

SEMI-ANNUAL
REPORT
SEPTEMBER 30,

2012

Capital
Southwest
Patient Capital For Exceptional Businesses®

ABOUT THE COMPANY

Capital Southwest is a publicly-owned business development company. Our investment approach allows us to achieve capital appreciation through long-term investments in exceptional businesses. Since our formation in 1961, we have sought to invest in companies with strong management teams and sound financial performance. As a public company we are never between funds—we have no exit deadlines. We have a history of holding our position for decades, enabling companies to achieve their full potential. In addition to capital, we provide our portfolio companies services to ensure success including best practices resources and guidance, active board representation, corporate finance strategy and experienced advice when needed.

TO OUR SHAREHOLDERS

FINANCIAL HIGHLIGHTS

Net asset value at September 30, 2012 was \$602,242,516 equivalent to \$158.65 per share. Assuming reinvestment of all dividends and tax credits on retained long-term capital gains, including the \$17.59 per share capital gains dividend distributed to shareholders in June 2012, this represents a net asset value increase of 14.2% during the first half of the current fiscal year and an increase of 44.3% during the past twelve months.

	September 30, 2012	March 31, 2012	September 30, 2011
Net assets	\$602,242,516	\$628,707,006	\$502,175,307
Shares outstanding	3,796,078	3,754,538	3,754,538
Net assets per share	\$158.65	\$167.45	\$133.75

The six months ended September 30, 2012 decrease in net assets of \$26,464,490 is primarily due to our capital gains distribution of \$66,825,782. Unrealized appreciation of investments increased by \$54,724,826 after net realized gains of \$66,881,033. Approximately 60.7% and 14.2% of value increases came from The RectorSeal Corporation and The Whitmore Manufacturing Company, respectively, reflecting improvements in earnings from operations; and 15.0% came from Alamo Group, Inc. due to an increase in the market value of their stock price. Approximately 84.2% of the value decreases came from Encore Wire Corporation due to the sale of 2,774,250 shares of common stock of Encore Wire, Inc. held by our subsidiary, Capital Southwest Venture Corporation. In addition, the value of Media Recovery, Inc. declined 6.7%, reflecting a decline in earnings from operations.

INVESTMENT AND PORTFOLIO ACTIVITY

During the six months ended September 30, 2012, we invested \$5,950,000 in TitanLiner, Inc., which manufactures, installs and rents spill containment systems, primarily for oilfield applications. During this same period, we provided \$609,000 as add-on investments to the following portfolio companies: \$42,000 in BankCap Partners Fund I, L.P.; \$259,045 in Cinatra Clean Technologies, Inc.; and \$308,000 in iMemories, Inc. In addition, we received 77,194 shares of common stock of North American Energy Partners, Inc. as a distribution from Sterling Group Partners I, LP, which were valued at \$236,986 upon distribution.

Future commitments, subject to certain conditions, are: \$149,530 in BankCap Partners Fund I, LP; \$1,275,000 in Ballast Point Ventures II, LP; \$555,739 in Cinatra Clean Technologies, Inc.; \$3,500,000 in CapStar Holdings Corporation; \$770,000 in CapitalSouth Partners Fund III; \$720,000 in Discovery Alliance, LLC; \$850,000 in KBI Biopharma, Inc.; \$486,900 in Sterling Group Partners I, LP; and \$1,831,000 in TitanLiner, Inc.

DIVESTITURES AND DISTRIBUTIONS

Net realized gains for the six months ended September 30, 2012 totaled \$66,881,033 before tax provisions. We sold 2,774,250 shares of common stock of Encore Wire, Inc. and 50,000 shares of common stock of Hologic, Inc. These sales generated capital gains of \$66,881,033, from which \$17.59 per share was distributed to our shareholders. These gains were offset by a \$7,000 capital loss adjustment related to a final true-up of the Lifemark Group, Inc. divestiture from June 2010.

In addition, we received the following return of capital distributions: \$18,600 from Diamond State Ventures, LP and \$236,986 from Sterling Group Partners I, LP.

On October 15, 2012, our board of directors declared a dividend of \$0.40 per share, payable on November 30, 2012 to shareholders of record on November 15, 2012. Dividends paid by our Company will be qualified dividends, taxable at the current maximum rate of 15%. Our Automatic Dividend Reinvestment and Optional Cash Contribution Plan, which provides a convenient way to increase your ownership of our Company, is available to shareholders of record holding 25 or more shares. For more information, please refer to the stock information section of our website at <http://www.capitalsouthwest.com/investors/stock-information/index.html>.

TAXES

While we do not attempt to maintain a consistent level of realized gains from year to year, it is likely that we will have a taxable long-term capital gain for the tax year ending December 31, 2012. In such an event, we will pay the tax on our capital gains and retain the remainder for reinvestment. By the end of February 2013, each shareholder of record will be advised of his or her share of any such net realized capital gains and the corresponding tax payment made by Capital Southwest. You will receive IRS Form 2439 along with detailed instructions for reporting your pro rata gain and the resulting tax credit for use in your 2012 tax return. Based on the current applicable federal income tax rates of 35% for corporations and 15% for individuals, most individual shareholders will receive a net credit for the 20% difference. Tax exempt entities such as IRAs will be entitled to a refund of the entire tax paid by the Company on their shares. For tax purposes, your cost basis in our stock will be increased by the amount of the after-tax gain retained by the Company.

Additionally, the Company did not retain the proceeds and pay the related taxes on the \$17.59 per share cash distribution to shareholders in June this year. Instead, the entire capital gain proceeds were distributed to shareholders who will then pay the related taxes. For more information, please refer to the tax section of our website at <http://www.capitalsouthwest.com/investor-relations/tax-information.htm>.

PREPARING FOR THE FUTURE

Henry Gohlke, Matthew Golden and Scott Shedd recently joined the Company as Vice Presidents. Henry earned a BSME from the University of Oklahoma and an MBA from Baker College of Advanced Studies. He has more than 30 years of engineering, market research, change management and financial analysis experience. Matt received a BBA from the University of Texas at Austin and an MBA from the Wharton School at the University of Pennsylvania. He has 14 years of investment banking, finance and principal investment experience with Merrill Lynch in New York, Sapient in Austin and Hunt Investment Group in Dallas. Scott holds an MBA from the Kellogg School of Management at Northwestern University and a BA in Computer Science from Indiana University. Scott worked in technology consulting and management roles at Trading Technologies, Widepoint Corporation, IBM and Accenture prior to a five year investment banking stint at Jefferies & Company in New York City and three years at Blackland Group, LLC, an aerospace and defense focused private equity firm. Additionally, Scott served eight years in the United States Army and the Indiana National Guard.



Gary L. Martin
Chairman and President

November 9, 2012

CAPITAL SOUTHWEST CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF ASSETS AND LIABILITIES
(In thousands except per share data)

	September 30	March 31
	2012	2012
Assets	(Unaudited)	
Investments at market or fair value		
Companies more than 25% owned (Cost: September 30, 2012 - \$12,679, March 31, 2012 - \$14,870).....	\$325,603	\$283,575
Companies 5% to 25% owned (Cost: September 30, 2012 - \$15,594, March 31, 2012 - \$14,003).....	136,653	209,222
Companies less than 5% owned (Cost: September 30, 2012 - \$66,643, March 31, 2012 - \$60,120).....	74,013	65,749
Total investments (Cost: September 30, 2012 - \$94,916, March 31, 2012 - \$88,993).....	536,269	558,546
Cash and cash equivalents.....	59,687	64,895
Receivables		
Dividends and interest	2,618	1,741
Affiliates	312	220
Other	21	-
Pension assets	7,443	7,349
Other assets	209	238
Total assets	\$606,559	\$632,989
Liabilities		
Other liabilities	\$592	\$688
Accrued pension cost	1,645	1,568
Deferred income taxes.....	2,079	2,027
Total liabilities	4,316	4,283
Net Assets		
Common stock, \$1 par value: authorized, 5,000,000 shares; issued, 4,380,956 shares at September 30, 2012 and 4,339,416 at March 31, 2012.....	4,381	4,339
Additional capital.....	181,088	177,841
Accumulated net investment income/ (loss)	(1,196)	412
Accumulated net realized gain.....	554	498
Unrealized appreciation of investments	441,353	469,553
Treasury stock - at cost on 584,878 shares.....	(23,937)	(23,937)
Total net assets	602,243	628,706
Total liabilities and net assets.....	\$606,559	\$632,989
Net asset value per share (on the 3,796,078 shares outstanding at September 30, 2012 and 3,754,538 at March 31, 2012)	\$158.65	\$167.45

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

CAPITAL SOUTHWEST CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

(In thousands)

	Three Months Ended September 30		Six Months Ended September 30	
	2012	2011	2012	2011
Investment income:				
Interest	\$591	\$484	\$1,178	\$937
Dividends.....	668	621	1,240	1,193
Management and directors' fees	85	152	377	324
	<u>1,344</u>	<u>1,257</u>	<u>2,795</u>	<u>2,454</u>
Operating expenses:				
Salaries	746	511	1,363	983
Stock option expense	15	259	272	503
Net pension expense/(benefit).....	58	(77)	(17)	(150)
Professional fees.....	269	234	576	539
Other operating expenses	350	278	663	495
	<u>1,438</u>	<u>1,205</u>	<u>2,857</u>	<u>2,370</u>
Income/(loss) before income taxes.....	(94)	52	(62)	84
Income tax expense	27	29	40	47
Net investment income/ (loss)	<u>\$(121)</u>	<u>\$23</u>	<u>\$(102)</u>	<u>\$37</u>
Proceeds from disposition of investments.....	\$ -	\$18,500	\$67,505	\$18,539
Cost of investments sold	7	150	624	6,100
Net realized gain/(loss) on investments	(7)	18,350	66,881	12,439
Net increase (decrease) in unrealized appreciation of investments	<u>50,321</u>	<u>(44,076)</u>	<u>(28,200)</u>	<u>(48,634)</u>
Net realized and unrealized gain (loss) on investments	<u>50,314</u>	<u>(25,726)</u>	<u>38,681</u>	<u>(36,195)</u>
Increase (decrease) in net assets from operations	<u>\$50,193</u>	<u>\$(25,703)</u>	<u>\$38,579</u>	<u>\$(36,158)</u>

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CAPITAL SOUTHWEST CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS
(Unaudited)
(In thousands)

	Six Months Ended September 30, 2012	Six Months Ended September 30, 2011
Operations:		
Net investment income/(loss)	\$(102)	\$37
Net realized gain on investments.....	66,881	12,439
Net decrease in unrealized appreciation of investments.....	(28,200)	(48,634)
Increase (decrease) in net assets from operations	38,579	(36,158)
Distributions from:		
Undistributed net investment income	(1,505)	(1,501)
Net realized gain distribution	(66,826)	-
Capital share transactions:		
Exercise of employee stock options	3,017	98
Stock option expense	272	503
Decrease in net assets	(26,463)	(37,058)
Net assets, beginning of period	628,706	539,233
Net assets, end of period	\$602,243	\$502,175

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CAPITAL SOUTHWEST CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(In thousands)

	Three Months Ended September 30		Six Months Ended September 30	
	2012	2011	2012	2011
Cash flows from operating activities				
Increase (decrease) in net assets from operations	\$50,193	\$(25,703)	\$38,579	\$(36,158)
Adjustments to reconcile increase (decrease) in net assets from operations to net cash provided by (used in) operating activities:				
Net proceeds/(expenses) from disposition of investments	(7)	18,500	67,498	18,539
Return of Capital on Investments	257	-	257	-
Proceeds from repayment of loan securities or investments.....	-	2,000	-	2,111
Purchases of securities	(545)	(1,678)	(6,796)	(11,500)
Depreciation and amortization	8	5	18	10
Net pension benefit/(expense).....	58	(77)	(17)	(150)
Realized (gain)/loss on investments before income tax.....	7	(18,350)	(66,881)	(12,439)
Net (increase) decrease in unrealized appreciation of investments	(50,321)	44,076	28,200	48,634
Stock option expense	15	259	272	503
Increase in dividend and interest receivable.....	(442)	(207)	(877)	(436)
Decrease /(increase) in receivables from affiliates and others	588	(433)	(113)	55
Decrease/ (increase) in other assets ...	(15)	4	10	5
Increase (decrease) in other liabilities.....	80	125	(96)	-
Decrease in commitment payable	(5,950)	-	-	-
Increase in deferred income taxes.....	26	29	52	54
Net cash provided by (used in) operating activities	<u>(6,048)</u>	<u>18,550</u>	<u>60,106</u>	<u>9,228</u>
Cash flows from financing activities				
Distributions from undistributed net investment income	-	-	(1,505)	(1,501)
Proceeds from exercise of employee stock options	-	98	3,017	98
Dividends paid from net realized gain	-	-	(66,826)	-
Net cash used in financing activities.....	<u>-</u>	<u>98</u>	<u>(65,314)</u>	<u>(1,403)</u>
Net increase (decrease) in cash and cash equivalents	(6,048)	18,648	(5,208)	7,825
Cash and cash equivalents at beginning of period	<u>65,735</u>	<u>34,675</u>	<u>64,895</u>	<u>45,498</u>
Cash and cash equivalents at end of period.....	<u>\$59,687</u>	<u>\$53,323</u>	<u>\$59,687</u>	<u>\$53,323</u>

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CAPITAL SOUTHWEST CORPORATION AND SUBSIDIARIES

**CONSOLIDATED SCHEDULE OF INVESTMENTS
(Unaudited)
September 30, 2012**

Company	Equity (a)	Investment (b)	Cost	Value (c)
*† ALAMO GROUP INC. Seguin, Texas Tractor-mounted mowing and mobile excavation equipment for governmental, industrial and agricultural markets; street-sweeping equipment for municipalities.	22.0%	‡2,832,300 shares common stock (acquired 4-1-73 thru 5-09-11)	\$2,190,937	\$95,624,424
ATLANTIC CAPITAL BANCSHARES, INC Atlanta, Georgia Holding company of Atlantic Capital Bank, a full service commercial bank.	1.9%	300,000 shares common stock (acquired 4-10-07)	3,000,000	2,487,000
¥ BALCO, INC. Wichita, Kansas Specialty architectural products used in the construction and remodeling of commercial and institutional buildings.	95.7%	445,000 shares common stock and 60,920 shares Class B non-voting common stock (acquired 10-25-83 and 5-30-02)	624,920	4,200,000
* BOXX TECHNOLOGIES, INC. Austin, Texas Workstations for computer graphic imaging and design.	14.9%	3,125,354 shares Series B Convertible Preferred Stock, convertible into 3,125,354 shares of common stock at \$0.50 per share (acquired 8-20-99 thru 8-8-01)	1,500,000	900,000
CINATRA CLEAN TECHNOLOGIES, INC. Houston, Texas Cleans above ground oil storage tanks with a patented, automated system.	73.4%	12% subordinated secured promissory note, due 5-9-2016 (acquired 5-19-10 thru 10-20-10)	779,278	280,000
		12% subordinated secured promissory note, due 5-9-2017 (acquired 5-9-11 thru 10-26-11)	2,285,700	821,000
		12% subordinated secured promissory note, due 3-31-2017 (acquired 9-9-11 and 10-26-11)	1,523,800	547,000
		10% subordinated secured promissory note, due 5-9-2017 (acquired 7-14-08 thru 4-28-10)	6,200,700	2,227,000
		3,033,410 shares Series A Convertible Preferred Stock, convertible into 3,033,410 shares common stock at \$1.00 per share (acquired 7-14-08 thru 11-18-10)	3,033,410	1
		Warrants to purchase 1,269,833 shares of common stock at \$1.00 per share, expiring 8-31-2021 (acquired 5-9-11 thru 8-31-11)	—	—
			13,822,888	3,875,001
*† TENCORE WIRE CORPORATION McKinney, Texas Electric wire and cable for residential, commercial and industrial construction use.	6.2%	‡1,312,500 shares common stock (acquired 9-10-92 thru 10-15-98)	5,200,000	38,403,750

†Publicly-owned company ¥Control investment *Affiliated investment ‡Unrestricted securities as defined in Note (a)

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

CAPITAL SOUTHWEST CORPORATION AND SUBSIDIARIES

CONSOLIDATED SCHEDULE OF INVESTMENTS

(Unaudited)

September 30, 2012

Company	Equity (a)	Investment (b)	Cost	Value (c)
EXTREME INTERNATIONAL, INC. Sugar Land, Texas Owns Bill Young Productions, Texas Video and Post, and Extreme and television commercials and corporate communications videos.	53.6%	13,035 shares Series A Common Stock (acquired 9-26-08 and 12-18-08)	325,875	740,000
		39,359.18 shares Series C Convertible Preferred Stock, convertible into 157,437.72 shares of common stock at \$25.00 per share (acquired 9-30-03)	2,625,000	8,930,000
		3,750 shares 8% Series A Convertible Preferred Stock, convertible into 15,000 shares of common stock at \$25.00 per share (acquired 9-30-03)	375,000	851,000
			<u>3,325,875</u>	<u>10,521,000</u>
‡HEELYS, INC. Carrollton, Texas Heelys stealth skate shoes, equipment and apparel sold through sporting goods chains, department stores and footwear retailers.	31.1%	‡9,317,310 shares common stock (acquired 5-26-00)	102,490	16,771,158
†HOLOGIC, INC. Bedford, Massachusetts Medical instruments including bone densitometers, mammography devices and digital radiography systems.	< 1%	‡582,820 shares common stock (acquired 8-27-99)	202,529	11,784,620
IMEMORIES, INC. Scottsdale, Arizona Enables online video and photo sharing and DVD creation for home movies recorded in analog and new digital format.	23%	17,391,304 shares Series B Convertible Preferred Stock, convertible into 19,891,304 shares of common stock at \$0.23 per share (acquired 7-10-09)	4,000,000	4,000,000
		4,684,967 shares Series C Convertible Preferred Stock, convertible into 4,684,967 shares of common stock at \$0.23 per share (acquired 7-20-11)	1,078,479	1,078,479
		Warrants to purchase 2,500,000 shares of common stock at \$0.12 per share, expiring 1-21-21 (acquired 9-13-10 thru 1-21-11)	-	-
		10% convertible notes, \$308,000 principal due 7-31-2014 (acquired 9-7-12)	308,000	308,000
			<u>5,386,479</u>	<u>5,386,479</u>
INSTAWARES HOLDING COMPANY, LLC Atlanta, Georgia Provides services to the restaurant industry via its five subsidiary companies.	4.5%	3,846,154 Class D shares (acquired 5-20-11)	5,000,000	5,735,000
KBI BIOPHARMA, INC. Durham, North Carolina Provides fully-integrated, outsourced drug development and bio-manufacturing services.	17.1%	7,142,857 shares Series B-2 Convertible Preferred Stock, convertible into 7,142,857 shares of common stock at \$0.49 per share (acquired 9-08-09)	5,000,000	5,400,000

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CAPITAL SOUTHWEST CORPORATION AND SUBSIDIARIES

**CONSOLIDATED SCHEDULE OF INVESTMENTS
(Unaudited)
September 30, 2012**

Company	Equity (a)	Investment (b)	Cost	Value (c)
		Warrants to purchase 67,789 shares of preferred stock at \$ 0.70 per share, acquired 1-26-2012	-	-
			5,000,000	5,400,000
¥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.	97.9%	800,000 shares Series A Convertible Preferred Stock, convertible into 800,000 shares of common stock at \$1.00 per share (acquired 11-4-97)	800,000	2,000,000
		4,000,002 shares common stock (acquired 11-4-97)	4,615,000	10,100,000
			5,415,000	12,100,000
*PALLETONE, INC. Bartow, Florida Manufacturer of wooden pallets and pressure-treated lumber.	7.7%	12.3% senior subordinated notes, \$2,000,000 principal due 12-18-2015 (acquired 9-25-06)	1,553,150	1,700,000
		150,000 shares common stock (acquired 10-18-01)	150,000	2
			1,703,150	1,700,002
¥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.	100.0%	27,907 shares common stock (acquired 1-5-73 and 3-31-73)	52,600	208,600,000
TCI HOLDINGS, INC. Denver, Colorado Cable television systems and microwave relay systems.	-	21 shares 12% Series C Cumulative Compounding Preferred Stock (acquired 1- 30-90)	-	796,000
TITANLINER, INC. Midland, Texas Manufactures, installs and rents spill containment system for oilfield applications.	29.9%	217,038 shares Series A Convertible Preferred Stock convertible into 217,038 shares of Series A preferred stock at \$12.65 per share (acquired 6-29-2012)	3,203,000	3,203,000
		7% senior subordinated secured promissory note, due 6-30-2017 (acquired 6- 29-2012)	2,747,000	2,747,000
		Warrants to purchase 122,239 shares of Series A preferred stock at \$ 0.01 per share, expiring 1-26-2012	-	-
			5,950,000	5,950,000

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CAPITAL SOUTHWEST CORPORATION AND SUBSIDIARIES

CONSOLIDATED SCHEDULE OF INVESTMENTS

(Unaudited)

September 30, 2012

Company	Equity (a)	Investment (b)	Cost	Value (c)
TRAX HOLDINGS, INC. Scottsdale, Arizona Provides a comprehensive set of solutions to improve the transportation validation, accounting, payment and information management process.	25.4%	18% convertible promissory note, \$3,200,000 principal due 9-17-2012 (acquired 4-6-11 thru 11-10-11)	3,200,000	3,200,000
		1,061,279 shares Series A Convertible Preferred Stock, convertible into 1,061,279 common stock at \$4.64 per share (acquired 12-8-08 and 2-17-09)	5,000,000	9,000,000
			8,200,000	12,200,000
VIA HOLDINGS, INC. Sparks, Nevada Designer, manufacturer and distributor of high-quality office seating.	3.2%	12,686 shares common stock (acquired 3-4-11 and 3-25-11)	4,926,290	2
*WELLOGIX, INC. Houston, Texas Developer and supporter of software used by the oil and gas industry.	19.1%	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)	5,000,000	25,000
¥THE WHITMORE MANUFACTURING COMPANY Rockwall, Texas Specialized surface mining, railroad and industrial lubricants; coatings for automobiles and primary metals; fluid contamination control devices.	80.0%	80 shares common stock (acquired 8-31-79)	1,600,000	77,100,000
MISCELLANEOUS	-	Ballast Point Ventures II, L.P. 2.2% limited partnership interest (acquired 8-4-08 thru 6-18-10)	1,725,000	1,571,000
	-	BankCap Partners Fund I, L.P. 5.5% limited partnership interest (acquired 7-14-06 thru 11-30-11)	5,850,470	5,009,000
	-	CapitalSouth Partners Fund III, L.P. 1.9% limited partnership interest (acquired 1-22-08 and 11-16-11)	1,331,256	1,618,000
	100.0%	¥CapStar Holdings Corporation 500 shares common stock (acquired 6-10-10)	3,703,619	5,693,000

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CAPITAL SOUTHWEST CORPORATION AND SUBSIDIARIES

CONSOLIDATED SCHEDULE OF INVESTMENTS

(Unaudited)

September 30, 2012

Company	Equity (a)	Investment (b)	Cost	Value (c)
Miscellaneous (continued)	–	Diamond State Ventures, L.P. 1.4% limited partnership interest (acquired 10-12-99 thru 8-26-05)	57,400	179,000
	–	¥Discovery Alliance, LLC 90.0% limited liability company (acquired 9-12-08 thru 10-20-11)	1,180,000	971,000
	–	First Capital Group of Texas III, L.P. 3.0% limited partnership interest (acquired 12-26-00 thru 8-12-05)	778,895	771,000
	100%	¥Humac Company 1,041,000 shares common stock (acquired 1-31-75 and 12-31-75)	–	168,000
	–	†North American Energy Partners, Inc. 77,194 shares common stock (acquired 8-20-12)	236,986	222,319
	–	STARTech Seed Fund I 12.1% limited partnership interest (acquired 4-17-98 thru 1-5-00)	178,066	34,000
	–	STARTech Seed Fund II 3.2% limited partnership interest (acquired 4-28-00 thru 2-23-05)	843,891	400,000
	–	Sterling Group Partners I, L.P. 1.7% limited partnership interest (acquired 4-20-01 thru 1-24-05)	827,056	73,000
TOTAL INVESTMENTS			\$94,915,797	\$536,268,755

†Publicly-owned company ¥Control investment * Affiliated investment ‡Unrestricted securities as defined in Note (a)

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

Notes to Consolidated Schedule of Investments

(a) Equity

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 stock, plus stock reserved for all warrants, convertible securities and employee stock options.

(b) Investments

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 September 30, 2012 and March 31, 2012, restricted securities represented approximately 69.6% and 56.9% of the value of the consolidated investment portfolio, respectively.

Our investments are carried at fair value in accordance with the Investment Company Act of 1940 (the “1940 Act”) and FASB Accounting Standards Codification™ (ASC) Topic 820, Fair Value Measurements and Disclosures. 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; other privately held securities are valued as determined in good faith by our Board of Directors.

ASC Topic 820 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 ASC Topic 820, 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 ASC Topic 820, it is assumed that the reporting entity has access to the market as of the measurement date.

(c) Value

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. Issuers whose debt securities are judged to be of poor quality and doubtful collectability may instead be valued by assigning percentage discounts commensurate with the quality of such debt securities. Debt securities may also be valued based on the resulting value from the sale of the business at the estimated fair market value.

Partnership Interests, Preferred Equity and Common Equity, including unrestricted marketable securities, 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. For those without a principal market, our 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; and the proportion of the issuer’s securities owned by the Company.

Investments in certain entities that calculate net asset value per share (or its equivalent) and for which fair market value is not readily determinable are valued using the net asset value per share (or its equivalent, such as member units or ownership interest in partners' capital to which a proportionate share of net assets is attributed) of the investment.

Equity Warrants are valued on the basis of the Black-Scholes model which defines the market value of a warrant in relation to the market price of its common stock, share price volatility, and time to maturity.

(d) **Agreements between Certain Issuers and the Company**

Agreements between certain issuers and the Company provide that the issuer will bear substantially all costs in connection with the Company disposing of such common stock, including those costs involved in registration under the Securities Act of 1933, but excluding underwriting discounts and commissions. These agreements cover common stock owned at September 30, 2012 and common stock which may be acquired thereafter through the exercise of warrants and conversion of debentures and preferred stock. They 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 and The Whitmore Manufacturing Company.

(e) **Descriptions and Ownership Percentages**

The descriptions of the companies and ownership percentages shown in the Consolidated Schedule of Investments were obtained from published reports and other sources believed to be reliable. Acquisition dates indicated are the dates specific securities were acquired, which may differ from the original investment dates. Certain securities were received in exchange for or upon conversion or exercise of other securities previously acquired.

CAPITAL SOUTHWEST CORPORATION AND SUBSIDIARIES

SELECTED PER SHARE DATA

	Three Months Ended		Six Months Ended		Years Ended March 31				
	September 30 (Unaudited)		September 30 (Unaudited)		2012	2011	2010	2009	
Per Share Data	2012	2011	2012	2011	2012	2011	2010	2009	
Investment income.....	\$.35	\$.34	\$.74	\$.65	\$ 2.49	\$ 2.01	\$ 1.63	\$ 3.74	
Operating expenses.....	(.37)	(.32)	(.75)	(.63)	(1.78)	(1.50)	(1.04)	(.98)	
Income taxes.....	(.01)	(.01)	(.01)	(.01)	(.03)	(.03)	(.03)	(.04)	
Net investment income.....	(.03)	.01	(.02)	.01	.68	.48	.56	2.72	
Distributions from undistributed net investment income.....	—	—	(18.00)	(.40)	(.80)	(.80)	(.80)	(3.28)	
Net realized gain net of tax.....	—	4.88	17.62	3.31	2.81	10.36	.22	2.87	
Net increase (decrease) in unrealized appreciation of investments.....	13.26	(11.74)	(7.43)	(12.95)	20.93	3.46	18.88	(42.56)	
Exercise of employee stock options**.....	—	(.03)	(.74)	(.03)	(.02)	(.20)	—	—	
Stock option expense.....	—	.07	.08	.13	.28	.26	.18	.13	
Net change in pension plan funded status.....	—	—	—	—	(.11)	(.02)	.12	(.39)	
Treasury stock***.....	—	—	—	—	—	—	—	1.40	
Other***.....	(.31)	—	(.31)	—	—	—	—	—	
Increase (decrease) in net asset value.....	12.92	(6.81)	(8.80)	(9.93)	23.77	13.54	19.16	(39.11)	
Net asset value									
Beginning of period.....	145.73	140.56	167.45	143.68	143.68	130.14	110.98	150.09	
End of period.....	<u>\$158.65</u>	<u>\$133.75</u>	<u>\$158.65</u>	<u>\$133.75</u>	<u>\$167.45</u>	<u>\$143.68</u>	<u>\$130.14</u>	<u>\$110.98</u>	
Shares outstanding at end of period (000s omitted).....	3,796	3,755	3,796	3,755	3,755	3,753	3,741	3,741	

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

** Net increase is due to purchases of common stock at prices less than beginning period net asset value

*** Reflects impact of the difference share amounts as a result of issuance or forfeiture of restricted stock during the period.

Dividend Reinvestment Plan Q&A

What are the benefits of joining the Plan?

As a participant in the Automatic Dividend Reinvestment and Optional Cash Contribution Plan (the "Plan"), your dividends are reinvested automatically. Also, you may make cash contributions of \$100 to \$10,000 in any month to purchase additional shares of Capital Southwest Corporation stock for your Plan account. Stock purchases are made on a pooled basis so transaction costs should be less than those associated with individual purchases of small numbers of shares.

Who is eligible to join?

Registered shareholders with 25 or more shares are eligible to join. If your shares are held in the name of a broker or other nominee, you must instruct your broker or nominee to register the shares directly in your name in order to participate in the Plan.

Is there any cost to participate in the Plan?

You pay only your share of transaction costs, which are included in the price of purchased shares. Capital Southwest pays the costs of Plan administration.

How does the automatic dividend reinvestment feature work?

The Plan, available to all shareholders of record with 25 or more shares, provides a convenient way to acquire additional shares. After you join, cash dividends paid on shares you own, including shares in your Plan account, or on a lesser number of shares you specify, will automatically be reinvested by American Stock Transfer & Trust Company ("AST") as your agent.

May I deposit Shares for safekeeping?

Although not required, you may deposit share certificates registered in your name for addition to your Plan account. The agent will automatically reinvest dividends on all shares in your Plan account.

How does the optional cash contribution feature work?

To make voluntary cash purchases, you first must join the Plan and participate in the automatic dividend reinvestment feature. Contributions for voluntary cash purchases of \$100 to \$10,000 in any month can then be made by sending a check to AST, together with the remittance form that accompanies each Plan account statement. Contributions can also be made by completing an automatic cash withdrawal authorization form, enabling you to make regular monthly purchases with funds transferred from your bank account.

What statements will I receive?

Each time shares are purchased you will receive a statement showing the total shares in your Plan account, the amount of the latest reinvested dividend or optional cash contribution, the number of shares purchased and the price per share.

How is information reported for income tax purposes?

Reinvested dividends are subject to income tax to the same extent as if received in cash. You will receive a Form 1099 with information regarding the federal income tax status of all dividends paid during the year.

How would I terminate my participation in the Plan?

You may terminate your participation at any time by giving notice to AST. Upon termination, you will receive a certificate for the number of shares then held in your Plan account, plus a check for any fractional share interest.

How do I join the Plan?

Call Capital Southwest at (972) 233-8242 for a Plan brochure and authorization form. Then, sign and return the authorization form to American Stock Transfer & Trust Company, Dividend Reinvestment Dept., P. O. Box 922 Wall Street Station, New York, NY 10269-0560. Your name or names should be signed as they appear on your stock certificates. You may register all of your shares in the Plan or such lesser number of shares (a minimum of 25) that you indicate.

Officers

Gary L. Martin, Chairman of the Board and President, joined Capital Southwest in 1972 and served as chief financial officer, subsequently serving as vice president and secretary-treasurer. From 1979 to 2007, he served as president and chief executive officer of The Whitmore Manufacturing Company, a portfolio company of Capital Southwest. His previous experience includes a financial management position in the commercial development industry. He earned a BBA degree from the University of Oklahoma and is a retired CPA.

Tracy L. Morris, Chief Operating Officer, Chief Financial Officer, Chief Compliance Officer, Corporate Secretary and Treasurer, joined Capital Southwest in 2007. Previously, she served as controller at Best Merchant Partners, LP, and Silverleaf Resorts, Inc. She also served in a staff position with Spector, Way & Company, a public accounting firm. She earned a BS in business administration from Millersville University of Pennsylvania and is a Certified Public Accountant.

Glenn M. Neblett, Chief Investment Officer, joined Capital Southwest in 2010 and leads the firm's investment activities. Previously, he served as director in the corporate finance and financial sponsors groups at Houlihan Lokey, where he advised clients in mergers and acquisitions, private placements and restructurings. He earned undergraduate and graduate degrees from Baylor University and is a Chartered Financial Analyst and a Certified Public Accountant.

William M. Ashbaugh, Senior Vice President, joined Capital Southwest in 2001 and leads the firm's investment activities in the energy services and products sector. Previously, he served as managing director in the corporate finance departments of Hoak Breedlove Wesneski & Co., Principal Financial Securities, Inc., and Southwest Securities, and as first vice president, Corporate Finance, with Rauscher Pierce Refsnes (now RBC Dain Rauscher). Mr. Ashbaugh's experience includes direction of public offerings, private placements and merger and acquisition transactions. He earned an MBA summa cum laude from The University of Texas at Austin and a BS summa cum laude from Texas A&M University.

Henry J. Gohlke, Vice President, joined Capital Southwest in 2012 and leads the firm's investment activities in the specialty chemicals and products sector. He has more than 30 years of engineering, market research, change management and financial analysis experience. He is a subject matter expert in fire protection of standard and seismic expansion joints and through-penetrations. He previously served as Principal at Sebesta Blomberg and Vice President of Corporate Development at The RectorSeal Corporation. Mr. Gohlke earned his MBA in Finance from Baker College of Advanced Studies and a BSME from the University of Oklahoma. He is completing a PhD from Walden University.

Matthew B. Golden, Vice President, joined Capital Southwest in 2012 and leads the firm's investment activities in the industrial technologies sector. Previously, he was Vice President at Hunt Investment Group, a Dallas-based private equity firm affiliated with Ray L. Hunt. He has also served in finance and operations capacities at Human Code, Inc. and as an investment banker for Merrill Lynch in New York. Mr. Golden received his MBA from the Wharton School at the University of Pennsylvania and a BBA in Accounting from the University of Texas at Austin.

Ray D. Schwertner, Vice President, joined Capital Southwest in 2009. Previously, he served as president and chief executive officer of The Whitmore Manufacturing Company, a portfolio company of Capital Southwest, from 2007 to 2009 and as secretary-treasurer from 1990 to 2007. His earlier experience includes a financial management position in the manufacturing industry and public accounting. He earned a BBA from Angelo State University and is a Certified Public Accountant.

C. Scott Shedd, Vice President, joined Capital Southwest in 2012. Previously, he worked in technology consulting group at Trading Technologies, Widepoint Corporation, IBM and Accenture. He also served in investment banking group at Jefferies & Company in New York City and three years at Blackland Group, LLC, an aerospace and defense focused private equity firm. Mr. Shedd holds an MBA from the Kellogg School of Management at Northwestern University and a BA in Computer Science from Indiana University.

CORPORATE INFORMATION

BOARD OF DIRECTORS

Gary L. Martin Dallas, Texas
Chairman of the Board
and President of the Corporation

Samuel B. Ligon Dallas, Texas
Investments

T. Duane Morgan Bellaire, Texas
Vice President, Gardner Denver, Inc.
President, Engineered Products Group

Richard F. Strup Sanibel, Florida
Investments

John H. Wilson Dallas, Texas
President, U.S. Equity Corporation

OFFICERS

Gary L. Martin Chairman of the Board
and President of the Corporation

Tracy L. Morris Chief Operating Officer,
Chief Financial Officer,
Chief Compliance Officer,
Secretary and Treasurer

Glenn M. Neblett Chief Investment Officer,
Senior Vice President

William M. Ashbaugh Senior Vice President

Henry J. Gohlke Vice President

Matthew B. Golden Vice President

Ray D. Schwertner Vice President

C. Scott Shedd Vice President

TRANSFER AGENT

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TICKER SYMBOL

CSWC

INDEPENDENT PUBLIC ACCOUNTANTS

Grant Thornton LLP
Dallas, Texas

LEGAL COUNSEL

Locke Lord LLP
Dallas, Texas

ANNUAL MEETING

July 15, 2013, 10:00 a.m.
North Dallas Bank Building
12900 Preston Road, Suite 210
Dallas, Texas 75230

CONTACT INFORMATION

Capital Southwest Corporation
12900 Preston Road, Suite 700
Dallas, Texas 75230
T (972) 233-8242
F (972) 233-7362
www.capitalsouthwest.com

12900 Preston Road, Suite 700
Dallas, Texas 75230
972-233-8242

www.capitalsouthwest.com

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