

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 quarterly period ended September 30, 1998 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.

3,793,051 shares of Common Stock, \$1 Par Value as of October 31, 1998

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

CAPITAL SOUTHWEST CORPORATION AND SUBSIDIARY
 Consolidated Statements of Financial Condition

Assets	September 30, 1998	March 31, 1998
	-----	-----
	(Unaudited)	
Investments at market or fair value		
Companies more than 25% owned		
(Cost: September 30, 1998 - \$22,130,819,		
March 31, 1998 - \$19,370,874)	\$ 254,857,600	\$ 266,370,919
Companies 5% to 25% owned		
(Cost: September 30, 1998 - \$17,141,914,		
March 31, 1998 - \$14,984,195)	29,213,914	43,044,195
Companies less than 5% owned		
(Cost: September 30, 1998 - \$32,702,421,		
March 31, 1998 - \$26,799,352)	84,102,034	91,871,340
	-----	-----
Total investments		
(Cost: September 30, 1998- \$71,975,154,		
March 31, 1998 - \$61,154,421)	368,173,548	401,286,454
Cash and cash equivalents	47,264,066	117,047,920
Receivables	414,085	332,873
Other assets	3,937,487	3,656,308
	-----	-----
Totals	\$ 419,789,186	\$ 522,323,555

Liabilities and Shareholders' Equity

Note payable to bank	\$ 40,000,000	\$ 100,000,000
Accrued interest and other liabilities	1,893,689	1,961,382
Income taxes payable	266,643	--
Deferred income taxes	104,017,857	119,339,357
Subordinated debenture	5,000,000	5,000,000
	-----	-----
Total liabilities	151,178,189	226,300,739
	-----	-----
Shareholders' equity		
Common stock, \$1 par value: authorized, 5,000,000 shares; issued, 4,230,416 shares at September 30, 1998 and 4,225,316 shares at March 31, 1998	4,230,416	4,225,316
Additional capital	5,688,997	5,512,409
Undistributed net investment income	5,730,836	5,261,898
Undistributed net realized gain on investments	67,093,654	66,598,460
Unrealized appreciation of investments - net of deferred income taxes	192,900,396	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 \$70.82 per share on the 3,793,051 shares outstanding at September 30, 1998, and \$78.15 per share on the 3,787,951 shares outstanding at March 31, 1998	268,610,997	296,022,816
	-----	-----
Totals	\$ 419,789,186	\$ 522,323,555
	=====	=====

(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	
	1998	1997	1998	1997
	-----	-----	-----	-----
Investment income:				
Interest	\$ 321,794	\$ 589,637	\$ 724,641	\$ 989,669
Dividends	373,568	324,381	1,194,315	1,098,238
Management and directors' fees	153,100	138,600	290,450	269,700
	-----	-----	-----	-----
	848,462	1,052,618	2,209,406	2,357,607
	-----	-----	-----	-----
Operating expenses:				
Interest	110,193	103,103	212,201	205,111
Salaries	282,600	208,500	506,419	418,124
Net pension expense (benefit)	(77,435)	(69,279)	(155,813)	(156,755)
Other operating expenses	120,189	118,214	365,571	241,438
	-----	-----	-----	-----
	435,547	360,538	928,378	707,918
	-----	-----	-----	-----
Income before income taxes	412,915	692,080	1,281,028	1,649,689
Income tax expense	27,100	26,124	54,500	56,724
	-----	-----	-----	-----
Net investment income	\$ 385,815	\$ 665,956	\$ 1,226,528	\$ 1,592,965
	=====	=====	=====	=====
Proceeds from disposition of investments	\$ --	\$ 1,267,880	\$ 761,837	\$ 16,442,059
Cost of investments sold	--	199,115	--	2,679,231
	-----	-----	-----	-----
Realized gain on investments before income taxes	--	1,068,765	761,837	13,762,828
Income tax expense	--	374,068	266,643	4,816,990
	-----	-----	-----	-----
Net realized gain on investments	--	694,697	495,194	8,945,838
	-----	-----	-----	-----
Increase (decrease) in unrealized appreciation of investments before income taxes	(48,549,992)	34,680,421	(43,933,639)	60,082,877
Increase (decrease) in deferred income taxes on appreciation of investments	(16,993,000)	12,138,000	(15,376,000)	21,029,000
	-----	-----	-----	-----
Net increase (decrease) in unrealized appreciation of investments	(31,556,992)	22,542,421	(28,557,639)	39,053,877
	-----	-----	-----	-----
Net realized and unrealized gain (loss) on investments	\$(31,556,992)	\$ 23,237,118	\$(28,062,445)	\$ 47,999,715
	=====	=====	=====	=====
Increase (decrease) in net assets from operations	\$(31,171,177)	\$ 23,903,074	\$(26,835,917)	\$ 49,592,680
	=====	=====	=====	=====

(See Notes to Consolidated Financial Statements)

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

	Six Months Ended September 30, 1998 ----- (Unaudited)	Year Ended March 31, 1998 -----
Operations		
Net investment income	\$ 1,226,528	\$ 2,726,144
Net realized gain on investments	495,194	6,484,892
Net increase (decrease) in unrealized appreciation of investments	(28,557,639)	69,387,923
	-----	-----
Increase (decrease) in net assets from operations	(26,835,917)	78,598,959
Distributions from:		
Undistributed net investment income	(757,590)	(2,268,451)
Capital share transactions		
Exercise of employee stock options	181,688	720,188
	-----	-----
Increase (decrease) in net assets	(27,411,819)	77,050,696
Net assets, beginning of period	296,022,816	218,972,120
	-----	-----
Net assets, end of period	\$ 268,610,997 =====	\$ 296,022,816 =====

(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	
	1998	1997	1998	1997
Cash flows from operating activities				
Increase (decrease) in net assets from operations	\$ (31,171,177)	\$ 23,903,074	\$ (26,835,917)	\$ 49,592,680
Adjustments to reconcile increase (decrease) in net assets from operations to net cash provided by operating activities:				
Depreciation and amortization	6,530	5,942	12,355	11,885
Net pension benefit	(77,435)	(69,279)	(155,813)	(156,755)
Net realized and unrealized (gain) loss on investments	31,556,992	(23,237,118)	28,062,445	(47,999,715)
(Increase) decrease in receivables	233,106	(91,951)	(81,212)	(53,073)
(Increase) decrease in other assets	(1,056)	8,774	(62,443)	(22,056)
Increase (decrease) in accrued interest and other liabilities	110,272	96,666	(142,971)	(101,338)
Deferred income taxes	27,100	24,200	54,500	54,800
	684,332	640,308	850,944	1,326,428
Net cash provided by operating activities	684,332	640,308	850,944	1,326,428
Cash flows from investing activities				
Proceeds from disposition of investments	--	14,075,989	761,837	16,442,059
Purchases of securities	(4,849,523)	(800,000)	(11,272,272)	(1,223,077)
Maturities of securities	--	999,379	451,539	999,379
	(4,849,523)	14,275,368	(10,058,896)	16,218,361
Net cash provided (used) by investing activities	(4,849,523)	14,275,368	(10,058,896)	16,218,361
Cash flows from financing activities				
Increase (decrease) in note payable to bank	40,000,000	--	(60,000,000)	--
Distributions from undistributed net investment income	--	--	(757,590)	(753,410)
Proceeds from exercise of employee stock options	181,688	159,094	181,688	159,094
	40,181,688	159,094	(60,575,902)	(594,316)
Net cash provided (used) by financing activities	40,181,688	159,094	(60,575,902)	(594,316)
Net increase (decrease) in cash and cash equivalents	36,016,497	15,074,770	(69,783,854)	16,950,473
Cash and cash equivalents at beginning of period	11,247,569	15,885,184	117,047,920	14,009,481
Cash and cash equivalents at end of period	\$ 47,264,066	\$ 30,959,954	\$ 47,264,066	\$ 30,959,954
Supplemental disclosure of cash flow information:				
Cash paid during the period for:				
Interest	\$ --	\$ --	\$ 217,288	\$ 199,452
Income taxes	\$ --	\$ 6,022	\$ 8,500	\$ 6,022

(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		September 30	
	1998	1997	1998	1997
	----	----	----	----
Investment income	\$.22	\$.28	\$.58	\$.63
Operating expenses	(.08)	(.07)	(.18)	(.13)
Interest expense	(.03)	(.03)	(.06)	(.06)
Income taxes	(.01)	(.01)	(.02)	(.02)
	-----	-----	-----	-----
Net investment income	.10	.17	.32	.42
Net realized gain on investments	--	.18	.13	2.37
Net increase (decrease) in unrealized appreciation of investments	(8.32)	5.97	(7.53)	10.35
Distributions from undistributed net investment income	--	--	(.20)	(.20)
Exercise of employee stock options (1)	(.05)	(.06)	(.05)	(.06)
	-----	-----	-----	-----
Net increase (decrease) in net asset value	(8.27)	6.26	(7.33)	12.88
Net asset value:				
Beginning of period	79.09	64.75	78.15	58.13
	-----	-----	-----	-----
End of period	\$ 70.82	\$ 71.01	\$ 70.82	\$ 71.01
	=====	=====	=====	=====
Shares outstanding at end of period (000s omitted)	3,793	3,774	3,793	3,774

(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, 1998 decreased from the year-ago period primarily because of a decrease in average idle funds invested. During the six months ended September 30, 1998 and 1997, the Company recorded dividend income from the following sources:

	Six Months Ended September 30	
	1998	1997
Alamo Group Inc.	\$ 585,200	\$ 532,000
Kimberly-Clark Corporation	38,590	--
The RectorSeal Corporation	240,000	240,000
Skylawn Corporation	150,000	150,000
Westmarc Communications, Inc.	40,635	40,635
The Whitmore Manufacturing Company	60,000	60,000
Other	79,890	75,603
	-----	-----
	\$1,194,315	\$1,098,238
	=====	=====

Salaries in the six months ended September 30, 1998 increased from the year-ago period due to an addition to the Company's professional staff and a special bonus payment. Other operating expenses in the six months ended September 30, 1998 increased from the year-ago period primarily due to the payment of a finders fee related to an investment.

During the six months ended September 30, 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.

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	
	1998	1997	1998	1997
Alamo Group Inc.	\$(10,640,000)	\$4,021,000	\$(10,640,000)	\$8,308,000
All Components, Inc.	1,225,000	950,000	1,225,000	950,000
American Homestar Corporation	(1,830,706)	1,064,001	(844,941)	3,129,413
Amfibe, Inc.	--	2,400,000	--	2,400,000
Balco, Inc.	--	--	1,904,680	--
Dennis Tool Company	(828,177)	--	(828,177)	--
Encore Wire Corporation	(13,884,000)	11,220,000	(15,988,000)	17,279,000
Kimberly-Clark Corporation	(414,843)	(367,528)	(742,858)	780,997
Mail-Well, Inc.	(14,575,000)	-	(12,493,000)	8,294,000
Mylan Laboratories, Inc.	(96,215)	986,198	833,859	970,163
Palm Harbor Homes, Inc.	(4,713,000)	14,328,000	(4,713,000)	28,656,000
PETSMART, Inc.	(2,003,548)	(858,664)	(2,473,769)	(6,460,423)
Tele-Communications - TCI Group	85,887	(325,804)	923,286	202,946
Tele-Communications - LM Group	(221,485)	383,906	234,140	645,468
Tele-Communications - TCI Ventures	(278,307)	1,350,583	40,927	1,350,583
Texas Petrochemical Holdings, Inc.	--	(900,000)	--	(900,000)
Texas Shredder, Inc.	--	1,125,000	--	1,125,000
The Whitmore Manufacturing Company	1,200,000	--	1,200,000	--

During the quarter ended September 30, 1998, the Company made additional investments totaling \$4,849,523 in existing portfolio companies.

On October 1, 1998, the Company repaid the \$40,000,000 note payable to bank from its cash and cash equivalents.

The Company has agreed, subject to certain conditions, to invest up to \$3,000,000 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 4. Submission of Matters to a Vote of Security Holders

The Company's Annual Meeting of Stockholders was held on July 20, 1998, 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	3,295,037	2,852	490,062
Gary L. Martin	3,295,726	2,164	490,061
James M. Nolan	3,295,726	2,164	490,061
William R. Thomas	3,295,726	2,164	490,061
John H. Wilson	3,295,726	2,164	490,061
b. KPMG Peat Marwick LLP was approved as the Company's auditors for the 1999 fiscal year.	3,273,774	20,780	493,397

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 12, 1998

By: /s/ William R. Thomas

William R. Thomas
President

Date: November 12, 1998

By: /s/ Tim Smith

Tim Smith
Vice President & Secretary-Treasurer

(A) This schedule contains summary financial information extracted from the Consolidated Statement of Financial Condition at September 30, 1998 (unaudited) and the Consolidated Statement of Operations for the year ended September 30, 1998 (unaudited) and is qualified in its entirety by reference to such financial statements.

0000017313
 Capital Southwest Corporation
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 US DOLLARS

6-MOS

	MAR-31-1998	APR-01-1998	SEP-30-1998
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	71,975,154		
	368,173,548		
		414,085	
		3,937,487	
	47,264,066		
		419,789,186	
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	5,000,000		
146,178,189			
	151,178,189		
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	2,886,111		
	3,793,051		
	3,787,951		
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	67,093,654		
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192,000,396			
	268,610,997		
	1,194,315		
	724,641		
	290,450		
	928,378		
	1,226,528		
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