----	-----
Increase in unrealized appreciation of investments before income taxes	10,356,201	17,067,558	70,439,078	49,060,139
Increase in deferred income taxes on appreciation of investments	3,624,000	5,917,000	24,653,000	17,114,000
	-----	-----	-----	-----
Net increase in unrealized appreciation of investments	6,732,201	11,150,558	45,786,078	31,946,139
	-----	-----	-----	-----
Net realized and unrealized gain on investments	\$ 4,271,255	\$ 12,042,511	\$ 52,270,970	\$ 32,838,092
	=====	=====	=====	=====
Increase in net assets from operations	\$ 4,538,992	\$ 12,484,572	\$ 54,131,672	\$ 34,925,618
	=====	=====	=====	=====

(See Notes to Consolidated Financial Statements)

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

	Nine Months Ended December 31, 1997	Year Ended March 31, 1997
	----- (Unaudited)	-----
Operations		
Net investment income	\$ 1,860,702	\$ 2,574,062
Net realized gain on investments	6,484,892	6,805,786
Net increase in unrealized appreciation of investments	45,786,078	22,804,750
	-----	-----
Increase in net assets from operations	54,131,672	32,184,598
Distributions from:		
Undistributed net investment income	(2,268,451)	(2,260,231)
Capital share transactions		
Exercise of employee stock options	707,719	--
	-----	-----
Increase in net assets	52,570,940	29,924,367
Net assets, beginning of period	218,972,120	189,047,753
	-----	-----
Net assets, end of period	\$ 271,543,060	\$ 218,972,120
	=====	=====

(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	
	1997	1996	1997	1996
Cash flows from operating activities				
Increase in net assets from operations	\$ 4,538,991	\$ 12,484,572	\$ 54,131,671	\$ 34,925,618
Adjustments to reconcile increase in net assets from operations to net cash provided by operating activities:				
Depreciation and amortization	5,943	5,710	17,828	21,890
Net pension benefit	(78,378)	(87,475)	(235,133)	(262,427)
Net realized and unrealized gain on investments	(4,271,255)	(12,042,511)	(52,270,970)	(32,838,092)
Increase in receivables	(29,784)	(353,656)	(82,857)	(221,033)
(Increase) decrease in other assets	15,884	5,165	(6,172)	(8,531)
Increase (decrease) in accrued interest and other liabilities	262,693	(96,948)	161,355	(271,450)
Deferred income taxes	27,500	31,000	82,300	92,000
Net cash provided (used) by operating activities	471,594	(54,143)	1,798,022	1,437,975
Cash flows from investing activities				
Proceeds from disposition of investments	227,833	2,273,338	16,669,892	2,273,338
Purchases of securities	(6,580,349)	(3,000,000)	(7,803,426)	(6,000,000)
Maturities of securities	585,987	928,000	1,585,366	928,000
Net cash provided (used) by investing activities	(5,766,529)	201,338	10,451,832	(2,798,662)
Cash flows from financing activities				
Decrease in note payable to bank	--	--	--	(50,000,000)
Repayment of subordinated debenture	--	--	--	(6,000,000)
Distributions from undistributed net investment income	(1,515,041)	(1,506,821)	(2,268,451)	(2,260,231)
Proceeds from exercise of employee stock options	548,625	--	707,719	--
Net cash used by financing activities	(966,416)	(1,506,821)	(1,560,732)	(58,260,231)
Net increase (decrease) in cash and cash equivalents	(6,261,351)	(1,359,626)	10,689,122	(59,620,918)
Cash and cash equivalents at beginning of period	30,959,954	8,783,893	14,009,481	67,045,185
Cash and cash equivalents at end of period	\$ 24,698,603	\$ 7,424,267	\$ 24,698,603	\$ 7,424,267
Supplemental disclosure of cash flow information:				
Cash paid during the period for:				
Interest	\$ 200,548	\$ 200,548	\$ 400,000	\$ 691,397
Income taxes	\$ 2,000	\$ --	\$ 8,022	\$ 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 December 31		Nine Months Ended December 31	
	1997	1996	1997	1996
Investment income	\$ .27	\$ .22	\$ .90	\$ .91
Operating expenses	(.18)	(.07)	(.31)	(.19)
Interest expense	(.02)	(.03)	(.08)	(.14)
Income taxes	--	--	(.02)	(.02)
Net investment income	.07	.12	.49	.56
Net realized gain (loss) on investments	(.66)	.24	1.71	.24
Net increase in unrealized appreciation of investments	1.74	2.96	12.09	8.48
Distributions from undistributed net investment income	(.40)	(.40)	(.60)	(.60)
Exercise of employee stock options (1)	(.07)	--	(.13)	--
Net increase in net asset value	.68	2.92	13.56	8.68
Net asset value:				
Beginning of period	71.01	55.94	58.13	50.18
End of period	\$ 71.69	\$ 58.86	\$ 71.69	\$ 58.86
Shares outstanding at end of period (000s omitted)	3,788	3,767	3,788	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 nine months ended December 31, 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 nine months ended December 31, 1997 and 1996, the Company recorded dividend income from the following sources:

	Nine Months Ended December 31	
	1997	1996
Alamo Group Inc.	\$ 798,000	\$ 798,000
The RectorSeal Corporation	261,200	640,895
Skylawn Corporation	150,000	300,000
Cherokee Communications, Inc.	-	108,000
Westmarc Communications, Inc.	60,953	60,953
The Whitmore Manufacturing Company	60,000	-
Texas Shredder, Inc.	28,125	28,125
Other	85,361	62,371
	-----	-----
	\$ 1,443,639	\$1,998,344
	=====	=====

Interest expense in the nine months ended December 31, 1997 decreased from the year-ago period due to the repayment of a subordinated debenture on September 1, 1996. Salaries in the nine months ended December 31, 1997 increased from the year-ago period mainly due to the accrual in December 1997 of annual bonuses, which in the prior fiscal year were accrued in March 1997. Other operating expenses in the nine months ended December 31, 1997 increased from the year-ago period primarily because of additional environmental remediation expenses related to a previous investment and legal expenses in connection with a claim against the Company's pension plan.

During the nine months ended December 31, 1997, the Company reported a realized gain before income taxes of \$9,905,069. 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.

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	
	1997	1996	1997	1996
Alamo Group Inc.	\$ --	\$ 5,359,000	\$ 8,308,000	\$ (1,609,000)
All Components, Inc.	--	1,000,000	950,000	1,000,000
American Homestar Corporation	657,176	(500,704)	3,786,589	1,051,481
Amfibe, Inc.	--	--	2,400,000	600,000
Encore Wire Corporation	--	1,539,000	17,279,000	6,865,000
Kimberly-Clark Corporation	130,708	68,911	911,705	(505,351)
Mail-Well, Inc.	5,726,000	3,123,000	14,020,000	4,956,000
Mylan Laboratories, Inc.	(192,429)	(64,143)	777,734	(561,251)
Palm Harbor Homes, Inc.	--	--	28,656,000	21,918,000
PETSMART, Inc.	(1,921,771)	(2,535,101)	(8,382,194)	2,371,549
The RectorSeal Corporation	--	--	--	2,000,000
Skylawn Corporation	--	(3,000,000)	--	(3,000,000)
Tele-Communications-LM Group	459,844	(5,625)	1,105,312	106,875
Tele-Communications-TCI Group	851,713	(337,500)	1,054,659	(990,000)
Tele-Communications-TCI Ventures	503,408	--	1,853,991	--
Texas Petrochemical Holdings, Inc.	--	--	(900,000)	--
Texas Shredder, Inc.	--	--	1,125,000	250,000
The Whitmore Manufacturing Co.	--	1,200,000	--	1,200,000

During the quarter ended December 31, 1997, the Company made new investments of \$5,225,000 and additional investments of \$1,155,349 in existing portfolio companies.

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 10, 1998 By: /s/ William R. Thomas  
-----  
William R. Thomas, President

Date: February 10, 1998 By: /s/ Tim Simth  
-----  
Tim Simth, Vice President and Secretary-Treasurer

(1) This schedule contains summary financial information extracted from the Consolidated Statement of Financial Condition at December 31, 1997 (unaudited) and the Consolidated Statement of Operations for the nine months ended December 31, 1997 (unaudited) and is qualified in its entirety by reference to such financial statements.

0000017313

Capital Southwest Corporation

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US DOLLARS

9-MOS

	MAR-31-1997	APR-01-1997	DEC-31-1997
	1		
	59,361,151		
	363,183,340		
		362,672	
		3,538,170	
	24,698,603		
		391,782,785	
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	5,000,000		
115,239,725			
	120,239,725		
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	2,691,954		
	3,787,601		
	3,767,051		
4,396,456			
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	66,598,460		
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	197,856,190		
		271,543,060	
	1,443,639		
	1,555,491		
		433,300	
		1,487,479	
	1,860,702		
	6,484,892		
45,786,078			
	54,131,672		
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2,268,451			
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	52,570,940		
	4,804,205		
60,113,568			
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