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, 1999   Commission File Number: 814-61

CAPITAL SOUTHWEST CORPORATION
(Exact name of registrant as specified in its charter)

Texas	75-1072796
(State or other Jurisdiction of Incorporation or Organization)	(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 3, 1999 was $164,812,483, 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 15, 1999 was 3,815,051.

Documents Incorporated by Reference	Part of Form 10-K
(1) Annual Report to Shareholders for the Year Ended March 31, 1999	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 19, 1999	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 registered under the Investment Company Act of 1940 (the "1940 Act"). Prior to March 30, 1988, the Company was registered as a closed-end, non-diversified investment company under 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 $41,277,717 and a value of $298,679,162, representing 85.3% of the value of the Company's consolidated investment portfolio at March 31, 1999. For a narrative description of the twelve largest investments, see "Twelve Largest Investments - March 31, 1999" on pages 6 through 8 of the Company's Annual Report to Shareholders for the Year Ended March 31, 1999 (the "1999 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, 1999 was eight.

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, 1999.

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 1999 Annual Report are herein incorporated by reference.

Item 6. Selected Financial Data

"Selected Consolidated Financial Data" on page 28 of the 1999 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 1999 Annual Report are herein incorporated by reference.

Item 7A. Quantitative and Qualitative Disclosure About Market Risk

The Company is subject to financial market risks, including changes in marketable equity security prices. The Company does not use derivative financial instruments to mitigate any of these risks. The return on the Company's investments is not affected by foreign currency fluctuations.

The Company's investment in portfolio securities consists of fixed rate debt securities which totalled $8,895,970 at March 31, 1999, equivalent to 2.5% of the value of the Company's total investments. Since these debt securities usually have relatively high fixed rates of interest, minor changes in market yields of publicly-traded debt securities have little or no effect on the values of debt securities in the Company's portfolio and no effect on interest income. On the other hand, significant changes in the market yields of publicly-traded debt securities may have a material effect on the values of debt securities in our portfolio. The Company's investments in debt securities are generally held to maturity and their fair values are determined on the basis of the terms of the debt security and the financial condition of the issuer.

A portion of the Company's investment portfolio consists of debt and equity securities of private companies. The Company anticipates little or no effect on the values of these investments from modest changes in public market equity valuations. Should significant changes in market valuations of comparable publicly-owned companies occur, there would be a corresponding effect on valuations of private companies, which would affect the value and the amount and timing of proceeds eventually realized from these investments. A portion of the Company's investment portfolio also consists of restricted common stocks and warrants to purchase common stocks of publicly-owned companies. The fair values of these restricted securities are influenced by the nature of applicable resale restrictions, the underlying earnings and financial condition of the issuer, and the market valuations of comparable publicly-owned companies. A portion of the Company's investment portfolio also consists of unrestricted, freely marketable common stocks of publicly-owned companies. These freely marketable investments are directly exposed to equity price risks, in that a change in an issuer's public market equity price would result in an identical change in the fair value of the Company's investment in such security.

Item 8. Financial Statements and Supplementary Data

Pages 9 through 24 of the Company's 1999 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, 1999 and 1998.

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total
	(In thousands, except per share amounts)				
1999					
Net investment income	$ 841	$ 386	$ 122	$ 413	$ 1,762
Net realized gain on investments	495	-	-	500	995
Net increase (decrease) in unrealized appreciation of investments	2,999	(31,557)	2,332	(15,007)	(41,233)
Net increase (decrease) in net assets from operations	4,335	(31,171)	2,454	(14,094)	(38,476)
Net increase (decrease)in net assets from operations per share	1.14	(8.22)	.68	(3.69)	(10.09)
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	16,511	22,543	6,732	23,602	69,388
Net increase in net assets from operations	25,690	23,903	4,539	24,467	78,599
Net increase in net assets from operations per share	6.82	6.32	1.15	6.46	20.75

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 caption "Election of Directors" in the Company's definitive Proxy Statement for Annual Meeting of Shareholders to be held July 19, 1999, filed pursuant to Regulation 14A under the Securities Exchange Act of 1934, on or about June 4, 1999 (the "1999 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 36, served as Vice President of the Company from April 1995 to March 31, 1999. He was an investment associate with the Company from 1991 to 1995.

Patrick F. Hamner, age 43, 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 52, 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 38, 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 70, 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 1999 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 1999 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, 1999 or proposed for the fiscal year ending March 31, 2000.

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 1999 Annual Report are herein incorporated by reference:

(A) Portfolio of Investments - March 31, 1999
Consolidated Financial Statements of the Company and Subsidiary
Consolidated Statements of Financial Condition - March 31, 1999 and 1998
Consolidated Statements of Operations - Years Ended March 31, 1999, 1998 and 1997
Consolidated Statements of Changes in Net Assets - Years Ended March 31, 1999, 1998 and 1997
Consolidated Statements of Cash Flows - Years Ended March 31, 1999, 1998 and 1997

(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, 1999.

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 25, 1999

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 25, 1999
/s/ Gary L. Martin (Gary L. Martin)	Director	June 25, 1999
/s/ Graeme W. Henderson (Graeme W. Henderson)	Director	June 25, 1999
/s/ James M. Nolan (James M. Nolan)	Director	June 25, 1999
/s/ John H. Wilson (John H. Wilson)	Director	June 25, 1999
/s/ Tim Smith (Tim Smith)	Vice President and Secretary-Treasurer (Financial and Accounting Officer)	June 25, 1999

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, 1999.
21.	List of subsidiaries of the Company.
23. *	Independent Auditors' Consent.
27. *	Financial Data Schedule.

Twelve Largest Investments - March 31, 1999

Palm Harbor Homes, Inc.	$125,682,000

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 120 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 26, 1999, Palm Harbor earned $40,177,000 ($1.69 per share) on net sales of $761,374,000, compared with earnings of $31,854,000 ($1.35 per share) on net sales of $637,268,000 in the previous year. The March 31, 1999 closing Nasdaq bid price of Palm Harbor's common stock was $21.75 per share.

At March 31, 1999, the $10,931,955 investment in Palm Harbor by Capital Southwest and its subsidiary was valued at $125,682,000 ($16.00 per share) consisting of 7,855,121 restricted shares of common stock, representing a fully-diluted equity interest of 32.9%.

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, 1999, RectorSeal earned $3,839,000 on revenues of $47,555,000, compared with earnings of $3,917,000 on revenues of $42,218,000 in the previous year. RectorSeal's earnings do not reflect its 20% equity in The Whitmore Manufacturing Company.

At March 31, 1999, Capital Southwest owned 100% of RectorSeal's common stock having a cost of $52,600 and a value of $38,500,000.

Skylawn Corporation	$35,000,000

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, 1999, Skylawn Corporation earned $2,069,000 on revenues of $21,444,000. In the previous year, Skylawn earned $4,031,000 on revenues of $22,156,000.

At March 31, 1999, Capital Southwest owned 100% of Skylawn Corporation's common stock, which had a cost of $4,510,400 and was valued at $35,000,000.

Mail-Well, Inc.	$18,869,000

Mail-Well, Inc., Englewood, Colorado, is a leading consolidator in the fragmented printing industry, specializing in customized envelopes, high-impact printing, consumer products labels and business communications documents. Mail-Well has more than 13,000 employees and operates 110 plants and numerous sales offices throughout North America.

For the year ended December 31, 1998, Mail-Well reported earnings of $21,709,000 ($0.45 per share) on net sales of $1,504,686,000, compared with earnings of $28,876,000 ($0.68 per share) on net sales of $1,073,937,000 in the previous year. The March 31, 1999 closing NYSE market price of Mail-Well's common stock was $13.375 per share.

At March 31, 1999, the $2,986,870 investment in Mail-Well by Capital Southwest was valued at $18,869,000 ($9.00 per share) consisting of 2,096,588 restricted shares of common stock, representing a fully-diluted equity interest of 3.4%.

Alamo Group Inc.	$16,625,000

Alamo Group Inc., Seguin, Texas, is a leading designer, manufacturer and distributor of heavy-duty, tractor-mounted mowing and vegetation maintenance equipment. Founded in 1969, Alamo Group operates 11 manufacturing facilities and serves governmental, industrial and agricultural markets in the U.S. and Europe.

For the year ended December 31, 1998, Alamo reported consolidated earnings of

$4,115,000 ($0.42 per share) on net sales of $200,553,000, compared with earnings of $13,600,000 ($1.41 per share) on net sales of $203,092,000 in the previous year. The March 31, 1999 closing NYSE market price of Alamo's common stock was $7.875 per share.

At March 31, 1999, the $575,000 investment in Alamo by Capital Southwest and its subsidiary was valued at $16,625,000, consisting of 2,660,000 restricted shares of common stock valued at $16,625,000 ($6.25 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	$16,347,000

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, 1998, Encore reported net income of $17,568,000 ($1.07 per share) on net sales of $244,044,000, compared with net income of $21,693,000 ($1.31 per share) on net sales of $254,640,000 in the previous year. The March 31, 1999 closing Nasdaq bid price of Encore's common stock was $7.875 per share.

At March 31, 1999, the $5,800,000 investment in 2,724,500 shares of Encore's restricted common stock by Capital Southwest and its subsidiary was valued at $16,347,000 ($6.00 per share), representing a fully-diluted equity interest of 16.4%.

SDI Holding Corporation	$12,000,000

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., has developed and obtained FDA approval of a system for capturing, storing and transmitting conventional x-ray images in a digital format.

During the year ended December 31, 1998, SDI reported net sales of $522,705,000, compared with $526,642,000 in the previous year.

At March 31, 1999, Capital Southwest's $6,000,000 investment in the common stock of SDI Holding Corp. was valued at $12,000,000, representing a fully-diluted equity interest of 11.2%. (In May 1999 most of SDI's assets were sold).

AT&T Corp. - Liberty Media Group	$8,906,240

AT&T Corp. - Liberty Media Group, New York, New York, acquired by AT&T as part of Tele-Communications, Inc. in March 1999, produces, acquires and distributes entertainment, sports and informational programming services and electronic retailing services, which are delivered via cable television and other technologies to viewers in the United States and overseas.

For the nine months ended September 30, 1998, AT&T Corp. - Liberty Media Group reported an unaudited proforma net loss of $606,000,000 ($1.04 per share) on net sales of $1,022,000,000. The March 31, 1999 closing NYSE market price of AT&T Corp. - Series A Liberty Media Group common (tracking) stock was $52.5898 per share.

At March 31, 1999, Capital Southwest owned 169,353 unrestricted shares of AT&T Corp. - Series A Liberty Media Group common stock, having a total cost of $25 and a market value of $8,906,240 ($52.5898 per share).

The Whitmore Manufacturing Company $8,800,000

The Whitmore Manufacturing Company, with plants in Rockwall, Texas and Cleveland, Ohio, manufactures specialty lubricants for heavy equipment used in surface mining, railroad and other industries, and produces water-based coatings for the automotive and primary metals industries. Whitmore's subsidiary, Fluid Protection Corporation, manufactures fluid contamination control devices.

During the year ended March 31, 1999, Whitmore reported net income of $1,150,630 on net sales of $13,949,000, compared with net income of $118,424 on net sales of $12,901,000 in the previous year. The company is owned 80% by Capital Southwest and 20% by Capital Southwest's subsidiary, The RectorSeal Corporation (described on page 6).

At March 31, 1999, the direct investment in Whitmore by Capital Southwest was valued at $8,800,000 and had a cost of $1,600,000.

AT&T Corp. $7,089,744

AT&T Corp., New York, New York, is among the world's communications leaders, providing voice, data and video telecommunications services. In March 1999, AT&T Corp. acquired Tele-Communications, Inc., which owns and operates one of the nation's largest cable television systems.

During the year ended December 31, 1998, AT&T Corp. reported net income of $6,398,000,000 ($3.55 per share) on net sales of $53,223,000,000. The March 31, 1999 closing NYSE market price of AT&T Corp.-Series A common stock was $79.8125 per share.

At March 31, 1999, Capital Southwest owned 88,830 shares of unrestricted AT&T Corp.-Series A common stock, having a total cost of $43 and a market value of $7,089,744 ($79.8125 per share).

American Homestar Corporation $5,445,178

American Homestar Corporation, League City, Texas, builds, retails and finances manufactured housing, producing homes from its 14 plants and retailing its products through 125 company-owned retail sales centers, 12 joint venture retail sales centers, 75 retail franchisees and over 300 independent retail locations in 28 states.

For the year ended May 31, 1998, American Homestar reported net income of $17,683,000 ($0.98 per share) on net sales of $513,939,000. Unaudited earnings for the nine months ended February 28, 1999 were $13,357,000 ($0.71 per share) compared with $11,120,000 ($0.62 per share) during the same period in the prior year. The March 31, 1999 closing Nasdaq bid price of American Homestar's stock was $7.25 per share.

At March 31, 1999, 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 $5,445,178 ($7.25 per share), representing a fully-diluted equity interest of 4.1%.

Media Recovery, Inc. $5,415,000

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 17 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. During the eleven month period ended September 30, 1998, Media Recovery reported net income of $1,028,000 on net sales of $62,351,000.

At March 31, 1999, the investment by Capital Southwest and its subsidiary in 4,800,000 shares of Series A convertible preferred stock was valued at its cost of $5,415,000 and represented a fully-diluted equity interest of 68.2%.

Portfolio of Investments - March 31, 1999

Company	Equity(a)	Investment(b)	Cost	Value(c)
+AT&T Corp. (formerly Tele-Communications, Inc.-TCI Group) New York, New York World communications leader, providing voice, data and video telecommunications services and cable television systems.	<1%	++88,830 shares Series A common stock (acquired 3-9-99)	$ 43	$ 7,089,744
+AT&T Corp. - Liberty Media Group (formerly Tele-Communications, Inc.-Liberty Media Group and TCI Ventures Group) New York, New York Production and distribution of cable television programming services and wireless and wireline communications services.	<1%	++169,353 shares Series A common stock (acquired 3-9-99)	25	8,906,240
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 and 5-6-98)	3,143,000	3,143,000
		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
			3,568,000	3,568,000
+ALAMO GROUP INC. Seguin, Texas Heavy-duty, tractor-mounted mowing and vegetation maintenance equipment for governmental, industrial and agricultural markets.	27.0%	2,660,000 shares common stock (acquired 4-1-73 and 7-18-78)	575,000	16,625,000
		Warrant to purchase 62,500 shares of common stock at $16.00 per share, expiring 2000 (acquired 11-25-91)	-	-
			575,000	16,625,000
ALL COMPONENTS, INC. Farmers Branch, Texas Distribution and production of memory and other components to personal computer manufacturers, retailers and value-added resellers.	29.3%	14% subordinated debenture, due 2000 (acquired 9-16-94)	600,000	600,000
		150,000 shares Series A convertible preferred stock, convertible into 600,000 shares of commonstock at $0.25 per share (acquired 9-16-94)	150,000	3,325,000
		450,000 shares Series B preferred stock (acquired 9-16-94)	450,000	450,000
			1,200,000	4,375,000
+ALLTEL CORPORATION Little Rock, Arkansas Wireline and wireless communications and information services.	<1%	++8,880 shares common stock (acquired 7-1-98)	108,355	553,890
+AMERICAN HOMESTAR CORPORATION League City, Texas Integrated manufacturing, retailing and financing of manufactured housing produced in 14 plants.	4.1%	++751,059 shares common stock (acquired 8-31-93, 7-12-94 and 3-28-96)	3,405,824	5,445,178

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

Company	Equity(a)	Investment(b)	Cost	Value c)
AMFIBE, INC. Martinsville, 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	$1,600,000
BALCO, INC. Wichita, Kansas Specialty architectural products used in the construction and remodeling of commercial and institutional buildings.	85.2%	14% subordinated debentures, payable 1999 to 2002 (acquired 8-13-91)	320,000	320,000
		14% subordinated debenture, payable 1999 to 2002, last maturing $250,000 convertible into 250,000 shares of common stock at $1.00 per share (acquired 6-1-91)	640,000	2,390,000
		110,000 shares common stock and 60,920 shares Class B non-voting common stock (acquired 10-25-83)	170,920	1,367,360
		Warrants to purchase 85,000 shares of common stock at $2.40 per share, expiring 2001 (acquired 8-13-91)	-	476,000
			1,130,920	4,553,360
CDC TECHNOLOGIES, INC. Oxford, Connecticut Hematology and blood chemistry analyzers and reagents for veterinary and medical applications.	19.7%	3,388 shares Series C convertible preferred stock, convertible into 7,218 shares of common stock at $346.24 per share (acquired 10-15-97 and 9-10-98)	2,499,158	2,499,158
		Warrants to purchase 339 shares of Series C convertible preferred stock at $737.65 per share (acquired 12-17-97)	-	-
			2,499,158	2,499,158
DENNIS TOOL COMPANY Houston, Texas Polycrystalline diamond compacts (PDCs) used in oil field drill bits and in mining and industrial applications.	66.2%	20,725 shares 5% convertible preferred stock convertible into 20,725 shares of common stock at $48.25 per share (acquired 8-10-98)	999,981	500,000
		140,137 shares common stock (acquired 3-7-94 and 8-10-98)	2,329,963	2,000,000
			3,329,944	2,500,000
DYNTEC, INC. Louisville, Kentucky Multi-specialty dental services provided through Dentistry Plus Centers located in major shopping malls.	37.4%	1,710,766 shares Series A redeemable preferred stock (acquired 6-24-98)	3,743,156	3,743,156
		1,710,766 shares Series B convertible preferred stock, convertible into 1,710,766 shares of common stock at $0.004 per share (acquired 6-24-98)	6,844	6,844
			3,750,000	3,750,000
+ENCORE WIRE CORPORATION McKinney, Texas Electrical wire and cable for residential and commercial use.	16.4%	2,724,500 shares common stock (acquired 7-16-92, 3-15-94, 4-28-94 and 10-7-98)	5,800,000	16,347,000
+FMC CORPORATION Chicago, Illinois Machinery and chemicals in diversified product areas.	<1%	++6,430 shares common stock (acquired 6-6-86)	123,777	317,480

+Publicly-owned company

++Unrestricted securities as defined in Note b)

Company	Equity (a)	Investment (b)	Cost	Value c)
+FRONTIER CORPORATION Rochester, New York Diversified telecommunications company.	<1%	++31,338 shares common stock (acquired 12-20-95)	$ 78,346	$1,625,659
INTELLIGENT REASONING SYSTEMS, INC. Austin, Texas Machine vision systems for automatic inspection of electronic circuit boards.	14.7%	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	-
		1,513,081 shares Series C convertible preferred stock, convertible into 1,513,081 shares of common stock at $0.74 per share (acquired 6-11-98)	1,119,679	2
		Warrant to purchase 70,513 shares of Series B convertible preferred stock at $.60 per share (acquired 11-21-97)	-	-
			1,542,756	2
+KIMBERLY-CLARK CORPORATION Irving, Texas Manufacturer of tissue, personal care and health care products.	<1%	++77,180 shares common stock (acquired 12-18-97)	2,396,926	3,699,816
+MAIL-WELL, INC. Englewood, Colorado Customized envelopes, labels and high-impact printing.	3.4%	2,096,588 shares common stock (acquired 2-18-94, 12-14-94, 7-27-95 and 11-10-98)	2,986,870	18,869,000
MEDIA RECOVERY, INC. Graham, Texas Computer and office automation supplies and accessories; impact and tilt monitoring devices to detect mishandled shipments.	68.2%	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	5,415,000
+MYLAN LABORATORIES, INC. Pittsburgh, Pennsylvania Proprietary and generic pharmaceutical products.	<1%	++128,286 shares common stock (acquired 11-20-91)	400,000	3,519,847
+PALM HARBOR HOMES, INC. Dallas, Texas Integrated manufacturing, retailing, financing and insuring of manufactured housing produced in 16 plants.	32.9%	7,855,121 shares common stock (acquired 1-3-85, 3-31-88 and 7-31-95)	10,931,955	125,682,000
+PETSMART, INC. Phoenix, Arizona Retail chain of 548 stores selling pet foods, supplies and services.	<1%	++654,220 shares common stock (acquired 6-1-95)	2,878,733	5,233,760

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

Company	Equity(a)	Investment(b)	Cost	Value (c)
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 and Texas Video and Post,which produce radio and television commercials and corporate communications videos.	38.3%	12% subordinated notes, payable 1999 to 2003 (acquired 10-21-96, 8-13-97 and 8-11-98)	3,825,000	3,825,000
		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
		Warrant to purchase 600 shares of common stock at $250 per share, expiring 2005(acquired 8-11-98)	-	-
			4,200,000	4,200,000
SDI HOLDING CORP. Greenville, South Carolina Owns Sterling Diagnostic Imaging, a manufacturer of medical x-ray imaging film and direct radiography systems.	11.2%	60,305 shares common stock (acquired 3-26-96)	6,000,000	12,000,000
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	35,000,000
+SPRINT CORPORATION - FON Group Kansas City, Missouri Diversified telecommunications company.	<1%	++36,000 shares common stock (acquired 6-20-84)	449,654	3,532,500
+SPRINT CORPORATION - PCS Group Kansas City, Missouri Domestic wireless telephony services.	<1%	++18,000 shares common stock (acquired 11-23-98)	53,991	797,625
TCI HOLDINGS, INC. (formerly Westmarc Communications, Inc.) Denver, Colorado Cable television systems and microwave relay systems.	-	21 shares 12% Series C cumulative compounding preferred stock (acquired 1-30-90)	-	508,000
TEXAS PETROCHEMICAL HOLDINGS, INC. Houston, Texas Butadiene for synthetic rubber, MTBE for gasoline octane enhancement and butylenes for varied applications.	5.0%	30,000 shares common stock (acquired 6-27-96)	3,000,000	750,000

+Publicly-owned company

++Unrestricted securities as defined in Note (b)

Company	Equity (a)	Investment (b)	Cost	Value(c)
TEXAS SHREDDER, INC.	53.3%	14% subordinated debentures, payable 1999 (acquired 3-6-91 and 6-1-98)	$ 617,970	$ 617,970
San Antonio, Texas				
Design and manufacture of heavy-duty shredder systems for recycling steel and other materials from junk automobiles.		3,296 shares Series A preferred stock (acquired 3-6-91 and 6-1-98)	329,600	329,600
		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
			1,022,570	3,572,570
THE WHITMORE MANUFACTURING COMPANY	80.0%	80 shares common stock (acquired 8-31-79)	1,600,000	8,800,000
Rockwall, Texas				
Specialized mining and industrial lubricants; automotive transit coatings.				
MISCELLANEOUS	100.0%	Humac Company - 1,041,000 shares common stock (acquired 1-31-75 and 12-31-75)	-	159,000
	-	STARTech Seed Fund I - Limited partnership	225,000	225,000
	<1%	+TCI Satellite Entertainment, Inc.-++18,000 shares Series A common stock (acquired 12-4-96)	-	11,250
	<1%	+Triton Energy Corporation -++6,022 shares common stock (acquired 12-15-86)	144,167	47,423
TOTAL INVESTMENTS			$73,580,014	$350,278,502

+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, 1999, restricted securities represented approximately 88% 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, 1999 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	$ 1,343,000
CDC Technologies, Inc	1,249,579
Dennis Tool Company	2,999,944
Dyntec, Inc	3,750,000
Encore Wire Corporation	1,700,000
Intelligent Reasoning Systems, Inc	1,119,679
Mail-Well, Inc	97,860
Rewind Holdings, Inc	600,000
STARTech Seed Fund I	225,000
Texas Shredder, Inc	85,070
	$ 13,170,132

Dispositions

	Cost	Amount Received
Cherokee Communications, Inc	$ -	$ 200,508
PTS Holdings, Inc	-	1,330,183
	$ -	$ 1,530,691

Repayments Received		$ 744,539

Capital Southwest Corporation and Subsidiary
Consolidated Statements of Financial Condition

Assets	March 31 1999	March 31 1998
Investments at market or fair value (Notes 1 and 2)		
Companies more than 25% owned (Cost: 1999 - $22,130,818, 1998 - $19,370,874)	$231,819,359	$266,370,919
Companies 5% to 25% owned (Cost: 1999 - $18,841,914, 1998 - $14,984,195)	31,596,160	43,044,195
Companies less than 5% owned (Cost: 1999 - $32,607,282, 1998 - $26,799,352)	86,862,983	91,871,340
Total investments (Cost: 1999 - $73,580,014, 1998 - $61,154,421)	350,278,502	401,286,454
Cash and cash equivalents	6,050,443	117,047,920
Receivables	315,707	332,873
Other assets (Note 8)	4,141,136	3,656,308
Totals	$360,785,788	$522,323,555

Liabilities and Shareholders' Equity	March 31 1999	March 31 1998
Note payable to bank (Note 4)	$ -	$100,000,000
Accrued interest and other liabilities (Note 8)	2,023,625	1,961,382
Income taxes payable	282,741	-
Deferred income taxes (Note 3)	97,247,457	119,339,357
Subordinated debenture (Note 5)	5,000,000	5,000,000
Total liabilities	104,553,823	226,300,739
Shareholders' equity (Notes 3 and 6)		
Common stock, $1 par value: authorized, 5,000,000 shares; issued, 4,252,416 shares at March 31, 1999 and 4,225,316 shares at March 31, 1998	4,252,416	4,225,316
Additional capital	6,450,747	5,512,409
Undistributed net investment income	4,743,205	5,261,898
Undistributed net realized gain on investments	67,593,409	66,598,460
Unrealized appreciation of investments - net of deferred income taxes	180,225,490	221,458,035
Treasury stock - at cost (437,365 shares)	(7,033,302)	(7,033,302)
Net assets at market or fair value, equivalent to $67.16 per share on the 3,815,051 shares outstanding at March 31, 1999, and $78.15 per share on the 3,787,951 shares outstanding at March 31, 1998	256,231,965	296,022,816
Totals	$360,785,788	$522,323,555

See Notes to Consolidated Financial Statements

Capital Southwest Corporation and Subsidiary
Consolidated Statements of Operations

	Years Ended March 31		
	1999	1998	1997
Investment income (Note 9):			
Interest	$ 1,307,668	$ 2,025,024	$ 1,371,802
Dividends	1,966,360	2,237,293	2,774,321
Management and directors' fees	538,650	569,900	586,900
	3,812,678	4,832,217	4,733,023
Operating expenses:			
Interest	416,174	426,962	634,667
Salaries	1,109,699	1,206,478	1,147,294
Net pension expense (benefit) (Note 8)	(311,625)	(313,511)	(349,903)
Other operating expenses (Note 7)	727,612	674,466	599,578
	1,941,860	1,994,395	2,031,636
Income before income taxes	1,870,818	2,837,822	2,701,387
Income tax expense (Note 3)	109,100	111,678	127,325
Net investment income	$ 1,761,718	$ 2,726,144	$ 2,574,062
Proceeds from disposition of investments	$ 1,530,691	$ 16,669,892	$ 14,177,580
Cost of investments sold (Note 1)	--	6,764,823	3,619,369
Realized gain on investments before income taxes (Note 9)	1,530,691	9,905,069	10,558,211
Income tax expense	535,742	3,420,177	3,752,425
Net realized gain on investments	994,949	6,484,892	6,805,786
Increase (decrease) in unrealized appreciation of investments before income taxes	(63,433,545)	106,748,923	34,996,750
Increase (decrease) in deferred income taxes on appreciation of investments (Note 3)	(22,201,000)	37,361,000	12,192,000
Net increase (decrease) in unrealized appreciation of investments	(41,232,545)	69,387,923	22,804,750
Net realized and unrealized gain (loss) on investments	$ (40,237,596)	$ 75,872,815	$ 29,610,536
Increase (decrease) in net assets from operations	$ (38,475,878)	$ 78,598,959	$ 32,184,598

See Notes to Consolidated Financial Statements

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

	Years Ended March 31		
	1999	1998	1997
Operations			
Net investment income	$ 1,761,718	$ 2,726,144	$ 2,574,062
Net realized gain on investments	994,949	6,484,892	6,805,786
Net increase (decrease) in unrealized appreciation of investments	(41,232,545)	69,387,923	22,804,750
Increase (decrease) in net assets from operations	(38,475,878)	78,598,959	32,184,598
Distributions from:			
Undistributed net investment income	(2,280,411)	(2,268,451)	(2,260,231)
Capital share transactions			
Exercise of employee stock options	965,438	720,188	--
Increase (decrease) in net assets	(39,790,851)	77,050,696	29,924,367
Net assets, beginning of year	296,022,816	218,972,120	189,047,753
Net assets, end of year	$ 256,231,965	$ 296,022,816	$ 218,972,120

See Notes to Consolidated Financial Statements

Capital Southwest Corporation and Subsidiary
Consolidated Statements of Cash Flows

	Years Ended March 31		
	1999	1998	1997
Cash flows from operating activities			
Increase (decrease) in net assets from operations	$ (38,475,878)	$ 78,598,959	$ 32,184,598
Adjustments to reconcile increase in net assets from operations to net cash provided by operating activities:			
Depreciation and amortization	24,667	23,770	31,240
Net pension benefit	(311,625)	(313,511)	(349,903)
Net realized and unrealized (gain) loss on investments	40,237,596	(75,872,815)	(29,610,536)
(Increase) decrease in receivables	17,166	(53,058)	5,187
(Increase) decrease in other assets	(47,315)	(7,035)	(17,812)
Increase (decrease) in accrued interest and other liabilities	(74,670)	46,649	(66,361)
Deferred income taxes	109,100	109,729	122,500
Net cash provided by operating activities	1,479,041	2,532,688	2,298,913
Cash flows from investing activities			
Proceeds from disposition of investments	1,530,691	16,669,892	14,177,580
Purchases of securities	(13,170,132)	(9,709,195)	(6,023,684)
Maturities of securities	744,539	1,697,866	1,040,500
Income taxes paid on realized gain on investments	(266,643)	(6,604,549)	(6,268,782)
Net cash provided (used) by investing activities	(11,161,545)	2,054,014	2,925,614
Cash flows from financing activities			
Increase (decrease) in note payable to bank	(100,000,000)	100,000,000	(50,000,000)
Repayment of subordinated debenture	--	--	(6,000,000)
Distributions from undistributed net investment income	(2,280,411)	(2,268,451)	(2,260,231)
Proceeds from exercise of employee stock options	965,438	720,188	--
Net cash provided (used) by financing activities	(101,314,973)	98,451,737	(58,260,231)
Net increase (decrease) in cash and cash equivalents	(110,997,477)	103,038,439	(53,035,704)
Cash and cash equivalents at beginning of year	117,047,920	14,009,481	67,045,185
Cash and cash equivalents at end of year	$ 6,050,443	$ 117,047,920	$ 14,009,481
Supplemental disclosure of cash flow information:			
Cash paid during the year for: Interest	$ 424,926	$ 400,000	$ 691,397
Income taxes	$ 288,838	$ 6,621,499	$ 6,270,291

See 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, 1999 and 1998 include securities valued at $309,498,090 (88% of the value of the consolidated investment portfolio) and $356,464,614 (89% 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, 1998, 1997 and 1996, 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 1999, 1998 and 1997 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, 1999 includes a deferred tax provision related to the net pension benefit.

CSC and CSVC may not qualify or elect to be taxed as RICs in future years. Therefore, consolidated deferred Federal income taxes of $96,473,000 and $118,674,000 have been provided on net unrealized appreciation of investments of $276,698,488 and $340,132,033 at March 31, 1999 and 1998, 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, 1999 and 1998.

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, 1999 and 1998 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 42,000 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, 1999. Options on 36,625 shares were exercisable at March 31, 1999. During the year ended March 31, 1999, options for 27,100 shares were exercised. Outstanding options expire in 2003. The 1984 Incentive Stock Option Plan expired in 1994 and no options have been authorized or granted since that date. At March 31, 1999 and 1998, 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 $35,079 in 1999, $67,763 in 1998 and $54,104 in 1997.

8. Retirement Plans

On April 1, 1998, the Company adopted Statement of Financial Accounting Standards ("SFAS") No. 132, Employers' Disclosures about Pension and other Post-retirement Benefits. SFAS No. 132 revises employers' disclosures about pension and other post-retirement benefit plans. SFAS No. 132 does not change the method of accounting for such plans.

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, 1999.

The following tables set forth the plan's benefit obligations and fair value of plan assets at March 31, 1999, 1998 and 1997:

	Years Ended March 31		
	1999	1998	1997
Change in benefit obligation			
Benefit obligation at beginning of year	$ 3,059,555	$ 2,376,257	$ 2,289,114
Service cost	68,710	52,388	47,662
Interest cost	199,301	204,328	174,792
Amendments	(149,171)	--	--
Actuarial gain (loss)	205,810	495,668	(66,225)
Benefits paid	(69,086)	(69,086)	(69,086)
Benefit obligation at end of year	$ 3,315,119	$ 3,059,555	$ 2,376,257

	1999	1998	1997
Change in plan assets			
Fair value of plan assets at beginning of year	$11,314,714	$ 7,820,401	$ 6,927,656
Actual return on plan assets	(1,171,030)	3,563,399	961,831
Benefits paid	(69,086)	(69,086)	(69,086)
Fair value of plan assets at end of year	$10,074,598	$11,314,714	$ 7,820,401

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	
	1999	1998
Actuarial present value of benefit obligations:		
Accumulated benefit obligation, including vested benefits of $2,915,453 in 1999 and $2,602,654 in 1998	$(2,990,205)	$(2,665,123)
Projected benefit obligation for service rendered to date	$(3,315,119)	$(3,059,555)
Plan assets at fair value*	10,074,598	11,314,714
Excess of plan assets over the projected benefit obligation	6,759,479	8,255,159
Unrecognized net (gain) loss from past experience different from that assumed and effects of changes in assumptions	(2,192,798)	(4,214,675)
Prior service costs not yet recognized	(174,288)	(36,440)
Unrecognized net assets being amortized over 19 years	(442,970)	(516,801)
Prepaid pension cost included in other assets	$ 3,949,423	$ 3,487,243

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*Primarily equities and bonds including approximately 29,800 shares of common stock of the Company.

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

	Years Ended March 31		
	1999	1998	1997
Service cost - benefits earned during the year	$ 68,710	$ 52,388	$ 47,662
Interest cost on projected benefit obligation	199,301	204,328	174,792
Actual return on assets	1,171,030	(3,563,399)	(961,831)
Net amortization and deferral	(1,901,221)	2,813,811	257,580
Net pension expense (benefit) from qualified plan	$ (462,180)	$ (492,872)	$ (481,797)

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 Retirement Restoration Plan's benefit obligation at March 31, 1999, 1998 and 1997:

	Years Ended March 31		
	1999	1998	1997
Change in benefit obligation			
Benefit obligation at beginning of year	$2,051,899	$1,474,701	$1,465,570
Service cost	13,087	5,958	3,846
Interest cost	117,635	142,735	108,215
Amendments	83,360	--	--
Actuarial gain (loss)	(99,801)	428,505	(102,930)
Benefit obligation at end of year	$2,166,180	$2,051,899	$1,474,701

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	
	1999	1998
Projected benefit obligation	$(2,166,180)	$(2,051,899)
Unrecognized net (gain) loss from past experience different from that assumed and effects of changes in assumptions	306,416	406,217
Unrecognized prior service costs	83,360	--
Unrecognized net obligation	39,656	59,489
Accrued pension cost included in other liabilities	$(1,736,748)	$(1,586,193)

The Retirement Restoration Plan expenses recognized during the years ended March 31, 1999, 1998 and 1997 of $150,555, $179,361 and $131,894, respectively, are offset against the net pension benefit from the qualified plan.

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 6.5% and 5.0%, respectively, at March 31, 1999, 7.0% and 5.0%, respectively, at March 31, 1998 and 8.0% and 5.0%, respectively, at March 31, 1997. The expected long-term rate of return used to project estimated earnings on plan assets for the qualified plan was 8.5% for the years ended March 31, 1999, 1998 and 1997. The calculations also assume retirement at age 65, the normal retirement age.

9. Sources of Income

Income was derived from the following sources:

Years Ended March 31	Investment Income: Interest	Dividends	Other Income	Realized Gain (Loss) on Investments Before Income Taxes
1999				
Companies more than 25% owned..........	$ 140,000	$1,644,270	$490,900	$ -
Companies 5% to 25% owned.............	3,495	-	34,750	-
Companies less than 5% owned..........	688,210	322,090	13,000	1,530,691
Other sources, including temporary investments........	475,963	-	-	-
	$1,307,668	$1,966,360	$538,650	$ 1,530,691
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

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 1999	March 31 1998
Condensed Balance Sheet Data		
Assets		
Cash and temporary investments.......................	$ 12,130	$ 13,496
Receivables.........................	26,350	21,769
Inventories.........................	34,373	34,452
Property, plant and equipment........	33,152	29,223
Other assets........................	18,402	12,316
Totals............................	$124,407	$ 111,256
Liabilities and Shareholder's Equity		
Long-term debt......................	$ 11,685	$ 5,540
Other liabilities...................	13,901	12,836
Shareholder's equity................	98,821	92,880
Totals............................	$124,407	$ 111,256

Condensed Statements of Income	1999	1998	1997
Revenues............................	$ 82,948	$ 77,275	$ 70,890
Costs and operating expenses.........	$ 72,780	$ 66,223	$ 61,760
Net income..........................	$ 7,059	$ 8,066	$ 7,909

11. Commitments

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

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 $58,798 in 1999, $44,285 in 1998 and $43,844 in 1997.

Selected Per Share Data and Ratios

	Years Ended March				
	1999	1998	1997	1996	1995
Investment income	$ 1.00	$ 1.28	$ 1.26	$ 1.64	$ 1.37
Operating expenses	(.40)	(.42)	(.37)	(.41)	(.32)
Interest expense	(.11)	(.11)	(.17)	(.45)	(.37)
Income taxes	(.03)	(.03)	(.03)	(.02)	(.01)
Net investment income	.46	.72	.69	.76	.67
Distributions from undistributed net investment income	(.60)	(.60)	(.60)	(.60)	(.60)
Net realized gain on investments	.26	1.71	1.81	2.97	.04
Distributions from undistributed net realized gain on investments	-	-	-	(.04)	-
Net increase (decrease) in unrealized appreciation of investments before distributions	(10.81)	18.32	6.05	10.28	3.64
Distributions from unrealized appreciation of investments	-	-	-	(2.46)	-
Exercise of employee stock options*	(.30)	(.13)	-	(.19)	(.10)
Increase (decrease) in net asset value	(10.99)	20.02	7.95	10.72	3.65
Net asset value:					
Beginning of year	78.15	58.13	50.18	39.46	35.81
End of year	$67.16	$78.15	$58.13	$50.18	$39.46
Ratio of operating expenses to average net assets	.6%	.6%	.7%	.9%	.9%
Ratio of net investment income to average net assets	6%	1.1%	1.2%	1.7%	1.8%
Portfolio turnover rate	.2%	2.5%	1.6%	4.5%	1.3%
Shares outstanding at end of period (000s omitted)	3,815	3,788	3,767	3,767	3,735

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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, 1999 and 1998, including the portfolio of investments as of March 31, 1999, 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, 1999 and the selected per share data and ratios for each of the years in the five-year period ended March 31, 1999. 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, 1999 and 1998, 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, 1999 and 1998, 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, 1999, and the selected per share data and ratios for each of the years in the five-year period ended March 31, 1999, in conformity with generally accepted accounting principles.

KPMG LLP

Dallas, Texas
April 23, 1999

Management's Discussion and Analysis of Financial Condition and Results of Operations

Results of Operations

The composite measure of the Company's financial performance in the Consolidated Statements of Operations is captioned "Increase (decrease) in net assets from operations" 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 (decrease) in unrealized appreciation of investments", 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 were 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 (decrease) in unrealized appreciation of investments" 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 $476,000 in 1999, $1,239,000 in 1998 and $637,000 in 1997. The Company also receives management fees from its wholly-owned subsidiaries which aggregated $458,400 in the year ended March 31, 1999, $494,400 in the year ended March 31, 1998 and $506,400 in the year ended March 31, 1997. During the three years ended March 31, 1999, the Company recorded dividend income from the following sources:

	Years Ended March 31		
	1999	1998	1997
Alamo Group Inc.	$1,170,400	$1,064,000	$ 1,064,000
Cherokee Communications, Inc.......	-	-	108,789
Kimberly - Clark Corporation........	77,952	19,295	-
The RectorSeal Corporation..........	240,000	501,200	940,895
Skylawn Corporation................	150,000	300,000	450,000
Texas Shredder, Inc.	40,460	37,500	37,500
Westmarc Communications............	81,270	81,270	81,270
The Whitmore Manufacturing Company..	60,000	120,000	-
Other..............................	146,278	114,028	91,867
	$1,966,360	$2,237,293	$2,774,321

Total operating expenses, excluding interest expense, decreased by $41,747 or 2.7% and increased by $170,464 or 12.2% during the years ended March 31, 1999 and 1998, 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 debenture, decreased by $10,788 and $207,705 during the years ended March 31, 1999 and 1998, respectively.

Net Realized Gain on Investments

Net realized gain on investments was $994,949 (after income tax expense of $535,742) during the year ended March 31, 1999, compared with a gain of $6,484,892 (after income tax expense of $3,420,177) during 1998 and a gain of $6,805,786 (after income tax expense of $3,752,425) during 1997. 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 (Decrease) in Unrealized Appreciation of Investments

For the three years ended March 31, the Company recorded an increase (decrease) in unrealized appreciation of investments before income taxes of $(63,433,545), $106,748,923 and $34,996,750 in 1999, 1998 and 1997, 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 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		
	1999	1998	1997
AT&T Corp.........................	$ 3,532,591	$ 1,419,678	$(1,192,500)
AT&T Corp.-Liberty Media Group....	3,131,973	4,432,679	165,938
Alamo Group Inc.	(20,615,000)	5,463,000	(6,432,000)
All Components, Inc...............	1,225,000	950,000	1,000,000
American Homestar Corporation.....	(11,547,532)	8,480,708	550,792
Amfibe, Inc.......................	(2,400,000)	2,400,000	1,400,000
Balco, Inc........................	3,422,440	-	-
Dennis Tool Company...............	(3,299,944)	495,000	1,105,000
Encore Wire Corporation...........	(19,013,000)	17,279,000	9,782,000
Intelligent Reasoning Systems, Inc	(1,542,754)	-	-
Mail-Well, Inc.	(6,214,860)	14,020,000	6,830,000
Palm Harbor Homes, Inc............	(12,568,000)	53,792,000	13,372,000
PETsMART, Inc.	(1,758,216)	(6,092,424)	1,226,663
SDI Holding Corp..................	6,000,000	-	-
Skylawn Corporation...............	(7,000,000)	-	(3,000,000)
Sprint Corporation-FON Group......	1,149,741	803,250	265,500
The Whitmore Manufacturing Company....................	2,800,000	-	1,200,000

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, 1999."

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, 1999 consolidated deferred Federal income taxes of $96,473,000 were provided on net unrealized appreciation of investments of $276,698,488 compared with deferred taxes of $118,674,000 on net unrealized appreciation of $340,132,033 at March 31, 1998. Deferred income taxes at March 31, 1999 and 1998 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, 1999, the Company invested $13,170,132 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 1998 and 1997 fiscal years, the Company invested a total of $9,709,195 and $6,023,684, respectively.

Financial Liquidity and Capital Resources

At March 31, 1999, the Company had cash and cash equivalents of $6.1 million. Pursuant to Small Business Administration ("SBA") regulations, cash and cash equivalents of $2.7 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 $48.3 million in addition to the $5 million presently outstanding. Approximately $40.8 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.

Year 2000

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

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)

	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
Financial Position (as of March 31)											
Investments at cost..........	$ 29,665	$ 32,212	$ 31,593	$ 34,929	$ 33,953	$ 41,993	$ 49,730	$ 58,544	$ 59,908	$ 61,154	$ 73,580
Unrealized appreciation......	97,134	99,903	107,120	100,277	113,153	132,212	153,031	198,386	233,383	340,132	276,698
Investments at market or fair value...............	126,799	132,115	138,713	135,206	147,106	174,205	202,761	256,930	293,291	401,286	350,278
Total assets................	131,365	185,231	149,975	208,871	176,422	270,874	213,811	326,972	310,760	522,324	360,786
Subordinated debentures......	15,000	15,000	15,000	11,000	15,000	15,000	11,000	11,000	5,000	5,000	5,000
Deferred taxes on unrealized appreciation...	32,619	33,608	36,063	33,761	38,112	45,932	53,247	69,121	81,313	118,674	96,473
Net assets..................	83,124	94,610	97,139	107,522	121,455	133,053	147,370	189,048	218,972	296,023	256,232
Shares outstanding..........	3,563	3,617	3,617	3,644	3,681	3,715	3,735	3,767	3,767	3,788	3,815
Changes in Net Assets (years ended March 31)											
Net investment income........	$ 716	$ 1,737	$ 2,090	$ 2,363	$ 2,189	$ 2,870	$ 2,447	$ 2,855	$ 2,574	$ 2,726	$ 1,762
Net realized gain (loss) on investments..............	27	12,722	(2,515)	14,313	5,099	(475)	142	11,174	6,806	6,485	995
Net increase (decrease) in unrealized appreciation before distributions......	5,075	1,780	4,762	(4,541)	8,524	11,160	13,584	38,746	22,804	69,388	(41,233)
Increase (decrease) in net assets from operations before distributions......	5,818	16,239	4,337	12,135	15,812	13,555	16,173	52,775	32,184	78,599	(38,476)
Cash dividends paid..........	(1,069)	(5,197)	(1,809)	(2,181)	(2,202)	(2,228)	(2,241)	(2,270)	(2,260)	(2,268)	(2,280)
Securities dividends.........	-	-	-	-	-	-	-	(9,402)	-	-	-
Employee stock options exercised................	-	444	-	429	322	272	385	575	-	720	965
Increase (decrease) in net assets	4,749	11,486	2,528	10,383	13,932	11,599	14,317	41,678	29,924	77,051	(39,791)
Per Share Data (as of March 31)											
Deferred taxes on unrealized appreciation...	$ 9.15	$ 9.29	$ 9.97	$ 9.27	$ 10.35	$ 12.36	$ 14.26	$ 18.35	$ 21.59	$ 31.33	$ 25.29
Net assets..................	23.33	26.16	26.86	29.51	32.99	35.81	39.46	50.18	58.13	78.15	67.16
Closing market price.........	18.25	21.375	20.75	24.25	36.50	38.125	38.00	60.00	67.875	94.00	73.00
Cash dividends paid..........	0.30	1.44	.50	.60	.60	.60	.60	.60	.60	.60	.60
Securities dividends.........	-	-	-	-	-	-	-	2.50	-	-	-

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, 1999. This total does not include an estimated 2,100 shareholders with shares held under beneficial ownership in nominee name or within clearinghouse positions of brokerage firms or banks.

Market Prices

The Company's common stock is traded on The Nasdaq Stock Market (National Market) 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 Nasdaq:

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

Quarter Ended	High	Low
June 30, 1998	$106	$ 92
September 30, 1998	103	81 3/8
December 31, 1998	88 3/4	55
March 31, 1999	89	67 1/2

Dividends

The payment dates and amounts of cash dividends per share since April 1, 1997 are as follows:

Payment Date	Cash Dividend
May 30, 1997	$0.20
November 28, 1997	0.40
May 29, 1998	0.20
November 30, 1998	0.40
May 28, 1999	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 19, 1999, at 10:00 a.m. in the North Dallas Bank Tower Meeting Room (first floor), 12900 Preston Road, Dallas, Texas.

KPMG

200 Crescent Court
Suite 300
Dallas, TX 75201-1885

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 23, 1999, with respect to the consolidated statements of financial condition of Capital Southwest Corporation and subsidiary as of March 31, 1999 and 1998, the portfolio of investments as of March 31, 1999, 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, 1999, and the selected per share data and ratios for each of the years in the five-year period ended March 31, 1999, which report appears in the annual report to shareholders for the year ended March 31, 1999, and is incorporated by reference in the annual report on Form 10-K of Capital Southwest Corporation.

KPMG

Dallas, Texas
June 17, 1999

[Object Omitted]

WARNING: THE EDGAR SYSTEM ENCOUNTERED ERROR(S) WHILE PROCESSING THIS SCHEDULE.

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This schedule contains summary financial information extracted from the Consolidated Statement of Financial Condition at March 31, 1999 (audited) and the Consolidated Statement of Operations for the year ended March 31, 1999 (audited) and is qualified in its entirety by reference to such financial statements.

0000017313
Capital Southwest Corporation
1
US Dollars

Year
MAR-31-1999
APR-01-1998
MAR-31-1999
1
73,580,014
350,278,502
315,707
4,141,136
6,050,443
360,785,788
0
5,000,000
99,553,823
104,553,823
0
3,669,861
3,815,051
3,787,951
4,743,205
0
67,593,409
0
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1,966,360
1,307,668
538,650
1,941,860
1,761,718
994,949
(41,232,545)
(38,475,878)
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2,280,411
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0
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(39,790,851)
5,261,898
66,598,460
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416,174
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0
78.15
.46
(10.55)
(.60)
0
0
67.16
0
[AVG-DEBT-OUTSTANDING] 0
[AVG-DEBT-PER-SHARE] 0