

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, 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  No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

3,787,951 shares of Common Stock, \$1 Par Value as of July 31, 1998

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

CAPITAL SOUTHWEST CORPORATION AND SUBSIDIARY  
Consolidated Statements of Financial Condition

Assets	June 30, 1998	March 31, 1998
	-----	-----
	(Unaudited)	
Investments at market or fair value		
Companies more than 25% owned		
(Cost: June 30, 1998 - \$19,130,874, March 31, 1998 - \$19,370,874)	\$ 268,043,599	\$ 266,370,919
Companies 5% to 25% owned		
(Cost: June 30, 1998 - \$15,892,335, March 31, 1998 - \$14,984,195)	41,848,335	43,044,195
Companies less than 5% owned		
(Cost: June 30, 1998 - \$32,102,422, March 31, 1998 - \$26,799,352)	101,982,083	91,871,340
	-----	-----
Total investments		
(Cost: June 30, 1998 - \$67,125,631, March 31, 1998 - \$61,154,421)	411,874,017	401,286,454
Cash and cash equivalents	11,247,569	117,047,920
Receivables	647,191	332,873
Other assets	3,835,087	3,656,308
	-----	-----

Totals	\$ 427,603,864 =====	\$ 522,323,555 =====
Liabilities and Shareholders' Equity		
Note payable to bank	\$ --	\$ 100,000,000
Accrued interest and other liabilities	1,752,978	1,961,382
Income taxes payable	266,643	--
Deferred income taxes	120,983,757	119,339,357
Subordinated debenture	5,000,000	5,000,000
	-----	-----
Total liabilities	128,003,378	226,300,739
	-----	-----
Shareholders' equity		
Common stock, \$1 par value: authorized, 5,000,000 shares; issued, 4,225,316 shares at June 30, 1998 and March 31, 1998	4,225,316	4,225,316
Additional capital	5,512,409	5,512,409
Undistributed net investment income	5,345,021	5,261,898
Undistributed net realized gain on investments	67,093,654	66,598,460
Unrealized appreciation of investments - net of deferred income taxes	224,457,388	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 \$79.09 per share at June 30, 1998, and \$78.15 per share at March 31, 1998 on the 3,787,951 shares outstanding	299,600,486	296,022,816
	-----	-----
Totals	\$ 427,603,864 =====	\$ 522,323,555 =====

(See Notes to Consolidated Financial Statements)

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

	Three Months Ended June 30	
	1998	1997
	-----	-----
Investment income:		
Interest	\$ 402,847	\$ 400,032
Dividends	820,747	773,857
Management and directors' fees	137,350	131,100
	-----	-----
	1,360,944	1,304,989
	-----	-----
Operating expenses:		
Interest	102,008	102,008
Salaries	223,819	209,624
Net pension expense (benefit)	(78,378)	(87,476)
Other operating expenses	245,382	123,224
	-----	-----
	492,831	347,380
	-----	-----
Income before income taxes	868,113	957,609
Income tax expense	27,400	30,600
	-----	-----
Net investment income	\$ 840,713	\$ 927,009
	=====	=====
Proceeds from disposition of investments	\$ 761,837	\$ 15,174,179
Cost of investments sold	--	2,480,116
	-----	-----
Realized gain on investments before income taxes	761,837	12,694,063
Income tax expense	266,643	4,442,922
	-----	-----
Net realized gain on investments	495,194	8,251,141
	-----	-----
Increase in unrealized appreciation of investments before income taxes	4,616,353	25,402,456
Increase in deferred income taxes on appreciation of investments	1,617,000	8,891,000
	-----	-----
Net increase in unrealized appreciation of investments	2,999,353	16,511,456
	-----	-----
Net realized and unrealized gain on investments	\$ 3,494,547	\$ 24,762,597
	=====	=====
Increase in net assets from operations	\$ 4,335,260	\$ 25,689,606
	=====	=====

(See Notes to Consolidated Financial Statements)

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

	Three Months Ended June 30, 1998	Year Ended March 31, 1998
	----- (Unaudited)	-----
Operations		
Net investment income	\$ 840,713	\$ 2,726,144
Net realized gain on investments	495,194	6,484,892
Net increase in unrealized appreciation of investments	2,999,353	69,387,923
	-----	-----
Increase in net assets from operations	4,335,260	78,598,959
Distributions from:		
Undistributed net investment income	(757,590)	(2,268,451)
Capital share transactions		
Exercise of employee stock options	--	720,188
	-----	-----
Increase in net assets	3,577,670	77,050,696
Net assets, beginning of period	296,022,816	218,972,120
	-----	-----
Net assets, end of period	\$ 299,600,486	\$ 296,022,816
	=====	=====

(See Notes to Consolidated Financial Statements)

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

	Three Months Ended June 30	
	1998	1997
	----	----
Cash flows from operating activities		
Increase in net assets from operations	\$ 4,335,260	\$ 25,689,606
Adjustments to reconcile increase in net assets from operations to net cash provided by operating activities:		
Depreciation and amortization	5,825	5,943
Net pension benefit	(78,378)	(87,476)
Net realized and unrealized gain on investments	(3,494,547)	(24,762,597)
Decrease (increase) in receivables	(314,318)	38,878
Increase in other assets	(61,387)	(30,830)
Decrease in accrued interest and other liabilities	(253,243)	(198,004)
Deferred income taxes	27,400	30,600
	-----	-----
Net cash provided by operating activities	166,612	686,120
	-----	-----
Cash flows from investing activities		
Proceeds from disposition of investments	761,837	2,366,070
Purchases of securities	(6,422,749)	(423,077)
Maturities of securities	451,539	--
	-----	-----
Net cash provided (used) by investing activities	(5,209,373)	1,942,993
	-----	-----
Cash flows from financing activities		
Decrease in note payable to bank	(100,000,000)	--
Distributions from undistributed net investment income	(757,590)	(753,410)
	-----	-----
Net cash used by financing activities	(100,757,590)	(753,410)
	-----	-----
Net increase (decrease) in cash and cash equivalents	(105,800,351)	1,875,703
Cash and cash equivalents at beginning of period	117,047,920	14,009,481
	-----	-----
Cash and cash equivalents at end of period	\$ 11,247,569	\$ 15,885,184
	=====	=====
Supplemental disclosure of cash flow information:		
Cash paid during the period for:		
Interest	\$ 199,452	\$ 199,452
Income taxes	\$ 8,500	\$ --

(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 June 30	
	1998	1997
	-----	-----
Investment income	\$ .36	\$ .35
Operating expenses	(.10)	(.06)
Interest expense	(.03)	(.03)
Income taxes	(.01)	(.01)
	-----	-----
Net investment income	.22	.25
Net realized gain on investments	.13	2.19
Net increase in unrealized appreciation of investments	.79	4.38
Distributions from undistributed net investment income	(.20)	(.20)
	-----	-----
Net increase in net asset value	.94	6.62
Net asset value:		
Beginning of period	78.15	58.13
	-----	-----
End of period	\$79.09	\$64.75
	=====	=====
Shares outstanding at end of period (000s omitted)	3,788	3,767

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

During the three months ended June 30, 1998 and 1997, the Company recorded dividend income from the following sources:

	Three Months Ended June 30	
	1998	1997
	-----	-----
Alamo Group Inc.	\$292,600	\$266,000
Kimberly-Clark Corporation	19,295	-
The RectorSeal Corporation	240,000	240,000
Skylawn Corporation	150,000	150,000
The Whitmore Manufacturing Company	60,000	60,000
Westmarc Communications, Inc.	20,318	20,318
Other	38,534	37,539
	-----	-----
	\$820,747	\$773,857
	=====	=====

Salaries in the three months ended June 30, 1998 increased from the year-ago period primarily due to the addition of an investment associate.

Other operating expenses in the three months ended June 30, 1998 increased from the year-ago period primarily due to payment of a finders fee related to an investment.

During the three months ended June 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 changes in deferred taxes and excluding the effect of gains or losses realized during the periods) by certain portfolio companies:

	Three Months Ended June 30	
	1998	1997
	-----	-----
Alamo Group Inc.	\$ -	\$4,287,000
American Homestar Corporation	985,765	2,065,412
Balco, Inc.	1,904,680	-
Encore Wire Corporation	(2,104,000)	6,059,000
Mail-Well, Inc.	2,082,000	8,294,000
Mylan Laboratories, Inc.	930,074	(16,035)
Palm Harbor Homes, Inc.	-	14,328,000
PETSMART, Inc.	(470,221)	(5,601,759)
Tele-Communications - TCI Group	837,399	528,750
Tecnol Medical Products, Inc.	-	1,148,525

During the quarter ended June 30, 1998, the Company made new investments of \$3,875,000 and additional investments of \$2,547,749 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: August 5, 1998

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

Date: August 5, 1998

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

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

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Capital Southwest Corporation

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US DOLLARS

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APR-01-1998

JUN-30-1998

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	224,457,388	
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