CAPITAL SOUTHWEST CORP

FORM 10-K405
(Annual Report (Regulation S-K, item 405))

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Address	12900 PRESTON RD STE 700
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SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

(Mark One)

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the Fiscal Year Ended March 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)

Securities registered pursuant to Section 12(b) of the Act: None

Securities registered pursuant to Section 12(g) of the Act: Common Stock,
$1.00 par value

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 period 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 by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [X]

The aggregate market value of the voting stock held by non-affiliates of the registrant as of May 1, 1998 was $224,877,555, based on the last sale price of such stock as quoted by Nasdaq on such date (officers, directors and 5% shareholders are considered affiliates for purposes of this calculation).

The number of shares of common stock outstanding as of May 1, 1998 was 3,787,951.

Documents Incorporated by Reference	Part of Form 10-K
(1) Annual Report to Shareholders for the Year Ended March 31, 1998	Parts I and II; and Part IV, Item 14(a)(1) and (2)
(2) Proxy Statement for Annual Meeting of Shareholders to be held July 20, 1998	Part III

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PART I

Item 1. Business

Capital Southwest Corporation (the "Company") was organized as a Texas corporation on April 19, 1961. Until September 1969, the Company operated as a licensee under the Small Business Investment Act of 1958. At that time, the Company transferred to its wholly-owned subsidiary, Capital Southwest Venture Corporation ("CSVC"), certain of its assets and its license as a small business investment company ("SBIC"). CSVC is a closed-end, non-diversified investment company of the management type. Prior to March 30, 1988, the Company was registered as a closed-end, non-diversified investment company under the Investment Company Act of 1940 (the "1940 Act"). On that date, the Company elected to become a business development company subject to the provisions of Sections 55 through 65 of the 1940 Act, as amended by the Small Business Incentive Act of 1980.

The Company is a venture capital investment company whose objective is to achieve capital appreciation through long-term investments in businesses believed to have favorable growth potential. The Company's investments are focused on early-stage financings, expansion financings, management buyouts and recapitalizations in a broad range of industry segments. The portfolio is a composite of companies in which the Company has major interests as well as a number of developing companies and marketable securities of established publicly-owned companies. The Company makes available significant managerial assistance to the companies in which it invests and believes that providing material assistance to such investee companies is critical to its business development activities.

The twelve largest investments of the Company had a combined cost of $42,851,522 and a value of $359,713,686, representing 89.6% of the value of the Company's consolidated investment portfolio at March 31, 1998. For a narrative description of the twelve largest investments, see "Twelve Largest Investments - March 31, 1998" on pages 6 through 8 of the Company's Annual Report to Shareholders for the Year Ended March 31, 1998 (the "1998 Annual Report") which is herein incorporated by reference. Certain of the information presented on the twelve largest investments has been obtained from the respective companies and, in certain cases, from public filings of such companies. The financial information presented on each of the respective companies is from such companies' financial statements, which in some instances is unaudited.

The Company competes for attractive investment opportunities with venture capital partnerships and corporations, venture capital affiliates of industrial and financial companies, SBICs and wealthy individuals.

The number of persons employed by the Company at March 31, 1998 was nine.

Item 2. Properties

The Company maintains its offices at 12900 Preston Road, Suite 700, Dallas, Texas, 75230, where it rents approximately 3,700 square feet of office space pursuant to a lease agreement expiring in February 2003. The Company believes that its offices are adequate to meet its current and expected future needs.

Item 3. Legal Proceedings

The Company has no material pending legal proceedings to which it is a party or to which any of its property is subject.

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

No matters were submitted to a vote of security holders during the quarter ended March 31, 1998.

PART II

Item 5. Market for Registrant's Common Equity and Related Stockholder Matters

Information set forth under the captions "Shareholder Information - Shareholders, Market Prices and Dividends" on page 29 of the 1998 Annual Report are herein incorporated by reference.

Item 6. Selected Financial Data

"Selected Consolidated Financial Data" on page 28 of the 1998 Annual Report is herein incorporated by reference.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Pages 25 through 27 of the Company's 1998 Annual Report are herein incorporated by reference.

Item 8. Financial Statements and Supplementary Data

Pages 9 through 24 of the Company's 1998 Annual Report are herein incorporated by reference. See also Item 14 of this Form 10-K - "Exhibits, Financial Statement Schedules, and Reports on Form 8-K".

Selected Quarterly Financial Data (Unaudited)

The following presents a summary of the unaudited quarterly consolidated financial information for the years ended March 31, 1998 and 1997.

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total
	(In thousands, except per share amounts)				
1998					
Net investment income	$ 927	$ 666	$ 268	$ 865	$ 2,726
Net realized gain (loss)on investments	8,251	695	(2,461)	-	6,485
Net increase in unrealized appreciation of investments before distributions	16,511	22,543	6,732	23,602	69,388
Net increase in net assets from operations before distributions	25,690	23,903	4,539	24,467	78,599
Net increase in net assets from operations before distributions per share	6.82	6.32	1.15	6.46	20.75
1997					
Net investment income	$ 817	$ 829	$ 442	$ 486	$ 2,574
Net realized gain on investments	-	-	892	5,914	6,806
Net increase (decrease) in unrealized appreciation of investments before distributions	8,291	12,505	11,150	(9,141)	22,805
Net increase (decrease) in net assets from operations before distributions	9,107	13,334	12,485	(2,741)	32,185
Net increase (decrease) in net assets from operations before distributions per share	2.42	3.54	3.31	(.72)	8.55

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

Not applicable.

PART III

Item 10. Directors and Executive Officers of the Registrant

The information set forth under the captions "Election of Directors" in the Company's definitive Proxy Statement for Annual Meeting of Shareholders to be held July 20, 1998, filed pursuant to Regulation 14A under the Securities Exchange Act of 1934, on or about June 10, 1998 (the "1998 Proxy Statement") is herein incorporated by reference.

Executive Officers of the Registrant

The officers of the Company, together with the offices in the Company presently held by them, their business experience during the last five years and their ages are as follows:

D. Scott Collier, age 35, has served as Vice President of the Company since April 1995 and was an investment associate with the Company from 1991 to 1995.

J. Bruce Duty, age 47, has served as Senior Vice President of the Company since 1993, Vice President of the Company from 1982 to 1993, Secretary of the Company from 1980 to 1993 and Treasurer of the Company from 1980 to January 1990.

Patrick F. Hamner, age 42, has served as Vice President of the Company since 1986 and was an investment associate with the Company from 1982 to 1986.

Gary L. Martin, age 51, has been a director of the Company since July 1988 and has served as Vice President of the Company since 1984. He previously served as Vice President of the Company from 1978 to 1980. Since 1980, Mr. Martin has served as President of The Whitmore Manufacturing Company, a wholly-owned subsidiary of the Company.

Tim Smith, age 37, has served as Vice President and Secretary of the Company since 1993, Treasurer of the Company since January 1990 and was an investment associate with the Company from July 1989 to January 1990.

William R. Thomas, age 69, has served as Chairman of the Board of Directors of the Company since 1982 and President of the Company since 1980. In addition, he has been a director of the Company since 1972 and was previously Senior Vice President of the Company from 1969 to 1980.

No family relationship exists between any of the above-listed officers, and there are no arrangements or understandings between any of them and any other person pursuant to which they were selected as an officer. All officers are elected to hold office for one year, subject to earlier termination by the Company's board of directors.

Item 11. Executive Compensation

The information set forth under the caption "Compensation of Directors and Executive Officers" in the 1998 Proxy Statement is herein incorporated by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management

The information set forth under the captions "Stock Ownership of Certain Beneficial Owners" and "Election of Directors" in the 1998 Proxy Statement is herein incorporated by reference.

Item 13. Certain Relationships and Related Transactions

There were no relationships or transactions within the meaning of this item during the fiscal year ended March 31, 1998 or proposed for the fiscal year ending March 31, 1999.

PART IV

Item 14. Exhibits, Financial Statement Schedules, and Reports on Form 8-K

(a)(1) The following financial statements included in pages 9 through 24 of the Company's 1998 Annual Report are herein incorporated by reference:

(A) Portfolio of Investments - March 31, 1998

Consolidated Financial Statements of the Company and Subsidiary

Consolidated Statements of Financial Condition - March 31, 1998 and 1997

Consolidated Statements of Operations - Years Ended March 31, 1998, 1997 and 1996

Consolidated Statements of Changes in Net Assets - Years Ended March 31, 1998, 1997 and 1996

Consolidated Statements of Cash Flows - Years Ended March 31, 1998, 1997 and 1996

(B) Notes to Consolidated Financial Statements

(C) Notes to Portfolio of Investments

(D) Selected Per Share Data and Ratios

(E) Independent Auditors' Report

(a)(2) All schedules are omitted because they are not applicable or not required, or the information is otherwise supplied.

(a)(3) See the Exhibit Index on page 6.

(b) The Company filed no reports on Form 8-K during the three months ended March 31, 1998.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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

By: /s/ William R. Thomas
(William R. Thomas, President and Chairman of the Board)

Date: June 26, 1998

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the date indicated.

Signature	Title	Date
/s/ William R. Thomas (William R. Thomas)	President and Chairman of the Board and Director	June 26, 1998
/s/ Gary L. Martin (Gary L. Martin)	Director	June 26, 1998
/s/ Graeme W. Henderson (Graeme W. Henderson)	Director	June 26, 1998
/s/ James M. Nolan (James M. Nolan)	Director	June 26, 1998
/s/ John H. Wilson (John H. Wilson)	Director	June 26, 1998
/s/ Tim Smith (Tim Smith)	Vice President and Secretary-Treasurer (Financial and Accounting Officer)	June 26, 1998

EXHIBIT INDEX

The following exhibits are filed with this report or are incorporated herein by reference to a prior filing, in accordance with Rule 12b-32 under the Securities Exchange Act of 1934. (Asterisk denotes exhibits filed with this report.)

Exhibit No.	Description
3.1(a)	Articles of Incorporation and Articles of Amendment to Articles of Incorporation, dated June 25, 1969 (filed as Exhibit 1(a) and 1(b) to Amendment No. 3 to Form N-2 for the fiscal year ended March 31, 1979).
3.1(b)	Articles of Amendment to Articles of Incorporation, dated July 20, 1987 (filed as an exhibit to Form N-SAR for the six month period ended September 30, 1987).
3.2	By-Laws of the Company, as amended (filed as Exhibit 2 to Amendment No. 11 to Form N-2 for the fiscal year ended March 31, 1987).
4.1	Specimen of Common Stock certificate (filed as Exhibit 4 to Amendment No. 3 to Form N-2 for the fiscal year ended March 31, 1979).
4.2	Subordinated debenture of CSVC guaranteed by the Small Business Administration (filed as Exhibit 4.3 to Form 10-K for the fiscal year ended March 31, 1993).
10.1	The RectorSeal Corporation and Jet-Lube, Inc. Employee Stock Ownership Plan as revised and restated effective April 1, 1989 (filed as Exhibit 10.1 to Form 10-K for the fiscal year ended March 31, 1996).
10.2*	Amendment No. I to The RectorSeal Corporation and Jet-Lube, Inc. Employee Stock Ownership Plan as revised and restated effective April 1, 1989.
10.3	Retirement Plan for Employees of Capital Southwest Corporation and Its Affiliates as amended and restated effective April 1, 1989 (filed as Exhibit 10.3 to Form 10-K for the fiscal year ended March 31, 1995).
10.4*	Amendments One and Two to Retirement Plan for Employees of Capital Southwest Corporation and Its Affiliates as amended and restated effective April 1, 1989.
10.5	Capital Southwest Corporation and Its Affiliates Restoration of Retirement Income Plan for certain highly-compensated superseded plan participants effective April 1, 1993 (filed as Exhibit 10.4 to Form 10-K for the fiscal year ended March 31, 1995).
10.6*	Amendment One to Capital Southwest Corporation and Its Affiliates Restoration of Retirement Income Plan for certain highly-compensated superceded plan participants effective April 1, 1993.

10.7	Capital Southwest Corporation Retirement Income Restoration Plan as amended and restated effective April 1, 1989 (filed as Exhibit 10.5 to Form 10-K for the fiscal year ended March 31, 1995).
10.8	Form of Indemnification Agreement which has been established with all directors and executive officers of the Company (filed as Exhibit 10.9 to Form 8-K dated February 10, 1994).
10.9	Capital Southwest Corporation 1984 Incentive Stock Option Plan as amended and restated as of April 20, 1987 (filed as Exhibit 10.10 to Form 10-K for the fiscal year ended March 31, 1990).

Exhibit No.	Description
13. *	Annual Report to Shareholders for the fiscal year ended March 31, 1998.
21. *	List of subsidiaries of the Company.
23. *	Independent Auditors' Consent.
27. *	Financial Data Schedule.

AMENDMENT NO. I
TO
THE RECTORSEAL CORPORATION AND JET-LUBE, INC.
EMPLOYEE STOCK OWNERSHIP PLAN
(As Revised and Restated Effective April 1, 1989)

This Amendment No. I is executed and effective this 15th day of August, 1997 by The RectorSeal Corporation, a Delaware corporation (the "Company"), pursuant to Section 13.1 of The RectorSeal Corporation and Jet-Lube, Inc. Employee Stock Ownership Plan (the "Plan").

W I T N E S S E T H:

WHEREAS, effective June 1, 1976, the Company established The RectorSeal Corporation Employee Stock Ownership Plan (hereinafter referred to as the "Plan"); and

WHEREAS, the Plan was subsequently amended from time to time and was then amended and restated effective April 1, 1985, except for specific provisions which were effective April 1, 1984, to bring the Plan into compliance with the Tax Equity and Fiscal Responsibility Act of 1982, the Tax Reform Act of 1984 and the Retirement Equity Act of 1984; and

WHEREAS, Jet-Lube, Inc., a Delaware corporation ("Jet Lube"), and an Affiliated Company (herein defined), established the Jet-Lube, Inc. Employee Stock Ownership Plan (the "Jet Lube Plan") effective June 1, 1976; and

WHEREAS, the Jet Lube Plan was subsequently amended from time to time prior to April 1, 1984, was amended and restated effective April 1, 1985, except for specific provisions which were effective April 1, 1984, to bring the Jet Lube Plan into compliance with the Tax Equity and Fiscal Responsibility Act of 1982, the Tax Reform Act of 1984 and the Retirement Equity Act of 1984, and, due to the merger of the Jet Lube Plan with and into the Plan, was amended to comply with (i) those provisions of the Tax Reform Act of 1986 that were technical corrections to the Retirement Equity Act of 1984 and (ii) the temporary Treasury Regulations issued with respect to those provisions in the Internal Revenue Code of 1986 enacted by the Retirement Equity Act of 1984 or the subsequent technical correction provisions thereto; and

WHEREAS, Jet Lube approved (i) the merger of the Jet Lube Plan, effective as of April 1, 1989, with and into the Plan and (ii) the transfer of assets from the Jet Lube Plan to the Plan as soon as practicable after the valuation of accounts in the Jet Lube Plan at March 31, 1990; and

WHEREAS, the Plan was amended and restated (i) effective April 1, 1989, to bring the Plan into compliance with the Tax Reform Act of 1986 as well as all other applicable laws, rules and regulations enacted or promulgated since the prior plan restatement and (ii) effective April 1, 1994, to change the name of the Plan to "The RectorSeal Corporation and Jet-Lube, Inc. Employee Stock Ownership Plan"; and

WHEREAS, Capital Southwest Management Corporation withdrew its participation in The Whitmore Manufacturing Company and Capital Southwest Management Corporation Employee Stock Ownership Plan and became a participating employer in the Plan effective April 1, 1995; and

WHEREAS, the Company now desires to amend the Plan with respect to the distribution provisions for qualified domestic relations order;

NOW, THEREFORE, Section 11.9 of the Plan is hereby amended in its entirety to read as follows:

Sec. 11.9 Distribution Pursuant to Qualified Domestic Relations Orders. Notwithstanding any other provision of the Plan to the contrary, effective for any court order entered into after the date this Amendment No. I is effective, or for any court order for which the Administrator has received notice as of such date, which is later determined to be a "qualified domestic relations order" within the meaning of Section 414(p)(1)(A) of the Code, if the provisions of such qualified domestic relations order provide that distributions shall be made to an "alternate payee" within the meaning of Section 414(p)(8) of the Code prior to the time that the Participant with respect to whom the alternate payee's benefits are derived is entitled to a distribution under the Plan, the Named Fiduciary shall direct the Trustee to commence payments to the alternate payee as soon as administratively practicable following the later of (i) the date the Participant attains (or would have attained) the "earliest retirement age" as defined in Section 414(p)(4) of the Code, or (ii) the receipt of such qualified domestic relations order by the Named Fiduciary. The Named Fiduciary shall determine whether an order constitutes a "qualified domestic relations order" within the meaning of Section 414(p)(1)(A) of the Code.

IN WITNESS WHEREOF, the Company hereby causes this instrument to be executed as of the date and year first above written.

THE RECTORSEAL CORPORATION

By: /s/ David M. Smith

AMENDMENT ONE TO

RETIREMENT PLAN FOR EMPLOYEES OF

CAPITAL SOUTHWEST CORPORATION AND ITS AFFILIATES

As Amended and Restated Effective April 1, 1989

WHEREAS, effective as of April 1, 1989, the Retirement Plan for Employees of Capital Southwest Corporation and its Affiliates (the "Plan") was amended and restated in its entirety;

WHEREAS, by the terms of Section 6.4 of the amended and restated Plan, said Plan may be amended by Capital Southwest Corporation (the "Sponsoring Employer");

and

WHEREAS, the Sponsoring Employer has determined that the Plan should be amended to remove the exclusions for "Super Highly compensated Employees" and "Highly compensated Employees" from the provisions in the First Supplement concerning preservation of accrued benefits in certain superseded plans; and

WHEREAS, the Board of Directors of the Sponsoring Employer has approved and adopted such amendment;

NOW, THEREFORE, the Plan is hereby amended, effective as of January 1, 1998, as follows:

1. Section (B)(2)(e) of the First Supplement to the Plan is deleted in its entirety.

2. Section (B)(2)(f) of the First Supplement to the Plan is amended to read in its entirety as follows:

"(f) 'Superseded Plan Accrued Benefit Preservation Date' shall mean the earliest of:

(i) March 31, 1993; or
(ii) the date of the Participant's retirement or termination of service; provided, however, if the Participant was a participant in the Capital Southwest Superseded Plan, the Jet-Lube Superseded Plan, the RectorSeal

Superseded Plan or the Whitmore Superseded Plan prior to April 1, 1989, his Credited Service includes service which was accrued prior to April 1, 1989, under one of the aforementioned Superseded Plans, and his date of birth is prior to April 1, 1943, his 'Superseded Plan Accrued Benefit Preservation Date' shall be the date of his retirement or termination of service."

IN WITNESS WHEREOF, CAPITAL SOUTHWEST CORPORATION has caused this instrument to be excuted by its duly authorized officers on this 19th day of January, 1998.

ATTEST:	*CAPITAL SOUTHWEST CORPORATION*
/s/ Tim Smith	*By /s/ William R. Thomas*
Secretary	*Title: President*

AMENDMENT TWO TO

RETIREMENT PLAN FOR EMPLOYEES OF

CAPITAL SOUTHWEST CORPORATION AND ITS AFFILIATES

As Amended and Restated Effective April 1, 1989

WHEREAS, effective as of April 1, 1989, the Retirement Plan for Employees of Capital Southwest Corporation and Its Affiliates (the "Plan") was amended and restated in its entirety;

WHEREAS, by the terms of Section 6.4 of the amended and restated Plan, said Plan may be amended by Capital Southwest Corporation (the "Sponsoring Employer"); and

WHEREAS, the Sponsoring Employer has determined that the Plan should be amended to change the benefit formula, to preserve benefits accrued as of March 31, 1998, to limit the amount of bonus to be included in compensation for purposes of computing final average monthly compensation, to change the active death benefit formula for participants with ten or more years of vesting service, and to provide that the mortality and interest assumptions used to compute actuarially equivalent lump-sum settlements of benefits which have an Annuity Starting Date on or after April 1, 1998, shall be based upon the "applicable mortality table" and the "applicable interest rate" determined under Section 417(e)(3) of the Internal Revenue Code, as amended by the Retirement Protection Act of 1994 (as amended); and WHEREAS, the Board of Directors of the Sponsoring Employer has approved and adopted this Amendment Two to the Plan; NOW, THEREFORE, the Plan is hereby amended, effective as of April 1, 1998, as follows:

1. Section 1.1(A)(1)(a) of the Plan is amended to read in its entirety as follows:

"(a) 1.25% of his Final Average Monthly Compensation at such given date multiplied by his number of years of Credited Service at such given date that are not in excess of 35 years;"

2. Section 1.1(A)(1) of the Plan is amended to add the following paragraph at the end thereof:

"Notwithstanding the foregoing provisions of this Section 1.1(A)(1), the Accrued Deferred Monthly Retirement Income Commencing at Normal Retirement Date of a Participant at any given date shall not be less than the Accrued Deferred Monthly Retirement Income Commencing at Normal Retirement Date which the Participant has accrued as of March 31, 1998, based upon the Participant's Credited Service, Final Average Monthly Compensation, and Monthly Covered Compensation (or, if applicable, the corresponding terms used to compute his accrued benefit under the Superseded Plan) determined as of the earlier of March 31, 1998, or the date of the Participant's termination of service, under the provisions of the Plan and the First Supplement then in effect."

3. Section 1.1(A)(15) of the Plan is amended to add the following paragraph at the end thereof:

"Notwithstanding any provision of this Section 1.1(A)(15) to the contrary, for purposes of determining a Participant's average monthly rate of Compensation on or after April 1, 1998, the Participant's Compensation shall not include the portion of any bonus or bonuses which in the aggregate exceeds 40% of the Participant's base pay in any Plan Year."

4. Section 1.1(B)(2) of the Plan is amended to read in its entirety as follows:

"(2) Any of the provisions of Subsection (1) above to the contrary notwithstanding, if payment to any Participant (or his Beneficiary) is either (i) an actuarially equivalent lump-sum distribution or (ii) any other actuarially equivalent form of distribution that provides payments in the form of a decreasing annuity or that provides payments for a period less than the life of the Participant (or, in the case of a preretirement death benefit payable to the Beneficiary of a Participant prior to the commencement of retirement income payments to the Participant, for a period less than the life of such Beneficiary), the amount of payment under either of these forms of distribution shall be equal to the actuarial equivalent of the Participant's 'accrued benefit' (within the meaning of Section 411(a)(7) of the Internal Revenue Code and regulations issued with respect thereto) commencing at his Normal Retirement Age or the date of termination of his service, whichever is later. Such minimum actuarially equivalent distribution determined under this Subsection (2) shall be determined using:

(a) if the Annuity Starting Date is prior to April 1, 1998, the mortality assumptions specified in Subsection (1)(a) above and the interest rate that was being used by the Pension Benefit Guaranty Corporation for purposes of determining the present value of a lump-sum distribution on plan termination (as determined under Sections 411(a)(11) and 417 of the Internal Revenue Code and regulations issued pursuant thereto) as of the first day of the Plan Year during which the Annuity Starting Date occurs; or

(b) if the Annuity Starting Date is on or after April 1, 1998, the mortality table prescribed by the Secretary of the Treasury in accordance with Section 417(e)(3) of the Internal Revenue Code and regulations and rulings issued pursuant thereto (which as of April 1, 1998 is based upon a fixed blend of 50% of the male mortality rates and 50% of the female mortality rates from the 1983 Group Annuity Mortality Table), and the interest rate assumption shall be the annual rate of interest on 30-year Treasury securities for the second full calendar month immediately preceding the first day of the Plan Year during which the Annuity Starting Date occurs."

5. Section 2.1(B)(1) of the Plan is amended to read in its entirety as follows:

"(1) 1.25% of his Final Average Monthly Compensation multiplied by his number of years of Credited Service that are not in excess of 35 years;"

6. Section 2.1(B) of the Plan is amended to add the following paragraph at the end thereof:

"Notwithstanding the foregoing provisions of this Section 2.1(B), the monthly retirement income of a Participant who retires on or after April 1, 1998, and on or after his Normal Retirement Date shall not be less than the monthly retirement income which the Participant has accrued as of March 31, 1998, based upon the Participant's Credited Service, Final Average Monthly Compensation, and Monthly Covered Compensation (or, if applicable, the corresponding terms used to compute his accrued benefit under the Superseded Plan) determined as of March 31, 1998, under the provisions of the Plan and the First Supplement then in effect, adjusted on an actuarially equivalent basis, if applicable, to his Annuity Starting Date in accordance with the above provisions of this Section 2.1(B)."

7. Section 2.4(B)(1)(b)(i)(bb) is amended to read in its entirety as follows:

"(bb) 36 times the Participant's Final Average Monthly Compensation at the date of his death if he had completed 10 or more years of Vesting Service as of the date of his death."

8. Section 4.1(A)(2) of the Plan is amended to read in its entirety as follows:

"(2) Actuarial Assumptions: The mortality assumptions that are used to compute the actuarially equivalent maximum amount of retirement income permitted under this Section 4.1(A) on and after April 1, 1998, shall be based upon the mortality table prescribed by the Secretary of Treasury pursuant to Section 415(b)(2)(E) of the Internal Revenue Code (which as of April 1, 1998, is based upon a fixed blend of 50% of the male mortality rates and 50% of the female mortality rates from the 1983 Group Annuity Mortality Table). The interest rate assumptions that are used to compute the actuarially equivalent maximum amounts of retirement income permitted under the provisions of this Section 4.1(A) shall be the same as those that are used in computing actuarially equivalent benefits payable on behalf of a Participant upon his retirement or termination of service and upon the exercise of optional forms of retirement income under the Plan except that:

(a) the interest rate assumption shall not be less than 5% for the purposes of converting the maximum retirement income to a form other than a straight life annuity (with no ancillary benefits); provided, however, for the purposes of converting the maximum retirement income to any form of benefit which is subject to Section 417(e)(3) of the Internal Revenue Code (which shall include lump-sum distributions and other forms of distribution that provide payments in the form of a decreasing annuity or that provide payments for a period less than the life of the recipient), such minimum interest rate assumption that applies on and after April 1, 1998, shall (in lieu of 5%) be the annual rate of interest on 30-year Treasury securities for the second full calendar month immediately preceding the first day of the Plan Year during which the Annuity Starting Date occurs;

(b) the interest rate assumption shall not be greater than 5% for the purposes of adjusting the maximum retirement income payable to a Participant who is over the social security retirement age within the meaning of Section 415(b)(8) of the Internal Revenue Code (or age 65 in the case of a governmental plan or a plan maintained by a tax exempt organization) so that it is actuarially equivalent to such a retirement income commencing at the social security retirement age (or age 65 in the case of a governmental plan or a plan maintained by a tax exempt organization); and

(c) the factor for adjusting the maximum permissible retirement income to a Participant who is less than age 62 years so that it is actuarially equivalent to such a retirement income commencing at age 62 years shall be equal to (i) the factor for determining actuarial equivalence for early retirement under the Plan or (ii) an actuarially computed reduction factor determined using an interest rate assumption of 5% and the mortality assumptions specified in the first sentence of this Section 4.1(A)(2) (except that the mortality decrement shall be ignored if a death benefit at least equal to the single-sum value of the Participant's Accrued Deferred Monthly Retirement Income Commencing at Normal Retirement Date would be payable under the Plan on behalf of the Participant if he remained in the service of the Employer and his service were to be terminated by reason of his death prior to his Normal Retirement Date), whichever factor will provide the greater reduction. The factor for determining actuarial equivalence for early retirement under the Plan for any given age below age 62 years shall be determined by dividing the early retirement adjustment factor that applies under the Plan at such given age by the early retirement adjustment factor that applies under the Plan at age 62 years."

9. The period at the end of the last sentence of Section 4.1(H) of the Plan is deleted, and the following clause is added to such sentence:

"; provided, however, that, notwithstanding any provisions hereof to the contrary, such preservation shall not be required if, under regulations or other official pronouncements of the Internal Revenue Service, such reduction or elimination or such change in assumptions (without the preservation described above in this subsection) may be made without violating the anticutback rules of Section 411(d)(6) of the Internal Revenue Code."

IN WITNESS WHEREOF, CAPITAL SOUTHWEST CORPORATION has caused this instrument to be executed by its duly authorized officers on this 11th day of March, 1998.

ATTEST:	CAPITAL SOUTHWEST CORPORATION
/s/ Tim Smith	By /s/ William R. Thomas
Secretary	Title: President

AMENDMENT ONE TO

CAPITAL SOUTHWEST CORPORATION AND ITS AFFILIATES

RESTORATION OF RETIREMENT INCOME PLAN FOR

CERTAIN HIGHLY COMPENSATED SUPERSEDED PLAN PARTICIPANTS

WHEREAS, Capital Southwest Corporation, Capital Southwest Management Corporation, Jet-Lube, Inc., The RectorSeal Corporation, and The Whitmore Manufacturing Company presently maintain the Capital Southwest Corporation and Its Affiliates Restoration of Retirement Income Plan for Certain Highly Compensated Superseded Plan Participants (the "Restoration Plan"); and

WHEREAS, pursuant to Section 9 of the Restoration Plan, the Restoration Plan may be amended by the Board of Directors of Capital Southwest Corporation; and

WHEREAS, Capital Southwest Corporation has determined that the Restoration Plan should be amended to provide for lump-sum payment of benefits with a single-sum value of $10,000 or less; and

WHEREAS, the Board of Directors of Capital Southwest Corporation has approved and adopted such amendment;

NOW, THEREFORE, the Restoration Plan is hereby amended, effective as of January 1, 1998, as follows:

The following sentence is added to Section 6 of the Restoration Plan at the end thereof:

"Notwithstanding the foregoing provisions of this Section 6, if the single-sum value of the benefits payable to a Participant or Beneficiary under this Restoration Plan is equal to or less than $10,000, such benefits may be paid in a single, lump-sum payment at the discretion of the Retirement Committee."

IN WITNESS WHEREOF, CAPITAL SOUTHWEST CORPORATION has caused this instrument to be executed by its duly authorized officers on this 19th day of January, 1998, to be effective January 1, 1998.

ATTEST:	*CAPITAL SOUTHWEST CORPORATION*
/s/ Tim Smith	*By /s/ William R. Thomas*
Secretary	*Title: President*

Palm Harbor Homes, Inc. $138,250,000

Palm Harbor Homes, Dallas, Texas, is an integrated manufactured housing company, building, retailing, financing and insuring homes produced in 16 plants in Alabama, Arizona, Florida, Georgia, North Carolina, Ohio, Oregon and Texas and sold in 34 states by over 300 independent dealers and 94 company-owned retail superstores. Palm Harbor manufactures high-quality, energy-efficient homes designed to meet the need for affordable housing, particularly among retirees and newly-formed families.

During the year ended March 27, 1998, Palm Harbor earned $31,854,000 ($1.69 per share) on net sales of $637,268,000, compared with earnings of $24,739,000 ($1.34 per share) on net sales of $563,192,000 in the previous year. The March 31, 1998 closing Nasdaq bid price of Palm Harbor's common stock was $36.625 per share.

At March 31, 1998, the $10,931,955 investment in Palm Harbor by Capital Southwest and its subsidiary was valued at $138,250,000 ($22.00 per share) consisting of 6,284,096 restricted shares of common stock, representing a fully-diluted equity interest of 33.2%.

Skylawn Corporation $42,000,000

Skylawn Corporation owns and operates cemeteries, mausoleums and mortuaries. Skylawn's operations, all of which are in California, include a mausoleum and an adjacent mortuary in Oakland and cemeteries and mausoleums in San Mateo, Hayward, Sacramento and Napa, the latter three of which also have mortuaries at the cemetery sites. All of these entities are well established and have provided funeral services to their respective communities for many years.

For the fiscal year ended March 31, 1998, Skylawn Corporation earned $4,031,000 on revenues of $22,156,000. In the previous year, Skylawn earned $3,822,000 on revenues of $20,602,000.

At March 31, 1998, Capital Southwest owned 100% of Skylawn Corporation's common stock, which had a cost of $4,510,400 and was valued at $42,000,000.

The RectorSeal Corporation $38,500,000

The RectorSeal Corporation, with plants in Houston, Texas and Mount Vernon, New York, manufactures specialty chemical products including pipe thread sealants, firestop sealants, plastic solvent cements and other formulations for plumbing and industrial applications. RectorSeal's subsidiary, Jet-Lube, Inc., with plants in Houston, England and Canada, produces anti-seize compounds, specialty lubricants and other products used in industrial and oil field applications. RectorSeal also owns a 20% equity interest in The Whitmore Manufacturing Company (described subsequently).

During the year ended March 31, 1998, RectorSeal earned $3,917,000 on revenues of $42,218,000, compared with earnings of $3,116,000 on revenues of $37,988,000 in the previous year. RectorSeal's earnings do not reflect its 20% equity in The Whitmore Manufacturing Company.

At March 31, 1998, Capital Southwest owned 100% of RectorSeal's common stock having a cost of $52,600 and a value of $38,500,000.

Alamo Group Inc. $37,240,000

Alamo Group Inc. is a leading designer, manufacturer and distributor of heavy-duty, tractor-mounted mowing and vegetation maintenance equipment. Founded in 1969, Alamo Group operates 12 manufacturing facilities and serves agricultural, governmental and commercial markets in the U.S. and Europe.

For the year ended December 31, 1997, Alamo reported consolidated earnings of $13,600,000 ($1.41 per share) on net sales of $203,092,000, compared with earnings of $8,762,000 ($0.91 per share) on net sales of $183,595,000 in the previous year. The March 31, 1998 closing NYSE market price of Alamo's common stock was $18.125 per share.

At March 31, 1998, the $575,000 investment in Alamo by Capital Southwest and its subsidiary was valued at $37,240,000, consisting of 2,660,000 restricted shares of common stock valued at $37,240,000 ($14.00 per share) and warrants for 62,500 shares, representing a fully-diluted equity interest of 27.0% at an anticipated cost of $1,575,000.

Encore Wire Corporation $33,660,000

Encore Wire Corporation, McKinney, Texas, manufactures a broad line of copper electrical wire and cable including non-metallic sheathed cable, underground feeder cable and THHN cable for residential, commercial and industrial construction. Encore's products are sold through large-volume distributors and building materials retailers.

For the year ended December 31, 1997, Encore reported net income of $21,693,000 ($1.97 per share) on net sales of $254,640,000, compared with net income of $7,159,000 ($0.68 per share) on net sales of $179,132,000 in the previous year. The March 31, 1998 closing Nasdaq bid price of Encore's common stock was $32.25 per share.

At March 31, 1998, the $4,100,000 investment in 1,683,000 shares of Encore's restricted common stock by Capital Southwest and its subsidiary was valued at $33,660,000 ($20.00 per share), representing a fully-diluted equity interest of 14.6%.

Mail-Well, Inc. $24,986,000

Mail-Well, Inc., Englewood, Colorado, is a leading consolidator in the fragmented printing industry, specializing in the following market segments:
customized envelopes, high-impact printing, consumer products labels and business communications documents. Mail-Well has 9,000 employees and operates 75 plants and numerous sales offices throughout North America.

For the year ended December 31, 1997, Mail-Well reported earnings of $22,176,000 ($1.18 per share) on net sales of $897,560,000, compared with earnings of $16,927,000 ($0.95 per share) on net sales of $778,524,000 in the previous year. The March 31, 1998 closing NYSE price of Mail-Well's common stock was $37.875 per share.

At March 31, 1998, the $2,889,010 investment in Mail-Well by Capital Southwest was valued at $24,986,000 ($24.00 per share) consisting of 1,041,094 restricted shares of common stock, representing a fully-diluted equity interest of 3.8%.

American Homestar Corporation $16,992,710

American Homestar Corporation, League City, Texas, builds, retails and finances manufactured housing, producing homes from its 11 plants and retailing its products through 83 company-owned retail sales centers and more than 400 independent dealers in 28 states.

For the year ended May 31, 1997, American Homestar reported net income of $14,692,000 ($0.87 per share) on net sales of $339,979,000. Unaudited earnings for the nine months ended February 28, 1998 were $11,120,000 ($0.62 per share) compared with $10,445,000 ($0.60 per share) during the same period in the prior year. The March 31, 1998 closing Nasdaq bid price of American Homestar's stock was $22.625 per share.

At March 31, 1998, Capital Southwest and its subsidiary owned 751,059 unrestricted shares of American Homestar common stock, having a cost of $3,405,824 and a market value of $16,992,710 ($22.625 per share), representing a fully-diluted equity interest of 4.1%.

PETsMART, Inc. $6,991,976

PETsMART, Inc., Phoenix, Arizona, is the largest operator of stores specializing in pet foods, supplies and grooming and veterinary services. PETsMART currently operates 468 stores in North America and the United Kingdom.

For the year ended February 1, 1998, PETsMART reported a net loss of $34,430,000 ($0.30 per share) on net sales of $1,790,599,000, compared with net income of $20,591,000 ($0.17 per share) on net sales of $1,501,017,000 in the previous year. The March 31, 1998 closing Nasdaq bid price of PETsMART's common stock was $10.6875 per share.

At March 31, 1998, Capital Southwest and its subsidiary owned 654,220 unrestricted shares of PETsMART common stock, having a cost of $2,878,733 and a market value of $6,991,976 ($10.6875 per share).

The Whitmore Manufacturing Company $6,000,000

The Whitmore Manufacturing Company, with plants in Rockwall, Texas and Cleveland, Ohio, manufactures specialty lubricants for heavy equipment used in surface mining and other industries, and produces transit coatings for the automobile industry. Whitmore's subsidiary, Hanson-Loran Company, Inc., Buena Park, California, produces floor-finishing compounds, supplies and equipment for supermarkets.

During the year ended March 31, 1998, Whitmore reported net income of $118,424 on net sales of $12,901,000, compared with net income of $971,000 on net sales of $12,300,000 (restated) in the previous year. The company is owned 80% by Capital Southwest and 20% by Capital Southwest's subsidiary, The RectorSeal Corporation (described on a previous page).

At March 31, 1998, the direct investment in Whitmore by Capital Southwest was valued at $6,000,000 and had a cost of $1,600,000. Our Company's direct and indirect equity in Whitmore's income for the year ended March 31, 1998 was $118,424.

SDI Holding Corp. $6,000,000

SDI Holding Corp., Greenville, South Carolina, through its subsidiary, Sterling Diagnostic Imaging, Inc., manufactures and markets, on a world-wide basis, x-ray imaging film, intensifying screens, cassettes, film development chemicals and related equipment and services. A subsidiary, Direct Radiography Corp., recently developed and obtained FDA approval of a system which is the technological leader in capturing, storing and transmitting conventional x-ray images in a digital format.

The net assets of the Diagnostic Imaging business were purchased from E. I. DuPont de Nemours for approximately $315 million in March 1996. The operations acquired by SDI recorded 1997 sales of $527 million and 1996 sales of $500 million.

At March 31, 1998, Capital Southwest's $6,000,000 investment in the common stock of SDI Holding Corp. was valued at cost and represents a fully-diluted equity interest of 11.1%.

Media Recovery, Inc. $5,093,000

Media Recovery, Inc., Graham, Texas, distributes computer and office automation supplies and accessories to corporate customers through its direct sales force with 22 offices in 14 states and also manufactures and sells impact and tilt monitoring devices used to detect mishandled shipments.

The net assets of Media Recovery were acquired for approximately $23,320,000 in November 1997, by Varix Corporation, which subsequently changed its name to Media Recovery. The acquired operations recorded sales of $57,042,000 and $43,388,000 during the fiscal years ended September 30, 1997 and 1996, respectively.

At March 31, 1998, the $5,708,000 investment by Capital Southwest and its subsidiary consisted of $293,000 in a 12% promissory note and $5,415,000 in Series A convertible preferred stock, valued at an aggregate of $5,093,000 and representing a fully-diluted equity interest of 68.4%. The $615,000 difference between the cost and value of our investment is attributable to the investment in Varix in earlier years.

Amfibe, Inc. $4,000,000

Amfibe, Inc., Ridgeway, Virginia, manufactures and markets nylon monofilament yarns for the textile industry. Key market segments for Amfibe's yarns include
(1) warp knit (fabric used in very sheer specialty fabrics for bras, lingerie lace and bridal veils), (2) very sheer nylon hosiery, and (3) textile weaving (filtration fabrics and selvage yarns). Amfibe's new manufacturing facility in Ridgeway, Virginia enlarges the company's production capacity.

During the year ended May 31, 1997, Amfibe reported net sales of $9,565,000, compared with $6,779,000 in the previous year.

At March 31, 1998, Capital Southwest's subsidiary owned 2,000 shares of Amfibe Class B non-voting common stock, which had a cost of $200,000 and was valued at $4,000,000, representing a 40.0% fully-diluted equity interest.

Portfolio of Investments - March 31, 1998

Company	Equity (a)	Investment (b)	Cost	Value (c)
AIRFORMED COMPOSITES, INCORPORATED Charleston, South Carolina Airformed composite materials for use in absorbent specialty products.	51.8%	10% subordinated debentures, due 2007 (acquired 12-12-97)	$ 1,800,000	$ 1,800,000
		425,000 shares Series A convertible preferred stock, convertible into 425,000 shares of common stock at $1.00 per share (acquired 12-12-97)	425,000	425,000
			2,225,000	2,225,000
+ALAMO GROUP INC. San Antonio, Texas Heavy-duty, tractor-mounted mowing and vegetation maintenance equipment for agricultural and governmental markets.	27.0%	2,660,000 shares common stock (acquired 4-1-73 and 7-18-78)	575,000	37,240,000
		Warrant to purchase 62,500 shares of common stock at $16.00 per share, expiring 2000 (acquired 11-25-91)	-	-
			575,000	37,240,000
ALL COMPONENTS, INC. Dallas, Texas Distribution and production of memory and other components to personal computer manufacturers, retailers and value-added resellers.	29.3%	14% subordinated debenture, due 1999 (acquired 9-16-94)	600,000	600,000
		150,000 shares Series A convertible preferred stock, convertible into 600,000 shares of common stock at $0.25 per share (acquired 9-16-94)	150,000	2,100,000
		450,000 shares Series B preferred stock (acquired 9-16-94)	450,000	450,000
			1,200,000	3,150,000
+AMERICAN HOMESTAR CORPORATION League City, Texas Integrated manufacturing, retailing and financing of manufactured housing produced in 11 plants.	4.1%	++751,059 shares common stock (acquired 8-31-93, 7-12-94 and 3-28-96)	3,405,824	16,992,710
AMFIBE, INC. Ridgeway, Virginia Nylon monofilament yarns for the textile industry.	40.0%	2,000 shares Class B non-voting common stock (acquired 6-15-94)	200,000	4,000,000
BALCO, INC. Wichita, Kansas Specialty architectural products used in the construction and remodeling of commercial and institutional buildings.	85.0%	14% subordinated debentures, payable 1998 to 2002 (acquired 8-13-91)	400,000	400,000
		14% subordinated debenture, payable 1998 to 2002, last maturing $250,000 convertible into 250,000 shares of common stock at $1.00 per share (acquired 6-1-91)	800,000	800,000
		110,000 shares common stock and 60,920 shares Class B non-voting common stock (acquired 10-25-83)	170,920	170,920
		Warrants to purchase 85,000 shares of common stock at $2.40 per share, expiring 2001 (acquired 8-13-91)	-	-
			1,370,920	1,370,920

+Publicly-owned company ++Unrestricted securities as defined in Note (b)

Company	Equity (a)	Investment (b)	Cost	Value (c)
CDC TECHNOLOGIES, INC. Oxford, Connecticut Hematology and blood chemistry analyzers for medical and veterinary applications.	8.8%	1,694 shares Series C convertible preferred stock, convertible into 1,694 shares of common stock at $737.65 per share (acquired 10-15-97)	$ 1,249,579	$ 1,249,579
		Warrants to acquire 339 shares of Series C convertible preferred stock at $737.65 per share (acquired 12-17-97)	-	-
			1,249,579	1,249,579
DENNIS TOOL COMPANY Houston, Texas Polycrystalline diamond compacts (PDCs) used in oil field drill bits and in mining and industrial applications.	43.9%	98,687 shares common stock (acquired 3-7-94)	330,000	2,800,000
+ENCORE WIRE CORPORATION McKinney, Texas Electrical wire and cable for residential and commercial use.	14.6%	1,683,000 shares common stock (acquired 7-16-92, 3-15-94 and 4-28-94)	4,100,000	33,660,000
+FMC CORPORATION Chicago, Illinois Machinery and chemicals in diversified product areas.	<1%	++6,430 shares common stock (acquired 6-6-86)	123,777	504,754
+FRONTIER CORPORATION Rochester, New York Diversified telecommunications company.	<1%	++31,338 shares common stock (acquired 12-20-95)	78,346	1,020,444
INTELLIGENT REASONING SYSTEMS, INC. Austin, Texas Machine vision systems for automatic inspection of electronic circuit boards.	15.3%	8.5%subordinated promissory note, convertible into 352,565 shares of Series B convertible preferred stock at $0.60 per share (acquired 11-21-97 and 2-3-98)	211,539	211,539
		705,128 shares Series B convertible preferred stock, convertible into 705,128 shares of common stock at $0.60 per share (acquired 5-28-97)	423,077	423,077
		Warrant to acquire 70,513 shares of Series B convertible preferred stock at $.60 per share (acquired 11-21-97)	-	-
			634,616	634,616
+KIMBERLY-CLARK CORPORATION (formerly Tecnol Medical Products, Inc.) Irving, Texas Household and personal care products.	<1%	++77,180 shares common stock (acquired 12-18-97)	2,396,926	3,868,648
+MAIL-WELL, INC. Englewood, Colorado Customized envelopes, labels and high-impact printing.	3.8%	1,041,094 shares common stock (acquired 2-18-94, 12-14-94 and 7-27-95)	2,889,010	24,986,000

+Publicly-owned company

++Unrestricted securities as defined in Note (b)

Company	Equity (a)	Investment (b)	Cost	Value (c)
MEDIA RECOVERY, INC. (formerly Varix Corporation) Graham, Texas Computer and office automation supplies and accessories;impact and tilt monitoring devices to detect mishandled shipments.	68.4%	12% promissory note, due 1998 (acquired 11-4-97)	$ 293,000	$ 293,000
		4,800,000 shares Series A convertible preferred stock, convertible into 4,800,000 shares of common stock at $1.00 per share (acquired 11-4-97)	5,415,000	4,800,000
			5,708,000	5,093,000
+MYLAN LABORATORIES INC. Pittsburgh, Pennsylvania Proprietary and generic pharmaceutical products.	<1%	++128,286 shares common stock (acquired 11-20-91)	400,000	2,950,578
+PALM HARBOR HOMES, INC. Dallas, Texas Integrated manufacturing, retailing, financing and insuring of manufactured housing produced in 16 plants.	33.2%	6,284,096 shares common stock (acquired 1-3-85, 3-31-88 and 7-31-95)	10,931,955	138,250,000
+PETSMART, INC. Phoenix, Arizona Retail chain of 468 stores selling pet foods, supplies and services.	<1%	++654,220 shares common stock (acquired 6-1-95)	2,878,733	6,991,976
THE RECTORSEAL CORPORATION Houston, Texas Chemical specialty products for industrial, construction and oil field applications; owns 20% of Whitmore Manufacturing.	100.0%	27,907 shares common stock (acquired 1-5-73 and 3-31-73)	52,600	38,500,000
REWIND HOLDINGS, INC. Sugar Land, Texas Owns Bill Young Productions, Inc., a producer of radio and television commercials and music videos.	40.7%	12% subordinated notes, payable 1998 to 2003 (acquired 10-21-96 and 8-13-97)	3,225,000	3,225,000
		375 shares 8% Series A convertible preferred stock, convertible into 1,500 shares of common stock at $250.00 per share (acquired 10-21-96)	375,000	375,000
			3,600,000	3,600,000
SDI HOLDING CORP. Greenville, South Carolina Owns Sterling Diagnostic Imaging, a manufacturer of medical x-ray imaging film and direct radiography systems.	11.1%	60,000 shares common stock (acquired 3-26-96)	6,000,000	6,000,000
SKYLAWN CORPORATION Hayward, California Cemeteries, mausoleums and mortuaries located in northern California.	100.0%	1,449,026 shares common stock (acquired 7-16-69)	4,510,400	42,000,000

+Publicly-owned company ++Unrestricted securities as defined in Note (b)

Company	Equity (a)	Investment (b)	Cost	Value (c)
+SPRINT CORPORATION Westwood, Kansas Diversified telecommunications company.	<1%	++36,000 shares common stock (acquired 6-20-84)	$ 503,645	$ 2,436,750
+TELE-COMMUNICATIONS, INC.-Liberty Media Group Englewood, Colorado Production and distribution of cable television programming services.	<1%	++101,250 shares Series A common stock (acquired 8-4-95)	-	3,474,141
+TELE-COMMUNICATIONS, INC. - TCI Group Englewood, Colorado Operation of the nation's largest cable television system.	<1%	++114,516 shares Series A common stock (acquired 6-3-69)	43	3,557,153
+TELE-COMMUNICATIONS, INC. - TCI Ventures Group Englewood, Colorado Wireless and wireline communications services.	<1%	++130,968 shares Series A common stock (acquired 9-17-97)	25	2,300,126
TEXAS PETROCHEMICAL HOLDINGS, INC. Houston, Texas Butadiene for synthetic rubber, MTBE for gasoline octane enhancement and butylenes for varied applications.	5.4%	30,000 shares common stock (acquired 6-27-96)	3,000,000	1,500,000
TEXAS SHREDDER, INC. San Antonio, Texas Design and manufacture of heavy-duty shredder systems for recycling steel and other materials from junk automobiles.	45.7%	14% subordinated debentures, payable 1999 (acquired 3-6-91)	562,500	562,500
		3,000 shares Series A preferred stock (acquired 3-6-91)	300,000	300,000
		750 shares Series B convertible preferred stock, convertible into 7,500 shares of common stock at $10.00 per share (acquired 3-6-91)	75,000	2,625,000
			937,500	3,487,500
+TRITON ENERGY CORPORATION Dallas, Texas Oil and gas exploration and development.	<1%	++6,022 shares common stock (acquired 12-15-86)	144,167	221,309
WESTMARC COMMUNICATIONS, INC. Denver, Colorado Cable television systems and microwave relay systems.	-	21 shares 12% Series C cumulative compounding preferred stock (acquired 1-3-90)	-	508,000

+Publicly-owned company ++Unrestricted securities as defined in Note (b)

Company	Equity (a)	Investment (b)	Cost	Value (c)
THE WHITMORE MANUFACTURING COMPANY Rockwall, Texas Specialized mining and industrial lubricants; automotive transit coatings; floor-finishing compounds and equipment.	80.0%	80 shares common stock (acquired 8-31-79)	$ 1,600,000	$ 6,000,000
MISCELLANEOUS	98.8%	Humac Company-1,041,000 shares common stock (acquired 1-31-75 and 12-31-75)	-	210,000
	<1%	+360 Communications Company-++12,000 shares common stock (acquired 3-7-96)	108,355	375,000
	<1%	+TCI Satellite Entertainment, Inc.-++18,000 shares Series A common stock (acquired 12-4-96)	-	128,250
TOTAL INVESTMENTS			$61,154,421 ===========	$401,286,454 ============

+Publicly-owned company ++Unrestricted securities as defined in Note (b)

Notes to Portfolio of Investments

(a) The percentages in the "Equity" column express the potential equity interests held by Capital Southwest Corporation and Capital Southwest Venture Corporation (together, the "Company") in each issuer. Each percentage represents the amount of the issuer's common stock the Company owns or can acquire as a percentage of the issuer's total outstanding common shares, plus shares reserved for all outstanding warrants, convertible securities and employee stock options. The symbol "<1%" indicates that the Company holds a potential equity interest of less than one percent.

(b) Unrestricted securities (indicated by ++) are freely marketable securities having readily available market quotations. All other securities are restricted securities which are subject to one or more restrictions on resale and are not freely marketable. At March 31, 1998, restricted securities represented approximately 89% of the value of the consolidated investment portfolio.

(c) Under the valuation policy of the Company, unrestricted securities are valued at the closing sale price for listed securities and at the closing bid price for over-the-counter securities on the valuation date. Restricted securities, including securities of publicly-owned companies which are subject to restrictions on resale, are valued at fair value as determined by the Board of Directors. Fair value is considered to be the amount which the Company may reasonably expect to receive for portfolio securities if such securities were sold on the valuation date. Valuations as of any particular date, however, are not necessarily indicative of amounts which may ultimately be realized as a result of future sales or other dispositions of securities.

Among the factors considered by the Board of Directors in determining the fair value of restricted securities are the financial condition and operating results of the issuer, the long-term potential of the business of the issuer, the market for and recent sales prices of the issuer's securities, the values of similar securities issued by companies in similar businesses, the proportion of the issuer's securities owned by the Company, the nature and duration of resale restrictions and the nature of any rights enabling the Company to require the issuer to register restricted securities under applicable securities laws. In determining the fair value of restricted securities, the Board of Directors considers the inherent value of such securities without regard to the restrictive feature and adjusts for any diminution in value resulting from restrictions on resale.

(d) Agreements between certain issuers and the Company provide that the issuers will bear substantially all costs in connection with the disposition of common stocks, including those costs involved in registration under the Securities Act of 1933 but excluding underwriting discounts and commissions. These agreements, which cover common stocks owned at March 31, 1998 and common stocks which may be acquired thereafter through exercise of warrants and conversion of debentures and preferred stocks, apply to restricted securities of all issuers in the investment portfolio of the Company except securities of the following issuers, which are not obligated to bear registration costs: Humac Company, Skylawn Corporation and The Whitmore Manufacturing Company.

(e) The descriptions of the companies and ownership percentages shown in the portfolio of investments were obtained from published reports and other sources believed to be reliable, are supplemental and are not covered by the report of independent auditors. Acquisition dates indicated are the dates specific securities were acquired. Certain securities were received in exchange for or upon conversion or exercise of other securities previously acquired.

Portfolio Changes During the Year

New Investments and Additions to Previous Investments

	Amount
Airformed Composites, Incorporated	$ 2,225,000
CDC Technologies, Inc.	1,449,579
Intelligent Reasoning Systems, Inc.	634,616
Media Recovery, Inc.	4,800,000
Rewind Holdings, Inc.	600,000
	$ 9,709,195

Dispositions

	Cost	Amount Received
Cherokee Communications, Inc.	$ -	$ 515,020
Data Race, Inc.	574,814	2,193,902
Dymetrol Company, Inc.	199,115	199,115
LiL' Things, Inc.	3,990,894	-
MESC Holdings, Inc.	-	553,745
PTS Holdings, Inc.	2,000,000	13,208,110
	$6,764,823	$ 16,669,892
Repayments Received		$ 1,697,866

Assets	March 31 1998	March 31 1997
Investments at market or fair value (Notes 1 and 2)		
Companies more than 25% owned (Cost: 1998 - $19,370,874, 1997 - $20,552,361)	$266,370,919	$203,399,920
Companies 5% to 25% owned (Cost: 1998 - $14,984,195, 1997 - $19,979,904)	43,044,195	35,747,002
Companies less than 5% owned (Cost: 1998 - $26,799,352, 1997 - $19,375,650)	91,871,340	54,144,104
Total investments (Cost: 1998 - $61,154,421, 1997 - $59,907,915)	401,286,454	293,291,026
Cash and cash equivalents	117,047,920	14,009,481
Receivables	332,873	279,815
Other assets (Note 8)	3,656,308	3,180,171
Totals	**$522,323,555**	**$310,760,493**

Liabilities and Shareholders' Equity	March 31 1998	March 31 1997
Note payable to bank (Note 4)	$100,000,000	$ -
Accrued interest and other liabilities (Note 8)	1,961,382	1,735,372
Income taxes payable	-	3,184,373
Deferred income taxes (Note 3)	119,339,357	81,868,628
Subordinated debenture (Note 5)	5,000,000	5,000,000
Total liabilities	226,300,739	91,788,373
Shareholders' equity (Notes 3 and 6)		
Common stock, $1 par value: authorized, 5,000,000 shares; issued, 4,225,316 shares at March 31, 1998 and 4,204,416 shares at March 31, 1997	4,225,316	4,204,416
Additional capital	5,512,409	4,813,121
Undistributed net investment income	5,261,898	4,804,205
Undistributed net realized gain on investments	66,598,460	60,113,568
Unrealized appreciation of investments - net of deferred income taxes	221,458,035	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 $78.15 per share on the 3,787,951 shares outstanding at March 31, 1998, and $58.13 per share on the 3,767,051 shares outstanding at March 31, 1997	296,022,816	218,972,120
Totals	$522,323,555	$310,760,493

See Notes to Consolidated Financial Statements

Capital Southwest Corporation and Subsidiary
Consolidated Statements of Operations

	Years Ended March 31		
	1998	1997	1996
Investment income (Note 9):			
Interest	$ 2,025,024	$ 1,371,802	$ 2,018,308
Dividends	2,237,293	2,774,321	3,597,004
Management and directors' fees	569,900	586,900	561,950
	4,832,217	4,733,023	6,177,262
Operating expenses:			
Interest	426,962	634,667	1,700,003
Salaries	1,206,478	1,147,294	1,112,640
Net pension expense (benefit) (Note 8)	(313,511)	(349,903)	(208,701)
Other operating expenses (Note 7)	674,466	599,578	642,955
	1,994,395	2,031,636	3,246,897
Income before income taxes	2,837,822	2,701,387	2,930,365
Income tax expense (Note 3)	111,678	127,325	75,448
Net investment income	$ 2,726,144	$ 2,574,062	$ 2,854,917
Proceeds from disposition of investments	$ 16,669,892	$ 14,177,580	$ 21,470,173
Cost of investments sold (Note 1)	6,764,823	3,619,369	4,938,933
Realized gain on investments before income taxes (Note 9)	9,905,069	10,558,211	16,531,240
Income tax expense	3,420,177	3,752,425	5,357,215
Net realized gain on investments	6,484,892	6,805,786	11,174,025
Increase in unrealized appreciation of investments before income taxes and distributions	106,748,923	34,996,750	54,619,668
Increase in deferred income taxes on appreciation of investments (Note 3)	37,361,000	12,192,000	15,874,000
Net increase in unrealized appreciation of investments before distributions	69,387,923	22,804,750	38,745,668
Net realized and unrealized gain on investments before distributions	$ 75,872,815	$ 29,610,536	$ 49,919,693
Increase in net assets from operations before distributions	$ 78,598,959	$ 32,184,598	$ 52,774,610

See Notes to Consolidated Financial Statements

Capital Southwest Corporation and Subsidiary
Consolidated Statements of Changes in Net Assets

	Years Ended March 31		
	1998	1997	1996
Operations			
Net investment income	$ 2,726,144	$ 2,574,062	$ 2,854,917
Net realized gain on investments	6,484,892	6,805,786	11,174,025
Net increase in unrealized appreciation of investments before distributions	69,387,923	22,804,750	38,745,668
Increase in net assets from operations before distributions	78,598,959	32,184,598	52,774,610
Distributions from:			
Undistributed net investment income	(2,268,451)	(2,260,231)	(2,253,831)
Undistributed net realized gain on investments	-	-	(153,376)
Unrealized appreciation of investments	-	-	(9,264,304)
Capital share transactions			
Exercise of employee stock options	720,188	-	574,750
Increase in net assets	77,050,696	29,924,367	41,677,849
Net assets, beginning of year	218,972,120	189,047,753	147,369,904
Net assets, end of year	$296,022,816	$218,972,120	$189,047,753

See Notes to Consolidated Financial Statements

Capital Southwest Corporation and Subsidiary
Consolidated Statements of Cash Flows

	Years Ended March 31		
	1998	1997	1996
Cash flows from operating activities			
Increase in net assets from operations before distributions	$ 78,598,959	$ 32,184,598	$ 52,774,610
Adjustments to reconcile increase in net assets from operations before distributions to net cash provided by operating activities:			
Depreciation and amortization	23,770	31,240	33,439
Net pension benefit	(313,511)	(349,903)	(208,701)
Net realized and unrealized gain on investments	(75,872,815)	(29,610,536)	(49,919,693)
(Increase) decrease in receivables	(53,058)	5,187	(41,369)
(Increase) decrease in other assets	(7,035)	(17,812)	28,950
Increase (decrease) in accrued interest and other liabilities	46,649	(66,361)	48,075
Deferred income taxes	109,729	122,500	72,640
Net cash provided by operating activities	2,532,688	2,298,913	2,787,951
Cash flows from investing activities			
Proceeds from disposition of investments	16,669,892	14,177,580	21,470,173
Purchases of securities	(9,709,195)	(6,023,684)	(19,406,816)
Maturities of securities	1,697,866	1,040,500	5,515,824
Income taxes paid on realized gain on investments	(6,604,549)	(6,268,782)	-
Net cash provided by investing activities	2,054,014	2,925,614	7,579,181
Cash flows from financing activities			
Increase (decrease) in note payable to bank	100,000,000	(50,000,000)	50,000,000
Repayment of subordinated debenture	-	(6,000,000)	-
Distributions from undistributed net investment income	(2,268,451)	(2,260,231)	(2,253,831)
Distributions from undistributed net realized gain on investments	-	-	(15,842)
Proceeds from exercise of employee stock options	720,188	-	574,750
Net cash provided (used) by financing activities	98,451,737	(58,260,231)	48,305,077
Net increase (decrease) in cash and cash equivalents	103,038,439	(53,035,704)	58,672,209
Cash and cash equivalents at beginning of year	14,009,481	67,045,185	8,372,976
Cash and cash equivalents at end of year	$ 117,047,920	$ 14,009,481	$ 67,045,185
Supplemental disclosure of cash flow information:			
Cash paid during the year for: Interest	$ 400,000	$ 691,397	$ 1,653,277
Income taxes	$ 6,621,499	$ 6,270,291	$ 483

Supplemental disclosure of financing activities:
On July 31, 1995, Capital Southwest Corporation distributed to its shareholders 1,175,230 shares of common stock of Palm Harbor Homes, Inc., which had a cost of $137,534 and a fair market value of $8.00 per share, or $9,401,838, as adjusted for 5-for-4 stock splits on August 2, 1996 and July 21, 1997.

See Notes to Consolidated Financial Statements

Notes to Consolidated Financial Statements

1. Summary of Significant Accounting Policies

Capital Southwest Corporation ("CSC") is a business development company subject to regulation under the Investment Company Act of 1940. Capital Southwest Venture Corporation ("CSVC"), a wholly-owned subsidiary of CSC, is a Federal licensee under the Small Business Investment Act of 1958. The following is a summary of significant accounting policies followed in the preparation of the consolidated financial statements of CSC and CSVC (together, the "Company"):

Principles of Consolidation. The consolidated financial statements have been prepared on the value method of accounting in accordance with generally accepted accounting principles for investment companies. All significant intercompany accounts and transactions have been eliminated in consolidation.

Cash and Cash Equivalents. All temporary cash investments having a maturity of three months or less when purchased are considered to be cash equivalents.

Portfolio Security Valuations. Investments are stated at market or fair value determined by the Board of Directors as described in the Notes to Portfolio of Investments and Note 2 below. The average cost method is used in determining cost of investments sold.

2. Valuation of Investments

The consolidated financial statements as of March 31, 1998 and 1997 include securities valued at $356,464,614 (89% of the value of the consolidated investment portfolio) and $257,914,916 (88% of the value of the consolidated investment portfolio), respectively, whose values have been determined by the Board of Directors in the absence of readily ascertainable market values. Because of the inherent uncertainty of valuation, these values may differ significantly from the values that would have been used had a ready market for the securities existed, and the differences could be material.

3. Income taxes

For the tax years ended December 31, 1997, 1996 and 1995, CSC and CSVC qualified to be taxed as regulated investment companies ("RICs") under applicable provisions of the Internal Revenue Code. As RICs, CSC and CSVC must distribute at least 90% of their taxable net investment income (investment company taxable income) and may either distribute or retain their taxable net realized gain on investments (capital gains). Both CSC and CSVC intend to meet the applicable qualifications to be taxed as RICs in future years; however, either company's ability to meet certain portfolio diversification requirements of RICs in future years may not be controllable by such company.

No provision was made for Federal income taxes on the investment company taxable income of CSC and CSVC for the 1998, 1997 and 1996 fiscal years. Such income was distributed to shareholders in the form of cash dividends for which CSC and CSVC receive a tax deduction. With respect to net investment income, the income tax expense for each of the three years ended March 31, 1998 includes a deferred tax provision related to the net pension benefit.

With respect to the net increase in unrealized appreciation of investments before distributions during fiscal 1996, the increase in deferred income taxes on appreciation of investments at the Federal statutory rate of 35% differs from the amount reported in the financial statements due to the distribution of appreciated securities with no associated tax liability.

CSC and CSVC may not qualify or elect to be taxed as RICs in future years. Therefore, consolidated deferred Federal income taxes of $118,674,000 and $81,313,000 have been provided on net unrealized appreciation of investments of $340,132,033 and $233,383,111 at March 31, 1998 and 1997, respectively. Such appreciation is not included in taxable income until realized. Deferred income taxes on net unrealized appreciation of investments have been provided at the then currently effective maximum Federal corporate tax rate on capital gains of 35% at March 31, 1998 and 1997.

4. Note Payable to Bank

The note payable to bank at March 31, 1998 was an unsecured note with interest payable at 6.51%. The note was paid in full on April 1, 1998.

5. Subordinated Debenture

The subordinated debenture of $5,000,000 outstanding at March 31, 1998 and 1997 is payable to others and guaranteed by the Small Business Administration ("SBA"), bears interest at 8.0% and matures in 2002.

6. Employee Stock Option Plan

Under the 1984 Incentive Stock Option Plan, options to purchase 69,100 shares of the Company's common stock at $35.625 per share (the adjusted market price at the time of grant) were outstanding at March 31, 1998. Options on 49,725 shares were exercisable at March 31, 1998. During the year ended March 31, 1998, options for 20,900 shares were exercised. Outstanding options expire 2000 through 2003. The 1984 Incentive Stock Option Plan expired in 1994 and no options have been authorized or granted since that date. At March 31, 1998 and 1997, the dilution of net assets per share arising from options outstanding was not material.

7. Employee Stock Ownership Plan

The Company and one of its wholly-owned subsidiaries sponsor a qualified employee stock ownership plan ("ESOP") in which certain employees participate. Contributions to the plan, which are invested in Company stock, are made at the discretion of the Company's Board of Directors. A participant's interest in contributions to the ESOP fully vests after five years of active service. During the three years ended March 31, the Company made contributions to the ESOP, which were charged against net investment income, of $67,763 in 1998, $54,104 in 1997 and $76,341 in 1996.

8. Retirement Plan

The Company sponsors a qualified defined benefit pension plan which covers its employees and employees of certain of its wholly-owned subsidiaries. The following information about the plan represents amounts and information related to the Company's participation in the plan and is presented as though the Company sponsored a single-employer plan. Benefits are based on years of service and an average of the highest five consecutive years of compensation during the last ten years of employment. The funding policy of the plan is to contribute annual amounts that are currently deductible for tax reporting purposes. No contribution was made to the plan during the three years ended March 31, 1998.

Components of net pension benefit related to the qualified plan include the following:

	Years Ended March 31		
	1998	1997	1996
Service cost - benefits earned during the year	$ 52,388	$ 47,662	$ 42,184
Interest cost on projected benefit obligation	204,328	174,792	165,906
Actual return on assets	(3,563,399)	(961,831)	(1,421,745)
Net amortization and deferral	2,813,811	257,580	873,696
Net pension expense (benefit) from qualified plan	$ (492,872)	$(481,797)	$ (339,959)

The following table sets forth the qualified plan's funded status and amounts recognized in the Company's consolidated statements of financial condition:

	March 31	
	1998	1997
Actuarial present value of benefit obligations: Accumulated benefit obligation, including vested benefits of $2,602,654 in 1998 and $2,017,257 in 1997....................	$(2,665,123)	$(2,082,399)
Projected benefit obligation for service rendered to date..	$(3,059,555)	$(2,376,257)
Plan assets at fair value*..........................	11,314,714	7,820,401
Excess of plan assets over the projected benefit obligation....................................	8,255,159	5,444,144
Unrecognized net (gain) loss from past experience different from that assumed and effects of changes in assumptions........................	(4,214,675)	(1,819,422)
Prior service costs not yet recognized..............	(36,440)	(39,719)
Unrecognized net assets being amortized over 19 years....................................	(516,801)	(590,632)
Prepaid pension cost included in other assets	$ 3,487,243	$ 2,994,371

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*Primarily equities and bonds including approximately 29,700 shares of common stock of the Company.

The weighted-average discount rate and rate of increase in future compensation levels used in determining the actuarial present value of the projected benefit obligation were 7.0% and 5.0%, respectively, at March 31, 1998, 8.0% and 5.0%, respectively, at March 31, 1997 and 7.75% and 5.25%, respectively, at March 31, 1996. The expected long-term rate of return used to project estimated earnings on plan assets was 8.5% for the years ended March 31, 1998, 1997 and 1996. The calculations also assume retirement at age 65, the normal retirement age.

The Company also sponsors an unfunded Retirement Restoration Plan, which is a nonqualified plan that provides for the payment, upon retirement, of the difference between the maximum annual payment permissible under the qualified retirement plan pursuant to Federal limitations and the amount which would otherwise have been payable under the qualified plan.

The following table sets forth the status of the Retirement Restoration Plan and the amounts recognized in the consolidated statements of financial condition:

	March 31	
	1998	1997
Projected benefit obligation.......................	$(2,051,899)	$(1,474,701)
Unrecognized net (gain) loss from past experience different from that assumed and effects of changes in assumptions.........	406,217	(11,453)
Unrecognized net obligation.......................	59,489	79,322
Accrued pension cost included in other liabilities.	$(1,586,193)	$(1,406,832)

The Retirement Restoration Plan expenses recognized during the years ended March 31, 1998, 1997 and 1996 of $179,361, $131,894 and $131,258, respectively, are offset against the net pension benefit from the qualified plan.

9. Sources of Income

Income was derived from the following sources:

Years Ended March 31	Investment Income Interest	Investment Income Dividends	Other Income	Realized Gain (Loss) on Investments Before Income Taxes
1998				
Companies more than 25% owned..........	$ 168,000	$1,985,200	$518,900	$ -
Companies 5% to 25% owned...............	8,706	-	35,500	(3,990,894)
Companies less than 5% owned............	609,187	252,093	15,500	13,895,963
Other sources, including temporary investments.........	1,239,131	-	-	-
	$2,025,024	$2,237,293	$569,900	$ 9,905,069
1997				
Companies more than 25% owned..........	$ 237,600	$2,454,895	$531,400	$ -
Companies 5% to 25% owned...............	-	-	55,500	2,844,272
Companies less than 5% owned............	496,847	319,426	-	7,713,939
Other sources, including temporary investments.........	637,355	-	-	-
	$1,371,802	$2,774,321	$586,900	$10,558,211
1996				
Companies more than 25% owned..........	$ 755,146	$3,101,219	$545,200	$ -
Companies 5% to 25% owned...............	2,730	-	16,750	17,954,600
Companies less than 5% owned............	568,915	495,785	-	(1,423,360)
Other sources, including temporary investments.........	691,517	-	-	-
	$2,018,308	$3,597,004	$561,950	$16,531,240

10. Summarized Financial Information of Unconsolidated Subsidiaries

The Company has three significant wholly-owned subsidiaries - The RectorSeal Corporation, The Whitmore Manufacturing Company and Skylawn Corporation which are neither investment companies nor business development companies. Accordingly, the accounts of such subsidiaries are not included with those of the Company. Summarized combined financial information of the three subsidiaries is as follows:

(all figures in thousands)	March 31 1998	March 31 1997
Condensed Balance Sheet Data		
Assets		
Cash and temporary investments.......................	$ 13,496	$11,240
Receivables.........................	21,769	22,762
Inventories.........................	34,452	32,825
Property, plant and equipment........	29,223	19,252
Other assets........................	12,316	11,553
Totals............................	$111,256	$97,632

Liabilities and Shareholder's Equity		
Long-term debt	$ 5,540	$ 681
Other liabilities	12,836	11,486
Shareholder's equity	92,880	85,465
Totals	$ 111,256	$97,632

Condensed Statements of Income	1998	1997	1996
Revenues	$ 77,275	$70,890	$69,058
Costs and operating expenses	$ 66,223	$61,760	$60,050
Net income	$ 8,066	$ 7,909	$ 6,865

11. Commitments

The Company leases office space under an operating lease which requires base annual rentals of approximately $58,000 through February, 2003. For the three years ended March 31, total rental expense charged to investment income was $44,285 in 1998, $43,844 in 1997 and $43,449 in 1996.

Selected Per Share Data and Ratios

	Years Ended March				
	1998	1997	1996	1995	1994
Investment income	$ 1.28	$ 1.26	$ 1.64	$ 1.37	$ 1.48
Operating expenses	(.42)	(.37)	(.41)	(.32)	(.30)
Interest expense	(.11)	(.17)	(.45)	(.37)	(.39)
Income taxes	(.03)	(.03)	(.02)	(.01)	(.02)
Net investment income	.72	.69	.76	.67	.77
Distributions from undistributed net investment income	(.60)	(.60)	(.60)	(.60)	(.60)
Net realized gain (loss) on investments	1.71	1.81	2.97	.04	(.13)
Distributions from undistributed net realized gain on investments	-	-	(.04)	-	-
Net increase in unrealized appreciation of investments before distributions	18.32	6.05	10.28	3.64	3.00
Distributions from unrealized appreciation of investments	-	-	(2.46)	-	-
Exercise of employee stock options*	(.13)	-	(.19)	(.10)	(.22)
Increase in net asset value	20.02	7.95	10.72	3.65	2.82
Net asset value:					
Beginning of year	58.13	50.18	39.46	35.81	32.99
End of year	$78.15	$58.13	$50.18	$39.46	$35.81
Ratio of operating expenses to average net assets	.6%	.7%	.9%	.9%	.9%
Ratio of net investment income to average net assets	1.1%	1.2%	1.7%	1.8%	2.3%
Portfolio turnover rate	2.5%	1.6%	4.5%	1.3%	1.3%
Shares outstanding at end of period (000s omitted)	3,788	3,767	3,767	3,735	3,715

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*Net decrease is due to exercise of employee stock options at less than beginning of period net asset value.

Independent Auditors' Report

The Board of Directors and Shareholders of Capital Southwest Corporation:

We have audited the accompanying consolidated statements of financial condition of Capital Southwest Corporation and subsidiary as of March 31, 1998 and 1997, including the portfolio of investments as of March 31, 1998, and the related consolidated statements of operations, changes in net assets, and cash flows for each of the years in the three-year period ended March 31, 1998 and the selected per share data and ratios for each of the years in the five-year period ended March 31, 1998. These financial statements and per share data and ratios are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and per share data and ratios based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and per share data and ratios are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. Our procedures included verification of securities owned as of March 31, 1998 and 1997, by examination of such securities held by the custodian. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion the consolidated financial statements and selected per share data and ratios referred to above present fairly, in all material respects, the financial position of Capital Southwest Corporation and subsidiary as of March 31, 1998 and 1997, and the results of their operations, the changes in their net assets and their cash flows for each of the years in the three-year period ended March 31, 1998, and the selected per share data and ratios for each of the years in the five-year period ended March 31, 1998, in conformity with generally accepted accounting principles.

KPMG PEAT MARWICK LLP

Dallas, Texas
April 24, 1998

Results of Operations

The composite measure of the Company's financial performance in the Consolidated Statements of Operations is captioned "Increase in net assets from operations before distributions" and consists of three elements. The first is "Net investment income", which is the difference between the Company's income from interest, dividends and fees and its combined operating and interest expenses, net of applicable income taxes. The second element is "Net realized gain on investments", which is the difference between the proceeds received from disposition of portfolio securities and their stated cost, net of applicable income tax expense. The third element is the "Net increase in unrealized appreciation of investments before distributions", which is the net change in the market or fair value of the Company's investment portfolio, compared with stated cost, net of an increase or decrease in deferred income taxes which would become payable if the unrealized appreciation was realized through the sale or other disposition of the investment portfolio. It should be noted that the "Net realized gain on investments" and "Net increase in unrealized appreciation of investments before distributions" are directly related in that when an appreciated portfolio security is sold to realize a gain, a corresponding decrease in net 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 net unrealized appreciation occurs.

Net Investment Income

The Company's principal objective is to achieve capital appreciation. Therefore, a significant portion of the investment portfolio is structured to maximize the potential return from equity participation and provides minimal current yield in the form of interest or dividends. The Company also earns interest income from the short-term investment of cash funds, and the annual amount of such income varies based upon the average level of funds invested during the year and fluctuations in short-term interest rates. During the three years ended March 31, the Company had interest income from temporary cash investments of $1,239,000 in 1998, $637,000 in 1997 and $687,000 in 1996. The Company also receives management fees from its wholly-owned subsidiaries which aggregated $494,400 in the year ended March 31, 1998, $506,400 in the year ended March 31, 1997 and $523,200 in the year ended March 31, 1996. During the three years ended March 31, 1998, the Company recorded dividend income from the following sources:

	Years Ended March 31		
	1998	1997	1996
Alamo Group Inc.	$1,064,000	$1,064,000	$ 1,064,000
Cherokee Communications, Inc.	-	108,789	144,000
Humac Company.......................	-	-	208,200
The RectorSeal Corporation..........	501,200	940,895	1,529,019
Skylawn Corporation.................	300,000	450,000	300,000
Texas Shredder, Inc.	37,500	37,500	178,125
The Whitmore Manufacturing Company..	120,000	-	-
Other...............................	214,593	173,137	173,660
	$2,237,293	$2,774,321	$3,597,004

Total operating expenses, excluding interest expense, increased by $170,464 or 12.2% and decreased by $149,925 or 9.7% during the years ended March 31, 1998 and 1997, respectively. Due to the nature of its business, the majority of the Company's operating expenses are related to employee and director compensation, office expenses, legal and accounting fees and the net pension benefit. Interest expense, the majority of which is related to the SBA-guaranteed subordinated debentures, decreased by $207,705 and $1,065,336 during the years ended March 31, 1998 and 1997, respectively.

Net Realized Gain on Investments

Net realized gain on investments was $6,484,892 (after income tax expense of $3,420,177) during the year ended March 31, 1998, compared with a gain of $6,805,786 (after income tax expense of $3,752,425) during 1997 and a gain of $11,174,025 (after income tax expense of $5,357,215) during 1996. Management does not attempt to maintain a comparable level of realized gains from year to year, but instead attempts to maximize total investment portfolio appreciation. This strategy often dictates the long-term holding of portfolio securities in pursuit of increased values and increased unrealized appreciation, but may at opportune times dictate realizing gains through the disposition of certain portfolio investments.

Net Increase in Unrealized Appreciation of Investments

For the three years ended March 31, the Company recorded an increase in unrealized appreciation of investments before income taxes and distributions of $106,748,923, $34,996,750 and $54,619,668 in 1998, 1997 and 1996, respectively. As explained in the first paragraph of this discussion and analysis, the realization of gains or losses results in a corresponding decrease or increase in unrealized appreciation of investments. Set forth in the following table are the significant increases and decreases in unrealized appreciation (before the related change in deferred income taxes and distributions and excluding the effect of gains or losses realized during the year) by portfolio company for securities held at the end of each year.

	Years Ended March 31		
	1998	1997	1996
Alamo Group Inc.	$ 5,463,000	$(6,432,000)	$ 3,652,000
American Homestar Corporation	8,480,708	550,792	3,834,276
Amfibe, Inc.	2,400,000	1,400,000	-
Encore Wire Corporation	17,279,000	9,782,000	(5,812,000)
Mail-Well, Inc.	14,020,000	6,830,000	1,246,990
Mylan Laboratories, Inc.	1,042,324	(785,752)	(21,381)
Palm Harbor Homes, Inc.	53,792,000	13,372,000	39,931,777
PETsMART, Inc.	(6,092,424)	1,226,663	7,059,004
The RectorSeal Corporation	3,500,000	7,000,000	3,000,000
Tele-Communications, Inc.			
LM Group	2,132,578	165,938	1,175,625
TCI Group	1,419,678	(1,192,500)	(450,000)
TCI Ventures Group	2,300,101	-	-
Texas Shredder, Inc.	1,125,000	250,000	1,175,000

A description of the investments listed above and other material components of the investment portfolio is included elsewhere in this report under the caption "Portfolio of Investments - March 31, 1998."

Deferred Taxes on Unrealized Appreciation of Investments

The Company provides for deferred Federal income taxes on net unrealized appreciation of investments. Such taxes would become payable at such time as unrealized appreciation is realized through the sale or other disposition of those components of the investment portfolio which would result in taxable transactions. At March 31, 1998, consolidated deferred Federal income taxes of $118,674,000 were provided on net unrealized appreciation of investments of $340,132,033 compared with deferred taxes of $81,313,000 on net unrealized appreciation of $233,383,111 at March 31, 1997. Deferred income taxes at March 31, 1998 and 1997 were provided at the then currently effective maximum Federal corporate tax rate on capital gains of 35%.

Portfolio Investments

During the year ended March 31, 1998, the Company invested $9,709,195 in various portfolio securities listed elsewhere in this report under the caption "Portfolio Changes During the Year," which also lists dispositions of portfolio securities. During the 1997 and 1996 fiscal years, the Company invested a total of $6,023,684 and $19,406,816, respectively.

Financial Liquidity and Capital Resources

At March 31, 1998, the Company had net cash equivalent assets (cash and cash equivalents less the note payable to bank) of $17.0 million. Pursuant to Small Business Administration ("SBA") regulations, cash and cash equivalents of $7.2 million held by CSVC may not be transferred or advanced to CSC without the consent of the SBA. Under current SBA regulations and subject to SBA's approval of its credit application, CSVC would be entitled to borrow up to $48.2 million in addition to the $5 million presently outstanding. Approximately $44.8 million of the Company's investment portfolio is represented by unrestricted publicly-traded securities, which have an ascertainable market value and represent a primary source of liquidity.

Funds to be used by the Company for operating or investment purposes may be transferred in the form of dividends, management fees or loans from Skylawn Corporation, The RectorSeal Corporation and The Whitmore Manufacturing Company, wholly-owned subsidiaries of the Company, to the extent of their available cash reserves and borrowing capacities.

Management believes that the Company's cash and cash equivalents are adequate to meet its expected requirements. Consistent with the long-term strategy of the Company, the disposition of investments from time to time may also be an important source of funds for future investment activities.

Impact of Inflation

The Company does not believe that its business is materially affected by inflation, other than the impact which inflation may have on the securities markets, the valuations of business enterprises and the relationship of such valuations to underlying earnings, all of which will influence the value of the Company's investments.

Risks

Pursuant to Section 64(b)(1) of the Investment Company Act of 1940, a business development company is required to describe the risk factors involved in an investment in the securities of such company due to the nature of the company's investment portfolio. Accordingly the Company states that:

The Company's objective is to achieve capital appreciation through investments in businesses believed to have favorable growth potential. Such businesses are often undercapitalized small companies which lack management depth and have not yet attained profitability. The Company's venture investments often include securities which do not yield interest or dividends and are subject to legal or contractual restrictions on resale, which restrictions adversely affect the liquidity and marketability of such securities.

Because of the speculative nature of the Company's investments and the lack of any market for the securities initially purchased by the Company, there is a significantly greater risk of loss than is the case with traditional investment securities. The high-risk, long-term nature of the Company's venture investment activities may prevent shareholders of the Company from achieving price appreciation and dividend distributions.

Selected Consolidated Financial Data
(all figures in thousands except per share data)

	1988	1989	1990	1991	1992	1993	1994
Financial Position (as of March 31)							
Investments at cost..........	$ 28,478	$ 29,665	$ 32,212	$ 31,593	$ 34,929	$ 33,953	$ 41,993
Unrealized appreciation......	89,512	97,134	99,903	107,120	100,277	113,153	132,212
Investments at market or fair value................	117,990	126,799	132,115	138,713	135,206	147,106	174,205
Total assets.................	183,941	131,365	185,231	149,975	208,871	176,422	270,874
Subordinated debentures......	15,000	15,000	15,000	15,000	11,000	15,000	15,000
Deferred taxes on unrealized appreciation...	30,073	32,619	33,608	36,063	33,761	38,112	45,932
Net assets...................	78,376	83,124	94,610	97,139	107,522	121,455	133,053
Shares outstanding*..........	3,563	3,563	3,617	3,617	3,644	3,681	3,715
Changes in Net Assets (years ended March 31)							
Net investment income........	$ 22	$ 716	$ 1,737	$ 2,090	$ 2,363	$ 2,189	$ 2,870
Net realized gain (loss) on investments...............	497	27	12,722	(2,515)	14,313	5,099	(475)
Net increase (decrease) in unrealized appreciation before distributions......	15,986	5,075	1,780	4,762	(4,541)	8,524	11,160
Increase in net assets from operations before distributions.............	16,505	5,818	16,239	4,337	12,135	15,812	13,555
Cash dividends paid..........	(378)	(1,069)	(5,197)	(1,809)	(2,181)	(2,202)	(2,228)
Securities dividends.........	-	-	-	-	-	-	-
Treasury stock acquired......	(4,118)	-	-	-	-	-	-
Employee stock options exercised.................	-	-	444	-	429	322	272
Increase in net assets.......	12,009	4,749	11,486	2,528	10,383	13,932	11,599
Per Share Data (as of March 31)*							
Deferred taxes on unrealized appreciation...	$ 8.44	$ 9.15	$ 9.29	$ 9.97	$ 9.27	$ 10.35	$ 12.36
Net assets...................	22.00	23.33	26.16	26.86	29.51	32.99	35.81
% Increase................	25.1%	6.0%	12.1%	2.7%	9.9%	11.8%	8.5%
Closing market price.........	17.125	18.25	21.375	20.75	24.25	36.50	38.125
Cash dividends paid..........	0.10	0.30	1.44	.50	.60	.60	.60
Securities dividends.........	-	-	-	-	-	-	-

* Shares outstanding and per share amounts have been restated to give effect to a two-for-one stock split in September 1987.

Selected Consolidated Financial Data
(all figures in thousands except per share data)

	1995	1996	1997	1998
Financial Position (as of March 31)				
Investments at cost..........	$ 49,730	$ 58,544	$ 59,908	$ 61,154
Unrealized appreciation......	153,031	198,386	233,383	340,132
Investments at market or fair value................	202,761	256,930	293,291	401,286
Total assets.................	213,811	326,972	310,760	522,324
Subordinated debentures......	11,000	11,000	5,000	5,000
Deferred taxes on unrealized appreciation...	53,247	69,121	81,313	118,674
Net assets...................	147,370	189,048	218,972	296,023
Shares outstanding*..........	3,735	3,767	3,767	3,788
Changes in Net Assets (years ended March 31)				
Net investment income........	$ 2,447	$ 2,855	$ 2,574	$ 2,726
Net realized gain (loss) on investments...............	142	11,174	6,806	6,485
Net increase (decrease) in unrealized appreciation before distributions......	13,584	38,746	22,804	69,388
Increase in net assets from operations before distributions.............	16,173	52,775	32,184	78,599
Cash dividends paid..........	(2,241)	(2,270)	(2,260)	(2,268)
Securities dividends.........	-	(9,402)	-	-
Treasury stock acquired......	-	-	-	-
Employee stock options exercised.................	385	575	-	720
Increase in net assets.......	14,317	41,678	29,924	77,051
Per Share Data (as of March 31)*				
Deferred taxes on unrealized appreciation...	$ 14.26	$ 18.35	$ 21.59	$ 31.33
Net assets...................	39.46	50.18	58.13	78.15
% Increase................	10.2%	27.2%	15.8%	34.4%
Closing market price.........	38.00	60.00	67.875	94.00
Cash dividends paid..........	.60	.60	.60	.60
Securities dividends.........	-	2.50	-	-

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* Shares outstanding and per share amounts have been restated to give effect to a two-for-one stock split in September 1987.

Shareholder Information

Stock Transfer Agent

American Stock Transfer & Trust Company, 40 Wall Street, New York, NY 10005 (telephone 800-937-5449) serves as transfer agent for the Company's common stock. Certificates to be transferred should be mailed directly to the transfer agent, preferably by registered mail.

Shareholders

The Company had approximately 900 record holders of its common stock at March 31, 1998. This total does not include an estimated 1,700 shareholders with shares held under beneficial ownership in nominee name or within clearinghouse positions of brokerage firms or banks.

Market Prices

The common stock of Capital Southwest Corporation is traded in the over-the-counter market through the National Association of Securities Dealers Automated Quotation ("Nasdaq") National Market System under the symbol CSWC. The following high and low selling prices for the shares during each quarter of the last two fiscal years were taken from quotations provided to the Company by the National Association of Securities Dealers, Inc.

Quarter Ended	High	Low
June 30, 1996	$66	$57 1/2
September 30, 1996	73	63 1/2
December 31, 1996	72 1/2	67 1/4
March 31, 1997	72	65 3/8

Quarter Ended	High	Low
June 30, 1997	$73	$65
September 30, 1997	76	68
December 31, 1997	94	73 1/2
March 31, 1998	100	82

Dividends

The payment dates and amounts of cash dividends per share since April 1, 1996 are as follows:

Payment Date	Cash Dividend
May 31, 1996	$0.20
November 29, 1996	0.40
May 30, 1997	0.20
November 28, 1997	0.40
May 29, 1998	0.20

The amounts and timing of cash dividend payments have generally been dictated by requirements of the Internal Revenue Code regarding the distribution of taxable net investment income of regulated investment companies.

Automatic Dividend Reinvestment and Optional Cash Contribution Plan

As a service to its shareholders, the Company offers an Automatic Dividend Reinvestment and Optional Cash Contribution Plan for shareholders of record who own a minimum of 25 shares. The Company pays all costs of administration of the Plan except brokerage transaction fees. Upon request, shareholders may obtain information on the Plan from the Company, 12900 Preston Road, Suite 700, Dallas, Texas 75230. Telephone (972) 233-8242. Questions and answers about the Plan are on the next page.

Annual Meeting

The Annual Meeting of Shareholders of Capital Southwest Corporation will be held on Monday, July 20, 1998, at 10:00 a.m. in the North Dallas Bank Tower Meeting Room (first floor), 12900 Preston Road, Dallas, Texas.

Name of Subsidiary	State of Incorporation
Balco, Inc.	Delaware
Humac Company	Texas
The RectorSeal Corporation	Delaware
Skylawn Corporation	Nevada
The Whitmore Manufacturing Company	Delaware

INDEPENDENT AUDITORS' CONSENT

The Board of Directors
Capital Southwest Corporation:

We consent to incorporation by reference in the registration statement (No. 33-43881) on Form S-8 of Capital Southwest Corporation of our report dated April 24, 1998, with respect to the consolidated statements of financial condition of Capital Southwest Corporation and subsidiary as of March 31, 1998 and 1997, the portfolio of investments as of March 31, 1998, and the related consolidated statements of operations, changes in net assets, and cash flows for each of the years in the three-year period ended March 31, 1998, and the selected per share data and ratios for each of the years in the five-year period ended March 31, 1998, which report appears in the annual report to shareholders for the year ended March 31, 1998, and is incorporated by reference in the annual report on Form 10-K of Capital Southwest Corporation.

KPMG Peat Marwick LLP

Dallas, Texas
June 24, 1998

ARTICLE 6

This schedule contains summary financial information extracted from the Consolidated Statement of Financial Condition at March 31, 1998 (audited) and the Consolidated Statement of Operations for the year ended March 31, 1998 (audited) and is qualified in its entirety by reference to such financial satements.

CIK: 0000017313

NAME: Capital Southwest Corporation

MULTIPLIER: 1

CURRENCY: US DOLLARS

PERIOD TYPE	Year
FISCAL YEAR END	Mar 31 1998
PERIOD START	Apr 01 1997
PERIOD END	Mar 31 1998
EXCHANGE RATE	1
INVESTMENTS AT COST	61,154,421
INVESTMENTS AT VALUE	401,286,454
RECEIVABLES	332,873
ASSETS OTHER	3,656,308
OTHER ITEMS ASSETS	117,047,920
TOTAL ASSETS	522,323,555
PAYABLE FOR SECURITIES	0
SENIOR LONG TERM DEBT	5,000,000
OTHER ITEMS LIABILITIES	221,300,739
TOTAL LIABILITIES	226,300,739
SENIOR EQUITY	0
PAID IN CAPITAL COMMON	2,704,423
SHARES COMMON STOCK	3,787,951
SHARES COMMON PRIOR	3,767,051
ACCUMULATED NII CURRENT	5,261,898
OVERDISTRIBUTION NII	0
ACCUMULATED NET GAINS	66,598,460
OVERDISTRIBUTION GAINS	0
ACCUM APPREC OR DEPREC	221,458,035
NET ASSETS	296,022,816
DIVIDEND INCOME	2,237,293
INTEREST INCOME	2,025,024
OTHER INCOME	569,900
EXPENSES NET	1,994,395
NET INVESTMENT INCOME	2,726,144
REALIZED GAINS CURRENT	6,484,892
APPREC INCREASE CURRENT	69,387,923
NET CHANGE FROM OPS	78,598,959
EQUALIZATION	0
DISTRIBUTIONS OF INCOME	2,268,451
DISTRIBUTIONS OF GAINS	0
DISTRIBUTIONS OTHER	0
NUMBER OF SHARES SOLD	0
NUMBER OF SHARES REDEEMED	0
SHARES REINVESTED	0
NET CHANGE IN ASSETS	77,050,696
ACCUMULATED NII PRIOR	4,804,205
ACCUMULATED GAINS PRIOR	60,113,568
OVERDISTRIB NII PRIOR	0
OVERDIST NET GAINS PRIOR	0
GROSS ADVISORY FEES	0
INTEREST EXPENSE	426,962
GROSS EXPENSE	1,994,395
AVERAGE NET ASSETS	0
PER SHARE NAV BEGIN	58.13
PER SHARE NII	.72
PER SHARE GAIN APPREC	20.03
PER SHARE DIVIDEND	(.60)
PER SHARE DISTRIBUTIONS	0
RETURNS OF CAPITAL	0
PER SHARE NAV END	78.15

EXPENSE RATIO	0
AVG DEBT OUTSTANDING	0
AVG DEBT PER SHARE	0