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CAPITAL SOUTHWEST CORP
Form 10-Q
November 07, 2008

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

(Mark One)

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

For the quarterly period ended September 30, 2008

OR

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

For the transition period fromto

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 No.)

12900 Preston Road, Suite 700, Dallas, Texas
(Address of principal executive offices)

75230
(Zip Code)

Registrant's telephone number, including area code: (972) 233-8242

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 No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check One):

Large accelerated filer Accelerated filer Non-accelerated filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

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

3,741,638 shares of Common Stock, \$1 par value, as of October 31, 2008

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PART I. FINANCIAL INFORMATION

Item 1. Consolidated Financial Statements

CAPITAL SOUTHWEST CORPORATION AND SUBSIDIARIES
Consolidated Statements of Financial Condition

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	September 30, 2008	March 31, 2008
	----- (Unaudited)	-----
Assets		
Investments at market or fair value		
Companies more than 25% owned (Cost: September 30, 2008 - \$28,908,246 March 31, 2008 - \$28,758,246)	\$387,275,539	\$410,026,178
Companies 5% to 25% owned (Cost: September 30, 2008 - \$20,412,243, March 31, 2008 - \$20,412,243)	57,671,133	54,895,381
Companies less than 5% owned (Cost: September 30, 2008 - \$35,762,756, March 31, 2008 - \$31,856,977)	75,452,373	82,648,943
	-----	-----
Total investments (Cost: September 30, 2008- \$85,083,245, March 31, 2008 - \$81,027,466)	520,399,045	547,570,502
Cash and cash equivalents	9,400,652	31,327,758
Receivables	623,338	156,322
Other assets	7,820,058	7,630,486
	-----	-----
Totals	\$538,243,093	\$586,685,068
	=====	=====
Liabilities and Shareholders' Equity		
Other liabilities	\$ 2,323,461	\$ 1,187,796
Deferred income taxes	1,841,358	1,797,058
	-----	-----
Total liabilities	4,164,819	2,984,854
	-----	-----
Shareholders' equity		
Common stock, \$1 par value: authorized, 5,000,000 shares; issued, 4,326,516 shares at September 30, 2008 and March 31, 2008	4,326,516	4,326,516
Additional capital	115,907,746	115,687,153
Undistributed net investment income	5,373,019	7,036,929
Undistributed net realized loss on investments	(2,908,159)	(2,860,118)
Unrealized appreciation of investments	435,315,800	466,543,036
Treasury stock - at cost 584,878 shares at September 30, 2008 and 437,365 shares at March 31, 2008	(23,936,648)	(7,033,302)
	-----	-----
Net assets at market or fair value, equivalent to \$142.74 per share at September 30, 2008 on the 3,741,638 shares outstanding and \$150.09 per share at March 31, 2008 on the 3,889,151 shares outstanding	534,078,274	583,700,214
	-----	-----
Totals	\$538,243,093	\$586,685,068
	=====	=====

The accompanying Notes are an integral part of these
Consolidated Financial Statements

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CAPITAL SOUTHWEST CORPORATION
AND SUBSIDIARIES
Consolidated Statements of Operations

(Unaudited)

	Three Months Ended September 30		Six Months Ended September 30	
	2008	2007	2008	2007
Investment income:				
Interest	\$ 327,171	\$ 679,442	\$ 677,023	\$ 1,335,479
Dividends	677,999	801,467	1,335,479	2,671,958
Management and directors' fees	311,108	226,200	542,108	1,084,216
	<u>1,316,278</u>	<u>1,707,109</u>	<u>2,554,610</u>	<u>4,101,653</u>
Operating expenses:				
Salaries	439,480	291,085	777,919	1,555,838
Net pension benefit	(44,779)	(127,434)	(126,617)	(253,851)
Other operating expenses	435,192	288,194	804,437	1,617,081
	<u>829,893</u>	<u>451,845</u>	<u>1,455,739</u>	<u>2,920,070</u>
Income before income taxes	486,385	1,255,264	1,098,871	2,181,583
Income tax expense	57,343	44,400	84,630	169,200
	<u>429,042</u>	<u>1,210,864</u>	<u>1,014,241</u>	<u>2,012,383</u>
Net investment income	\$ 429,042	\$ 1,210,864	\$ 1,014,241	\$ 2,012,383
Proceeds from disposition of investments	\$ --	\$ 402,777	\$ --	\$ 805,554
Cost of investments sold	48,041	--	48,041	96,082
	<u>(48,041)</u>	<u>402,777</u>	<u>(48,041)</u>	<u>809,472</u>
Net realized gain (loss) on investments	(48,041)	402,777	(48,041)	809,472
Net decrease in unrealized appreciation of investments	(30,970,122)	(138,128,989)	(31,227,236)	(139,156,125)
Net realized and unrealized loss on investments	<u>\$ (31,018,163)</u>	<u>\$ (137,726,212)</u>	<u>\$ (31,275,277)</u>	<u>\$ (138,346,653)</u>
Decrease in net assets from operations	<u>\$ (30,589,121)</u>	<u>\$ (136,515,348)</u>	<u>\$ (30,261,036)</u>	<u>\$ (137,159,276)</u>

The accompanying Notes are an integral part of these
Consolidated Financial Statements

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

	Six Months Ended September 30, 2008 ----- (Unaudited)	Year Ended March 31, 2008 -----
Operations		
Net investment income	\$ 1,014,241	\$ 3,715,200
Net realized gain (loss) on investments	(48,041)	240,024
Net decrease in unrealized appreciation of investments	(31,227,236)	(142,969,698)
	-----	-----
Decrease in net assets from operations	(30,261,036)	(139,014,474)
Distributions from:		
Undistributed net investment income	(2,678,152)	(2,333,291)
Capital share transactions:		
Exercise of employee stock options	--	231,390
Change in pension plan funded status	--	(1,178,764)
Stock option expense	220,594	263,664
Treasury stock	(16,903,346)	--
	-----	-----
Decrease in net assets	(49,621,940)	(142,031,475)
Net assets, beginning of period	583,700,214	725,731,689
	-----	-----
Net assets, end of period	\$534,078,274	\$ 583,700,214
	=====	=====

The accompanying Notes are an integral part of these
Consolidated Financial Statements

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CAPITAL SOUTHWEST CORPORATION
AND SUBSIDIARIES
Consolidated Statements of Cash Flows

(Unaudited)

Three Months Ended
September 30

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	2008	2007	2008
Cash flows from operating activities			
Decrease in net assets from operations	\$ (30,589,121)	\$ (136,515,348)	\$ (30,261,000)
Adjustments to reconcile increase in net assets from operations to net cash provided by operating activities:			
Proceeds from disposition of investments	--	402,777	--
Purchases of securities	(3,994,279)	(1,163,347)	(4,103,800)
Maturities of securities	--	150,000	--
Depreciation and amortization	10,638	6,272	19,900
Net pension benefit	(44,780)	(127,434)	(126,600)
Realized (gain) loss on investments before income taxes	48,041	(402,777)	48,000
Net decrease in unrealized appreciation of investments	30,970,122	138,128,989	31,227,200
Stock option expense	132,605	44,100	220,500
(Increase) decrease in receivables	(442,880)	50,016	(467,000)
Increase in other assets	(26,325)	(23,679)	(23,700)
Increase (decrease) in other liabilities	(497,383)	43,779	22,900
Decrease in accrued pension cost	(34,467)	(30,266)	(68,900)
Increase in deferred income taxes	15,800	44,400	44,300
Net cash provided by (used in) operating activities	(4,452,029)	607,482	(3,468,100)
Cash flows from financing activities			
Distributions from undistributed net investment income	--	--	(1,555,600)
Proceeds from exercise of employee stock options	--	--	--
Purchase of treasury stock	(16,178,867)	--	(16,903,300)
Net cash used in financing activities	(16,178,867)	--	(18,459,000)
Net increase (decrease) in cash and cash equivalents	(20,630,896)	607,482	(21,927,100)
Cash and cash equivalents at beginning of period	30,031,548	31,264,000	31,327,700
Cash and cash equivalents at end of period	\$ 9,400,652	\$ 31,871,482	\$ 9,400,600
Supplemental disclosure of cash flow information:			
Cash paid during the period for:			
Interest	\$ --	\$ --	\$ --
Income taxes	\$ --	\$ --	\$ --

The accompanying Notes are an integral part of these Consolidated Financial Statements

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CAPITAL SOUTHWEST CORPORATION
AND SUBSIDIARIES
Consolidated Statement of Investments

September 30, 2008

Company	Investment (a)
+AT&T INC. San Antonio, Texas Global leader in local, long distance, Internet and transaction-based voice and data services.	++20,770 shares common stock (acquired 3-9-99)
+ALAMO GROUP INC. Seguin, Texas Tractor-mounted mowing and mobile excavation equipment for governmental, industrial and agricultural markets; street- sweeping equipment for municipalities.	2,830,300 shares common stock (acquired 4-1-73 thru 5-25-07)
ALL COMPONENTS, INC. Austin, Texas Electronics contract manufacturing; distribution and production of memory and other components for computer manufacturers, retailers and value-added resellers.	8.25% subordinated note due 2012 (acquired 6-27- 150,000 shares Series A Convertible Preferred St convertible into 600,000 shares of common stoc at \$0.25 per share (acquired 9-16-94) Warrants to purchase 350,000 shares of common st at \$11.00 per share, expiring 2017 (acquired 6
+ASCENT MEDIA CORPORATION Santa Monica, California Provider of content production, management and distribution services for television and film industries.	++3,525 shares Series A common stock (acquired 9
ATLANTIC CAPITAL BANCSHARES, INC. Atlanta, Georgia Holding company of Atlantic Capital Bank a full service commercial bank.	300,000 shares common stock (acquired 4-10-07)
BALCO, INC. Wichita, Kansas Specialty architectural products used in the construction and remodeling of commercial and institutional buildings.	445,000 shares common stock and 60,920 shares Class B non-voting common stock (acquired 10-25-83 and 5-30-02)
BOXX TECHNOLOGIES, INC. Austin, Texas Workstations for computer graphic imaging and design.	3,125,354 shares Series B Convertible Preferred convertible into 3,125,354 shares of common st at \$0.50 per share (acquired 8-20-99 thru 8-8-

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CAPITAL SOUTHWEST CORPORATION AND SUBSIDIARIES Consolidated Statement of Investments

September 30, 2008
(continued)

Company	Investment (a)
<p>CMI HOLDING COMPANY, INC. Richardson, Texas Owns Chase Medical, which develops and sells devices used in cardiac surgery to relieve congestive heart failure; develops and supports cardiac imaging systems.</p>	<p>10% convertible subordinated note, due 2009, (acquired 7-2-07 thru 10-9-07) 2,327,658 shares Series A Convertible Preferred convertible into 2,327,658 shares of common stock at \$1.72 per share (acquired 8-21-02 and 6-Warrants to purchase 109,012 shares of common stock at \$1.72 per share, expiring 2012 (acquired 4-Warrant to purchase 431,982 shares of Series A-1 Convertible Preferred Stock at \$1.72 per share expiring 2017 (acquired 7-2-07)</p>
<p>CINATRA CLEAN TECHNOLOGIES, INC, Houston, Texas Cleans above ground oil storage tanks with a patented, automated system.</p>	<p>10% subordinated secured promissory note (acquired 7-14-08) 533,300 shares Series A Convertible Preferred Stock, convertible into 533,300 shares common stock at \$1.00 per share (acquired 7-14-08)</p>
<p>+COMCAST CORPORATION Philadelphia, Pennsylvania Leading provider of cable, entertainment and communications products and services.</p>	<p>++64,656 shares common stock (acquired 11-18-02)</p>
<p>DENNIS TOOL COMPANY Houston, Texas Polycrystalline diamond compacts (PDCs) used in oil field drill bits and in mining and industrial applications.</p>	<p>20,725 shares 5% Convertible Preferred Stock, convertible into 20,725 shares of common stock at \$48.25 per share (acquired 8-10-98) 140,137 shares common stock (acquired 3-7-94 and 8-10-98)</p>
<p>+DISCOVERY COMMUNICATIONS, INC. Silver Spring, MD Provider of creative content, media management and network services worldwide.</p>	<p>++35,250 shares Series A common stock (acquired ++35,250 shares Series A common stock (acquired</p>
<p>+EMBARQ CORPORATION Overland Park, Kansas Local exchange carrier that provides voice and data services, including high-speed Internet.</p>	<p>++4,500 shares common stock (acquired 5-17-06)</p>
<p>+ENCORE WIRE CORPORATION McKinney, Texas Electric wire and cable for residential and commercial use.</p>	<p>4,086,750 shares common stock (acquired 7-16-92 thru 10-7-98)</p>

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CAPITAL SOUTHWEST CORPORATION
AND SUBSIDIARIES
Consolidated Statement of Investments

September 30, 2008
(continued)

Company	Investment (a)
EXTREME INTERNATIONAL, INC. Sugar Land, Texas Owns Bill Young Productions, Texas Video and Post, and Extreme Communi- cations, which produce radio and television commercials and corporate communica- tions videos.	11,797.5 shares Series A common stock (acquired 9-26-08) 39,359.18 shares Series C Convertible Preferred convertible into 157,436.72 shares of common s at \$25.00 per share (acquired 9-30-03) 3,750 shares 8% Series A Convertible Preferred S convertible into 15,000 shares of common stock \$25.00 per share (acquired 9-30-03) Warrants to purchase 1,237.50 shares of common s \$25.00 per share, expiring 2008 (acquired 1-15
+FMC CORPORATION Philadelphia, Pennsylvania Chemicals for agricultural, industrial and consumer markets.	++12,860 shares common stock (acquired 6-6-86 and 9-13-07)
+FMC TECHNOLOGIES, INC. Houston, Texas Equipment and systems for the energy, food processing and air transportation industries.	++22,114 shares common stock (acquired 1-2-02 and 8-31-07)
+HEELYS, INC. Carrollton, Texas Heelys stealth skate shoes, equipment and apparel sold through sporting goods chains, department stores and footwear retailers.	9,317,310 shares common stock (acquired 5-26-00)
+HOLOGIC, INC. Bedford, Massachusetts Medical instruments including bone densitometers, mammography devices and digital radiography systems.	++632,820 shares common stock (acquired 8-27-99)
+JOHNBEAN TECHNOLOGIES CORP Chicago, Illinois Global technology solutions provider to high-value segments of the food processing and air transportation industry.	++4,776 shares common stock (acquired 7-31-08)
+KIMBERLY-CLARK CORPORATION Dallas, Texas Manufacturer of tissue, personal care	++77,180 shares common stock (acquired 12-18-97)

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and health care products.

+LIBERTY GLOBAL, INC. Englewood, Colorado Owns interests in broadband, distribution and content companies.	++42,463 shares Series A common stock (acquired ++42,463 shares Series C common stock (acquired
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CAPITAL SOUTHWEST CORPORATION
 AND SUBSIDIARIES
 Consolidated Statement of Investments

 September 30, 2008
 (continued)

Company	Investment (a)
+LIBERTY MEDIA CORPORATION Englewood, Colorado Holding company owning interests in electronic retailing, media, communica- tions and entertainment businesses.	++35,250 shares of Liberty Capital Series A comm stock (acquired 5-9-06) ++176,252 shares of Liberty Interactive Series A common stock (acquired 5-9-06) ++141,000 shares of Liberty Entertainment Series common stock (acquired 3-3-08)
LIFEMARK GROUP Hayward, California Cemeteries, mausoleums and mortuaries located in northern California.	1,449,026 shares common stock (acquired 7-16-69)
MEDIA RECOVERY, INC. Dallas, Texas Computer datacenter and office automation supplies and accessories; impact, tilt monitoring and temperature sensing devices to detect mishandling shipments; dunnage for protecting shipments.	800,000 shares Series A Convertible Preferred St convertible into 800,000 shares of common stock \$1.00 per share (acquired 11-4-97) 4,000,002 shares common stock (acquired 11-4-97)
PALLETONE, INC. Bartow, Florida Manufacturer of wooden pallets and pressure-treated lumber.	12.3% senior subordinated notes due 2012 (acquired 9-25-06) 150,000 shares common stock (acquired 10-18-01) Warrant to purchase 15,294 shares of common stock \$1.00 per share, expiring 2011 (acquired 2-17-
+PALM HARBOR HOMES, INC. Dallas, Texas Integrated manufacturing, retailing, financing and insuring of manufactured housing and modular homes.	7,855,121 shares common stock (acquired 1-3-85 thru 7-31-95)
+PETSMART, INC. Phoenix, Arizona Retail chain of more than 928 stores selling pet foods, supplies and services.	++300,000 shares common stock (acquired 6-1-95)

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<p>THE RECTORSEAL CORPORATION Houston, Texas Specialty chemicals for plumbing, HVAC, electrical, construction, industrial, oil field and automotive applications; smoke containment systems for building fires; also owns 20% of The Whitmore Manufacturing Company.</p>	<p>27,907 shares common stock (acquired 1-5-73 and 3-31-73)</p>
<p>+SPRINT NEXTEL CORPORATION Reston, Virginia Diversified telecommunications company.</p>	<p>++90,000 shares common stock (acquired 6-20-84)</p>

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CAPITAL SOUTHWEST CORPORATION
AND SUBSIDIARIES
Consolidated Statement of Investments

September 30, 2008

(continued)

Company	Investment (a)
<p>TCI HOLDINGS, INC. Denver, Colorado Cable television systems and microwave relay systems.</p>	<p>21 shares 12% Series C Cumulative Compounding Preferred stock (acquired 1-30-90)</p>
<p>+TEXAS CAPITAL BANCSHARES, INC. Dallas, Texas Regional bank holding company with banking operations in six Texas cities.</p>	<p>++489,656 shares common stock (acquired 5-1-00)</p>
<p>VIA HOLDINGS, INC. Sparks, Nevada Designer, manufacturer and distributor of high-quality office seating.</p>	<p>9,118 shares Series B Preferred Stock (acquired 9-19-05) 1,118 shares Series C Preferred Stock (acquired 11-01-07)</p>
<p>WELLOGIX, INC. Houston, Texas Developer and supporter of software used by the oil and gas industry to control drilling and maintenance expenses.</p>	<p>4,788,371 shares Series A-1 Convertible Participating Preferred Stock, convertible into 4,788,371 shares of common stock at \$1.0441 per share (acquired 8-19-05 thru 6-15-08)</p>
<p>THE WHITMORE MANUFACTURING COMPANY Rockwall, Texas Specialized mining, railroad and industrial lubricants; coatings for automobiles and primary metals; fluid contamination control devices.</p>	<p>80 shares common stock (acquired 8-31-79)</p>

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<p>+WINDSTREAM CORPORATION Little Rock, Arkansas Provider of voice, broadband and entertainment services.</p>	<p>++9,181 shares common stock (acquired 7-17-06)</p>
<p>MISCELLANEOUS</p>	<ul style="list-style-type: none"> - Ballast Point Ventures II, L.P. - 2.6% limited partnership interest (acquired 8-4-08) - BankCap Partners Fund I, L.P. - 6.0% limited partnership interest (acquired 7-14-06 thru 8-14-06) - CapitalSouth Partners Fund III, L.P. - 2.8% limited partnership interest (acquired 1-22-08) - Diamond State Ventures, L.P. - 1.9% limited partnership interest (acquired 10-12-99 thru 8-26-05) - Discovery Alliance, LLC - 90.0% limited liability company (acquired 9-12-08) - First Capital Group of Texas III, L.P. - 3.3% limited partnership interest (acquired 12-26-00 thru 1-26-01) - Humac Company - 1,041,000 shares common stock (acquired 1-31-75 and 12-31-75) - PharmaFab, Inc. - contingent payment agreement (acquired 2-15-07) - STARTech Seed Fund I - 12.1% limited partnership interest (acquired 4-17-98 thru 1-5-00) - STARTech Seed Fund II - 3.2% limited partnership interest (acquired 4-28-00 thru 2-23-05) - Sterling Group Partners I, L.P. - 1.7% limited partnership interest (acquired 4-20-01 thru 1-24-05)

TOTAL INVESTMENTS

<p>+Publicly-owned company</p>	<p>++Unrestricted securities as defined in Note (a)</p>
--------------------------------	---

Notes to Consolidated Statement of Investments

(a) Definitions

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 restriction on resale and are not freely marketable. At September 30, 2008, restricted securities represented approximately 90.6% of the value of the consolidated investment portfolio.

(b) Investment Valuation Policy

Our investments are carried at fair value in accordance with the Investment Company Act of 1940 (the "1940 Act") and SFAS No. 157, Fair Value Measurements ("SFAS No. 157"). In accordance with the 1940 Act, unrestricted minority-owned publicly traded securities, for which the market quotations are readily available, are valued at the closing sale price for the NYSE listed securities and the lower of the closing bid price or the last sale price for NASDAQ securities on the valuation date; and restricted publicly traded securities and other privately held securities are valued as determined in good faith by our Board of Directors.

We adopted SFAS No. 157 on April 1, 2008 (see footnote 1 in "Notes to Consolidated Financial Statements," page 13). SFAS No. 157 provides a framework

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for measuring the fair value of assets and liabilities. SFAS No. 157 also provides guidance regarding a fair value hierarchy, which prioritizes information used to measure fair value and the effect of fair value measurements on earnings and provides for enhanced disclosures determined by the level within the hierarchy of information used for valuation. SFAS No. 157 applies whenever other standards require (or permit) assets or liabilities to be measured at fair value but does not expand the use of fair value in any new circumstances.

SFAS No. 157 defines fair value in terms of the price that would be received upon the sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (the "exit price") and excludes transaction costs. Under SFAS No. 157, the fair value measurement also assumes that the transaction to sell an asset occurs in the principal market for the asset or, in the absence of a principal market, the most advantageous market for the asset. The principal market is the market in which the reporting entity would sell or transfer the asset with the greatest volume and level of activity for the asset. In determining the principal market for an asset or liability under SFAS No. 157, it is assumed that the reporting entity has access to the market as of the measurement date.

(c) Valuation Methodologies

Debt Securities are generally valued on the basis of the price the security would command in order to provide a yield-to-maturity equivalent to the present yield of comparable debt instruments of similar quality.

Partnership Interests and Common Equity including unrestricted marketable securities, which are valued at the closing sale price for the NYSE listed securities and the lower of the closing bid price or the last sale price for NASDAQ securities on the valuation date; and restricted marketable securities for which there is a public market, are valued at the closing sale price for the NYSE listed securities and the lower of the closing bid price or the last sale price for NASDAQ securities on the valuation date adjusted in good faith by our Board of Directors if they deem a discount or premium would be likely or obtainable upon a sale or transfer of our interest, for those without a principal market, the Board of Directors considers 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; protective put analysis based on the Black-Scholes option pricing model, 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

Notes to Consolidated Statement of Investments
(continued)

regard to the restrictive feature and adjusts for any diminution in value resulting from restrictions on resale.

Preferred Equity is valued on the basis of the price (bond value) the security would carry in the absence of the conversion feature plus the value allocable to the conversion feature (conversion value).

Equity Warrants are valued on the basis of accepted formulas derived from empirical studies which define the market value of a warrant in relation to the market price of its common stock. These formulas measure the "option value" of a

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warrant as well as its "exercise value" (the amount, if any, by which the value of the stock exceeds the exercise price of the warrant). In applying such formulas, the market price of the stock is usually discounted to reflect the fact that the stock is restricted and the calculated value of the warrant itself may be discounted (if deemed appropriate) to reflect its restrictive nature. Generally, the option value is excluded if the formula indicates (i) the warrant expires within six months, (ii) the market price of the stock (discounted) is less than one-half of the exercise price of the warrant, or (iii) the market price of the stock (discounted) is more than two times the amount of the exercise price of the warrant.

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Notes to Consolidated Financial Statements

(Unaudited)

1. Basis of Presentation

Principles of Consolidation. The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") for investment companies. Under rules and regulations applicable to investment companies, we are precluded from consolidating any entity other than another investment company. An exception to this general principle occurs if the investment company has an investment in an operating company that provides services to the investment company. Our consolidated financial statements include our management company.

The financial statements included herein have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and the instructions to Form 10-Q and Article 6 of Regulation S-X. The financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in our Form 10-K for the year ended March 31, 2008. Certain information and footnotes normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States have been condensed or omitted, although we believe that the disclosures are adequate for a fair presentation. The information reflects all adjustments (consisting of normal recurring adjustments) which are, in the opinion of management, necessary for a fair presentation of the results of operations for the interim periods.

Fair Value Measurements. The Company adopted SFAS No. 157, Fair Value Measurements ("SFAS 157"), on April 1, 2008. SFAS 157 (1) creates a single definition of fair value, (2) establishes a framework for measuring fair value, and (3) expands disclosure requirements about items measured at fair value. The Statement applies to both items recognized and reported at fair value in the financial statements and items disclosed at fair value in the notes to the financial statements. The Statement does not change existing accounting rules governing what can or what must be recognized and reported at fair value in the Company's financial statements, or disclosed at fair value in the Company's

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notes to the financial statements. Additionally, SFAS 157 does not eliminate practicability exceptions that exist in accounting pronouncements amended by this Statement when measuring fair value. As a result, the Company will not be required to recognize any new assets or liabilities at fair value.

Prior to SFAS 157, certain measurements of fair value were based on the price that would be paid to acquire an asset, or received to assume a liability (an entry price). SFAS 157 clarifies the definition of fair value as the price that would be received from the sale of an asset, or paid to transfer a liability, in an orderly transaction between market participants at the measurement date (that is, an exit price). The exit price is based on the amount that the holder of the asset or liability would receive or need to pay in an actual transaction (or in a hypothetical transaction if an actual transaction does not exist) at the measurement date. In some circumstances, the entry and exit price may be the same; however, they are conceptually different.

Fair value is generally determined based on quoted market prices in the active markets for identical assets or liabilities. If quoted market prices are not available, the Company uses valuation techniques that place greater reliance on observable inputs and less reliance on unobservable inputs. In measuring fair value, the Company may make adjustments for risks and uncertainties, if a market participant would include such an adjustment in its pricing.

2. Investments

We fair value our investments in accordance with GAAP as determined in good faith by our Board of Directors. When available, we base the fair value of our investments on directly observable market prices or on market data derived for

Notes to Consolidated Financial Statements
(continued)

comparable assets. For all other investments, inputs used to measure fair value reflect management's best estimate of assumptions that would be used by market participants in pricing the investments in a hypothetical transaction.

The levels of fair value inputs used to measure our investments are characterized in accordance with the fair value hierarchy established by SFAS No. 157, Fair Value Measurements ("SFAS 157"). Where inputs for an asset or liability fall in more than one level in the fair value hierarchy, the investment is classified in its entirety based on the lowest level input that is significant to that investment's fair value measurement. We use judgment and consider factors specific to the investment in determining the significance of an input to a fair value measurement. The three levels of the fair value hierarchy and investments that fall into each of the levels are described below:

- o Level 1: Level 1 inputs are unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities. We use Level 1 inputs for publicly traded unrestricted securities for which we do not have a controlling interest. Such investments are valued at the closing price for listed securities and at the lower of the closing bid price or the closing sale price for over-the-counter (NASDAQ) securities on the valuation date.

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- o Level 2: Level 2 inputs are inputs other than the quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. We did not value any of our investments using level 2 inputs as of September 30, 2008.
- o Level 3: Level 3 inputs are unobservable and cannot be corroborated by observable market data. We use Level 3 inputs for measuring the fair value of substantially all of our investments. See "Notes to Portfolio of Investments" (c) on page 12 for the investment policy used to determine the fair value of these investments.

The following fair value hierarchy table sets forth our investment portfolio by level as of September 30, 2008 (in millions):

	Level 1	Level 2	Level 3	Total
	-----	-----	-----	-----
Debt	\$ --	\$ --	\$ 10.6	\$ 10.6
Partnership Interests	--	--	9.9	9.9
Preferred Equity	--	--	14.6	14.6
Common Equity	48.8	--	436.5	485.3
Equity Warrants	--	--	--	--
	-----	-----	-----	-----
Total Investments	\$48.8	\$ --	\$471.6	\$520.4
	=====	=====	=====	=====

The following table sets forth a summary of changes in the fair value of investment assets and liabilities measured using Level 3 inputs during the quarter ended September 30, 2008 (in millions):

	Beginning Balance	Unrealized gain (loss)	Purchases, Sales, Issuance & Settlement	Ending Balances
	-----	-----	-----	-----
Debt	\$ 9.0	\$(1.1)	\$ 2.7	\$ 10.6
Partnership Interests	9.2	0.4	0.4	9.9
Preferred Equity	20.5	(6.4)	0.5	14.6
Common Equity	459.8	(23.9)	0.6	436.5
Equity Warrants	0.3	--	(0.3)	--
	-----	-----	-----	-----
Total Investments	\$498.7	\$(31.0)	\$ 3.9	\$471.6
	=====	=====	=====	=====

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Notes to Consolidated Financial Statements (continued)

The following table sets forth a summary of changes in the fair value of investment assets and liabilities measured using Level 3 inputs during the six months ended September 30, 2008 (in millions):

	Beginning Balance	Unrealized gain (loss)	Purchases, Sales, Issuance & Settlement	Ending Balances
	-----	-----	-----	-----
Debt	\$ 9.0	\$ (1.1)	\$ 2.7	\$ 10.6
Partnership Interests	9.1	0.4	0.4	9.9

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Preferred Equity	20.4	(6.3)	0.5	14.6
Common Equity	456.0	(20.2)	0.7	436.5
Equity Warrants	0.4	(0.1)	(0.3)	--
	-----	-----	-----	-----
Total Investments	\$494.8	\$(27.3)	\$ 4.1	\$471.6
	=====	=====	=====	=====

3. Stock-Based Compensation

Effective April 1, 2006, we adopted SFAS 123R using the modified prospective transition method. We recognize compensation cost over the straight-line method for all share-based payments granted on or after that date and for all awards granted to employees prior to April 1, 2006 that remain unvested on that date. The fair value of stock options are determined on the date of grant using the Black-Scholes pricing model and are expensed over the vesting period of the related stock options. Accordingly, for the quarter and six months ended September 30, 2008, we recognized compensation expense of \$132,605 and \$220,594, respectively.

As of September 30, 2008, the total remaining unrecognized compensation cost related to non-vested stock options was \$2,645,978, which will be amortized over the weighted-average service period of approximately 5.2 years.

4. Employee Stock Option Plan

On July 19, 1999, shareholders approved the 1999 Stock Option ("Plan"), which provides for the granting of stock options to employees and officers of the Company and authorizes the issuance of common stock upon exercise of such options for up to 140,000 shares. All options are granted at or above market price, generally expire ten years from the date of grant and are generally exercisable on or after the first anniversary of the date of grant in five to ten annual installments.

At September 30, 2008, there were no shares available for grant under the Plan. The following table summarizes the price per option at grant date using the Black-Scholes pricing model:

Date of Issuance	Black-Scholes Pricing Model Assumptions			
	Weighted Average Fair Value	Expected Dividend Yield	Risk-Free Interest Rate	Expected Volatility
May 15, 2006	\$ 31.28	0.64%	5.08%	21.1%
July 17, 2006	\$ 33.05	0.61%	5.04%	21.2%
July 16, 2007	\$ 41.78	0.39%	4.95%	19.9%
July 21, 2008	\$ 27.35	0.67%	3.41%	20.2%
July 30, 2008	\$ 29.93	0.62%	3.36%	20.2%

Notes to Consolidated Financial Statements (continued)

The following table summarizes activity in the Plan as of September 30, 2008:

Number	Weighted-Average
--------	------------------

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	of shares -----	Exercise Price -----
Balance at March 31, 2008	70,400	\$109.99
Granted	37,500	\$123.72
Exercised	--	--
Canceled	--	--
	-----	-----
Balance at September 30, 2008	107,900	\$114.78
	=====	=====

At September 30, 2008, the range of exercise prices and weighted-average remaining contractual life of outstanding options was \$65.00 to \$152.98 and 5.2 years, respectively. No options were exercised during the six months ended September 30, 2008.

At September 30, 2008, the number of options exercisable was 21,445 and the weighted-average exercise price of those options was \$97.00.

5. Summary of Per Share Information

	Three Months Ended September 30		Six Months Ended September 30	
	2008 ----	2007 ----	2008 ----	2007 ----
Investment income	\$.35	\$.44	\$.68	\$.74
Operating expenses	(.22)	(.12)	(.39)	(.25)
Interest expense	--	--	--	--
Income taxes	(.02)	(.01)	(.02)	(.01)
	-----	-----	-----	-----
Net investment income	.11	.31	.27	.48
Distributions from undistributed net investment income	(.30)	--	(.72)	(.20)
Net realized gain (loss) on investments	(.01)	.10	(.01)	.19
Net decrease in unrealized appreciation of investments	(8.28)	(35.52)	(8.35)	(31.11)
Treasury stock repurchase *	1.33	--	1.40	--
Exercise of employee stock options **	--	--	--	(.09)
Stock option expense	0.4	.01	.06	.02
	-----	-----	-----	-----
Decrease in net asset value	(7.11)	(35.10)	(7.35)	(30.71)
Net asset value:				
Beginning of period	149.85	191.13	150.09	186.75
	-----	-----	-----	-----
End of period	\$142.74	\$156.04	\$142.74	\$156.04
	=====	=====	=====	=====
Shares outstanding at end of period (000s omitted)	3,742	3,889	3,742	3,889

* Net increase is due to purchases of Common Stock at prices less than beginning period net asset value.

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

6. Share Repurchase Plan

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On June 12, 2008, the Company announced that its Board of Directors authorized a share repurchase plan, which allows for the repurchase of up to 10 percent (or 388,915 shares) of its Common Stock at prices not above the lower of the net asset value per share of its Common Stock, or

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Notes to Consolidated Financial Statements (continued)

prices prevailing in the over-the-counter market at the time of such purchases. The Company anticipates that share purchases will be made from time to time, depending upon market conditions. Shares may be purchased on the open market, including block repurchases, or through privately negotiated transactions. The Company does not intend to purchase any shares from its directors, officers or other affiliates. The repurchase program does not obligate the Company to acquire any specific number of shares and may be discontinued at any time. The Company intends to fund the purchases with available cash and/or the sale of marketable securities readily available for sale. The repurchase program is expected to be in effect through December 10, 2008, or until the approved number of shares has been repurchased. During the quarter ended September 30, 2008, the Company purchased a total of 141,028 shares of its Common Stock on the open market for \$16,178,867 at an average price of \$114.72 per share, which brings the total shares of its Common Stock purchased on the open market since announcing its plan to 147,513 shares for \$16,903,346 at an average price of \$114.59 per share.

7. Recent Accounting Pronouncements

In September 2006, the FASB issued Statement of Financial Accounting Standard No. 157, "Fair Value Measurements" (SFAS 157). The standard defines fair value, outlines a framework for measuring fair value, and details the required disclosures about fair value measurements. The standard is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. The Company has adopted this statement on a prospective basis beginning in the quarter ended June 30, 2008. Adoption of this statement did not have a material effect on the Company's consolidated financial statements for the period ended June 30, 2008. However, the impact on its consolidated financial statements for the periods subsequent to the period of adoption cannot be determined at this time as it will be influenced by the estimates of fair value for those periods, the number and amount of investments the Company originates, acquires or exits, and the effect of any additional guidance or any changes in the interpretation of this statement.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities" (SFAS 159). SFAS 159 permits entities to choose to measure many financial instruments and certain other items at fair value and establishes presentation and disclosure requirements designed to facilitate comparisons between entities that choose different measurement attributes for similar types of assets and liabilities. SFAS 159 is effective for us beginning April 1, 2008. We did not elect the fair value option provisions upon adoption of SFAS 159 on April 1, 2008.

In February 2008, the FASB issued FASB Staff Position ("FSP") SFAS 157-2, "Effective Date of FASB Statement No. 157" (FSP 157-2), which defers the effective date of SFAS 157 to fiscal years beginning after November 15, 2008, and interim periods within those fiscal years, for all nonfinancial assets and nonfinancial liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually).

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We are currently evaluating the impact of our adoption of FSP 157-2 effective April 1, 2009 on our consolidated financial statements.

In October 2008, the FASB issued Staff Position 157-3, "Determining the Fair Value of a Financial Asset in a Market That Is Not Active" ("FSP 157-3"), which clarifies the application of SFAS 157 in an inactive market and provides an illustrative example to demonstrate how the fair value of a financial asset is determined when the market for that financial asset is not active. The guidance provided by FSP 157-3 is consistent with Capital Southwest's approach to valuing financial assets for which there are no active markets.

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Item 2. Managements Discussion and Analysis of Financial Condition and Results of Operations

Net asset value at September 30, 2008 was \$534,078,274, equivalent to \$142.74 per share. Assuming reinvestment of all dividends and tax credits on retained long-term capital gains, the September 30, 2008 net asset value reflects a decrease of 7.91% during the past twelve months.

	September 30, 2008	September 30, 2007
	----	----
Net assets	\$534,078,274	\$606,872,698
Shares outstanding	3,741,638	3,889,151
Net assets per share	\$142.74	\$156.04

Results of Operations

The composite measure of our 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 our income from interest, dividends and fees and our combined operating and interest expenses, net of applicable income taxes. The second element is "Net realized gain (loss) on investments", which is the difference between the proceeds received from disposition of portfolio securities and their stated cost. 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 our investment portfolio, compared with stated cost. It should be noted that the "Net realized gain (loss) 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 "unrealized" to "realized." Conversely, when a loss is realized on a depreciated portfolio security, an increase in net unrealized appreciation occurs.

Net Investment Income

Interest income of \$677,023 for the six months ended September 30, 2008 decreased from \$1,244,125 in the year-ago period due to a decrease in excess cash and interest rates. During the six months ended September 30, 2008 and 2007, we recorded dividend income from the following sources:

Six Months Ended

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	September	
	2008	2007
	-----	-----
Alamo Group Inc.	\$ 339,636	\$ 339,096
Dennis Tool Company	25,000	37,499
Encore Wire Corporation	163,470	163,470
Kimberly-Clark Corporation	89,529	81,811
Lifemark Group	0	150,000
PETsMart, Inc.	18,000	18,000
The RectorSeal Corporation	480,000	240,000
TCI Holdings, Inc.	40,635	40,635
The Whitmore Manufacturing Company	120,000	60,000
Other	59,209	34,383
	-----	-----
	\$1,335,479	\$1,164,894
	=====	=====

Net Increase (Decrease) in Unrealized Appreciation of Investments

Set forth in the following table are the significant increases and decreases in unrealized appreciation by portfolio company:

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

	Three Months Ended		Six Months Ended	
	September 30		September 30	
	-----	-----	-----	-----
	2008	2007	2008	2007
	----	----	----	----
Alamo Group Inc.	\$(11,321,200)	\$ --	\$(11,321,200)	\$ 27,110
All Components, Inc.	(7,200,000)	5,600,000	(7,200,000)	5,600,000
Encore Wire Corporation	(10,216,875)	--	4,086,750	6,130,000
Heelys, Inc.	--	(130,442,000)	--	(139,760,000)
Media Recovery, Inc.	(5,500,000)	(9,000,000)	(5,500,000)	(9,000,000)
Palm Harbor Homes, Inc.	--	(7,855,000)	3,927,561	(7,855,000)
The RectorSeal Corporation	2,300,000	--	(12,700,000)	10,850,000

During the six months ended September 30, 2008, the value of our investments in The RectorSeal Corporation decreased by \$12,700,000, All Components, Inc. decreased \$7,200,000 and Media Recovery, Inc decreased \$5,500,000, due to decreases in their respective sales resulting from slowdowns in segments of their businesses. Additionally, our investment in Alamo Group Inc. decreased \$11,321,200 due primarily to the decrease in their stock price at September 30, 2008.

Offsetting the loss at The RectorSeal Corporation, All Components, Inc., Media Recovery, Inc. and Alamo Group Inc. during the six months ended September 30, 2008, was a \$4,086,750 increase in the value of Encore Wire Corporation and

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a \$3,927,561 increase in the value of Palm Harbor Homes, Inc. due to increases in their respective stock prices.

Portfolio Investments

During the quarter ended September 30, 2008, we made investments of \$3,651,300 in three new portfolio companies and an investment of \$294,938 in an existing portfolio company.

We have agreed, subject to certain conditions, to invest up to \$12,578,419 in six portfolio companies.

Financial Liquidity and Capital Resources

At September 30, 2008, we had cash and cash equivalents of approximately \$9.4 million. Pursuant to Small Business Administration (SBA) regulations, cash and cash equivalents of \$4.6 million held by Capital Southwest Venture Corporation (CSV) may not be transferred or advanced to us without the consent of the SBA. Under current SBA regulations and subject to SBA's approval of its credit application, CSV would be entitled to borrow up to \$17.0 million. With the exception of a capital gain distribution made in the form of a distribution of the stock of a portfolio company in the fiscal year ended March 31, 1996, we have elected to retain all gains realized during the past 39 years. Retention of future gains is viewed as an important source of funds to sustain our investment activity. Approximately \$48.8 million of our investment portfolio is represented by unrestricted publicly-traded securities, and represent a source of liquidity.

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

Management believes that our cash and cash equivalents and cash available from other sources described above are adequate to meet our expected requirements. Consistent with our long-term strategy, the disposition of investments from time to time may also be an important source of funds for future investment activities.

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Item 3. Quantitative and Qualitative Disclosure About Market Risk

We are subject to financial market risks, including changes in marketable equity security prices. We do not use derivative financial instruments to mitigate any of these risks.

Our investment performance is a function of our portfolio companies' profitability, which may be affected by economic cycles, competitive forces, foreign currency fluctuations and production costs including labor rates, raw material prices and certain commodity prices. Most of the companies in our investment portfolio do not hedge their exposure to raw material and commodity price fluctuations. However, the portfolio company with the greatest exposure to foreign currency fluctuations generally hedges its exposure. All of these factors may have an adverse effect on the value of our investments on our net asset value.

Our investment in portfolio securities includes fixed-rate debt securities which totaled \$10,643,000 at September 30, 2008, equivalent to 2.0% of the value of our total investments. Generally, these debt securities are below investment

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grade and have relatively high fixed rates of interest; therefore, minor changes in market yields of publicly-traded debt securities have little or no effect on the values of debt securities in our portfolio and no effect on interest income. Our 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 our investment portfolio consists of debt and equity securities of private companies. We anticipate 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 may 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 our investment portfolio also consists of restricted common stock 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 issuers of such restricted securities and the market valuations of comparable publicly-owned companies. A portion of our investment portfolio also consists of unrestricted, freely marketable common stock of publicly-owned companies. These freely marketable investments, which are valued at the public market price, 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 our investment in such security.

Item 4. Controls and Procedures

As of the end of the period covered by this report, an evaluation was performed under the supervision and with the participation of our management, including the President and Chairman of the Board and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15 and 15d-15 of the Securities Exchange Act of 1934). Based on that evaluation, the President and Chairman of the Board and Chief Financial Officer concluded that our disclosure controls and procedures are effective to ensure that the information required to be disclosed is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, and is accumulated and communicated to management, including the President and Chairman of the Board and Chief Financial Officer, as appropriate, to allow timely decisions regarding such required disclosure.

During the fiscal quarter ended September 30, 2008, there were no changes to the internal controls over financial reporting that have materially affected, or are reasonably likely to materially affect our internal controls over financial reporting.

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PART II. OTHER INFORMATION

Item 1. Legal Proceedings

We are currently the subject of certain legal actions. In our judgment, none of the lawsuits currently pending against us, either individually or in the aggregate, is likely to have a material adverse effect on our business, results of operations, or financial position.

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We, Capital Southwest Corporation and Capital Southwest Venture Corporation, have been named in a lawsuit filed on August 27, 2007 in the United States District Court of the Northern District of Texas, Dallas Division, against Heelys, Inc and its Chief Executive Officer, Chief Financial Officer and the directors who signed its registration statement with the Securities and Exchange Commission in connection with its December 7, 2006 initial public offering ("IPO"), and its underwriters for the IPO. The complaint alleges violations of Sections 11 and 15 of the Securities Act of 1933 and the plaintiffs are seeking compensatory damages in an unspecified amount, as well as reasonable costs and expenses incurred in the action, including counsel fees and expert fees.

Similar suits were also filed in 2007 and 2008 in the United States District Court of the Northern District of Texas making substantially similar allegations under Sections 11, 12 and 15 of the Securities Act of 1933, and seeking substantially similar damages.

We believe that the plaintiffs' claims are without merit, we deny the allegations in the complaints, and we intend to vigorously defend the lawsuits.

Item 1A. Risk Factors

Deterioration in economic conditions could impair our portfolio companies, as a result, could reduce valuations and adversely affect our financial condition.

Changes in national and local economic conditions could have a negative impact on our business. Many of the companies in which we have made or will make investments may be susceptible to economic slowdowns or recessions. An economic slowdown may affect the ability of a company to operate profitably, acquire other companies, or engage in a liquidity event such as a sale.

Our business of making private equity investments also may be affected by current and future market conditions. As a result, the pace of our investment activity may slow. In addition, significant changes in the capital markets could have a negative effect on the valuations of our investments. This could adversely affect our net asset value.

There have been no material changes to our risk factors as disclosed in Item 1A, "Risk Factors", in our Annual Report on Form 10-K for the fiscal year ended March 31, 2008.

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

Our Annual Meeting of Stockholders was held on July 21, 2008, with the following results of elections and approval:

	Votes Cast		
	For	Against/ Withheld	Abstentions/ Non-Votes
a. The following Directors were elected to serve until the next Annual Meeting of Stockholders:			
Donald W. Burton	2,831,910	592,506	464,735
Graeme W. Henderson	2,720,798	703,618	464,735
Samuel B. Ligon	2,734,283	690,133	464,735
Gary L. Martin	2,811,850	612,566	464,735
William R. Thomas	2,691,304	733,112	464,735
John H. Wilson	2,722,722	701,694	464,735

Item 4. Submission of Matters to a Vote of Security Holders
(continued)

	Votes Cast		
	For	Against/ Withheld	Abstentions/ Non-Votes
b. Grant Thornton LLP was approved as our independent registered accounting firm for the 2009 fiscal year.	2,797,197	627,219	464,735

Item 6. Exhibits

(a) Exhibits

Exhibit 31.1- Certification of President and Chairman of the Board required by Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), filed herewith.

Exhibit 31.2- Certification of Chief Financial Officer required by Rule 13a-14(a) or Rule 15d-14(a) of the Exchange Act, filed herewith.

Exhibit 32.1- Certification of President and Chairman of the Board required by Rule 13a-14(b) or Rule 15d-14(b) of the Exchange Act and Section 1350 of Chapter 63 of Title 18 of the United States Code, furnished herewith.

Exhibit 32.2- Certification of Chief Financial Officer required by Rule 13a-14(b) or Rule 15d-14(b) of the Exchange Act and Section 1350 of Chapter 63 of Title 18 of the United States Code, furnished herewith.

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Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

CAPITAL SOUTHWEST CORPORATION

Date: November 7, 2008

By: /s/ Gary L. Martin

Gary L. Martin, President
and Chairman of the Board

Date: November 7, 2008

By: /s/ Tracy L. Morris

Tracy L. Morris, Chief Financial Officer