

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

(Mark One)

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

For the quarterly period ended December 31, 2004

OR

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

For the transition period from to

Commission File Number: 814-61

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

Texas 75-1072796
(State or other jurisdiction of incorporation (I.R.S. Employer or organization) Identification No.)

12900 Preston Road, Suite 700, Dallas, Texas 75230

(Address of principal executive offices) (Zip Code)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes X No

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Yes X No

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

3,857,051 shares of Common Stock, \$1 Par Value as of January 31, 2005

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PART I. FINANCIAL INFORMATION

Item 1. Consolidated Financial Statements

CAPITAL SOUTHWEST CORPORATION AND SUBSIDIARIES
Consolidated Statements of Financial Condition

| Assets | December 31, 2004 ----- (Unaudited) | March 31, 2004 ----- |
|--|---|-------------------------|
| Investments at market or fair value | | |
| Companies more than 25% owned | | |
| (Cost: December 31, 2004 - \$23,114,865 | | |
| March 31, 2004 - \$23,114,865) | \$250,628,981 | \$237,095,981 |
| Companies 5% to 25% owned | | |
| (Cost: December 31, 2004 - \$19,050,000 | | |
| March 31, 2004 - \$30,431,224) | 50,064,852 | 70,189,005 |
| Companies less than 5% owned | | |
| (Cost: December 31, 2004 - \$42,873,704 | | |
| March 31, 2004 - \$43,736,560) | 110,210,468 | 99,663,833 |
| | ----- | ----- |
| Total investments | | |
| (Cost: December 31, 2004- \$85,038,569 | | |
| March 31, 2004 - \$97,282,649) | 410,904,301 | 406,948,819 |
| Cash and cash equivalents | 2,239,413 | 10,150,796 |
| Receivables | 145,463 | 76,477 |
| Other assets | 7,037,041 | 6,802,767 |
| | ----- | ----- |
| Totals | \$420,326,218 | \$423,978,859 |
| | ===== | ===== |
| Liabilities and Shareholders' Equity | | |
| Note payable to bank | \$ 8,000,000 | \$ 15,500,000 |
| Note payable to portfolio company | 5,000,000 | 5,000,000 |
| Accrued interest and other liabilities | 1,650,778 | 1,815,996 |
| Income taxes payable | -- | 2,726,850 |
| Deferred income taxes | 112,429,943 | 108,312,663 |
| | ----- | ----- |
| Total liabilities | 127,080,721 | 133,355,509 |
| | ----- | ----- |
| Shareholders' equity | | |
| Common stock, \$1 par value: authorized, | | |
| 5,000,000 shares; issued, 4,294,416 shares | | |
| at December 31, 2004 and March 31, 2004 | 4,294,416 | 4,294,416 |
| Additional capital | 7,904,997 | 7,904,997 |
| Undistributed net investment income | 3,562,133 | 3,578,088 |
| Undistributed net realized gain on investments | 71,934,520 | 79,381,980 |
| Unrealized appreciation of investments - | | |
| net of deferred income taxes | 212,582,733 | 202,497,171 |
| Treasury stock - at cost (437,365 shares) | (7,033,302) | (7,033,302) |
| | ----- | ----- |
| Net assets at market or fair value, equivalent | | |
| to \$76.03 per share at December 31, 2004, | | |
| and \$75.35 per share at March 31, 2004 | | |
| on the 3,857,051 shares outstanding | 293,245,497 | 290,623,350 |
| | ----- | ----- |
| Totals | \$420,326,218 | \$423,978,859 |
| | ===== | ===== |

(See Notes to Consolidated Financial Statements)

CAPITAL SOUTHWEST CORPORATION
AND SUBSIDIARIES
Consolidated Statements of Operations

(Unaudited)

| | Three Months Ended December 31 | | Nine Months Ended December 31 | |
|---|-----------------------------------|--------------|----------------------------------|--------------|
| | 2004 | 2003 | 2004 | 2003 |
| Investment income: | | | | |
| Interest | \$ 148,276 | \$ 45,822 | \$ 336,218 | \$ 126,491 |
| Dividends | 1,597,466 | 1,755,515 | 3,026,880 | 3,151,480 |
| Management and directors' fees | 155,250 | 154,750 | 479,250 | 476,114 |
| | 1,900,992 | 1,956,087 | 3,842,348 | 3,754,085 |
| Operating expenses: | | | | |
| Salaries | 298,917 | 240,854 | 783,510 | 665,704 |
| Net pension benefit | (63,717) | (68,226) | (191,155) | (204,686) |
| Other operating expenses | 176,949 | 169,527 | 582,391 | 536,381 |
| | 412,149 | 342,155 | 1,174,746 | 997,399 |
| Income before interest expense and income taxes | 1,488,843 | 1,613,932 | 2,667,602 | 2,756,686 |
| Interest expense | 100,857 | 131,182 | 302,726 | 406,736 |
| Income before income taxes | 1,387,986 | 1,482,750 | 2,364,876 | 2,349,950 |
| Income tax expense | 22,200 | 23,900 | 66,600 | 71,700 |
| Net investment income | \$ 1,365,786 | \$ 1,458,850 | \$ 2,298,276 | \$ 2,278,250 |
| Proceeds from disposition of investments | \$ 664,307 | \$ 51,245 | \$ 1,428,701 | \$ 3,705,584 |
| Cost of investments sold | 6,580,338 | 193,182 | 13,666,331 | 873,615 |
| Realized gain (loss) on investments before income taxes | (5,916,031) | (141,937) | (12,237,630) | 2,831,969 |
| Income tax expense (benefit) | (2,494,319) | (49,678) | (4,790,170) | 991,189 |
| Net realized gain (loss) on investments | (3,421,712) | (92,259) | (7,447,460) | 1,840,780 |
| Increase in unrealized appreciation of investments before income taxes | 23,672,237 | 19,944,577 | 16,199,562 | 52,875,847 |
| Increase in deferred income taxes on appreciation of investments | 8,647,000 | 6,980,000 | 6,114,000 | 17,942,000 |
| Net increase in unrealized appreciation of investments | 15,025,237 | 12,964,577 | 10,085,562 | 34,933,847 |
| Net realized and unrealized gain on investments | \$11,603,525 | \$12,872,318 | \$ 2,638,102 | \$36,774,627 |
| Increase in net assets from operations | \$12,969,311 | \$14,331,168 | \$ 4,936,378 | \$39,052,877 |

(See Notes to Consolidated Financial Statements)

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

| | Nine Months Ended December 31, 2004 ----- (Unaudited) | Year Ended March 31, 2004 ----- |
|---|--|---------------------------------------|
| Operations | | |
| Net investment income | \$ 2,298,276 | \$ 2,587,060 |
| Net realized gain (loss) on investments | (7,447,460) | 8,191,872 |
| Net increase in unrealized appreciation of investments | 10,085,562 | 74,688,574 |
| | ----- | ----- |
| Increase in net assets from operations | 4,936,378 | 85,467,506 |
| Distributions from: | | |
| Undistributed net investment income | (2,314,231) | (2,308,631) |
| Capital share transactions | | |
| Exercise of employee stock options | -- | 997,500 |
| | ----- | ----- |
| Increase in net assets | 2,622,147 | 84,156,375 |
| Net assets, beginning of period | 290,623,350 | 206,466,975 |
| | ----- | ----- |
| Net assets, end of period | \$293,245,497 ===== | \$290,623,350 ===== |

(See Notes to Consolidated Financial Statements)

CAPITAL SOUTHWEST CORPORATION
AND SUBSIDIARIES
Consolidated Statements of Cash Flows

(Unaudited)

| | Three Months Ended December 31 | | Nine Months Ended December 31 | |
|---|-----------------------------------|---------------|----------------------------------|---------------|
| | 2004 | 2003 | 2004 | 2003 |
| Cash flows from operating activities | | | | |
| Increase in net assets from operations | \$ 12,969,311 | \$ 14,331,168 | \$ 4,936,378 | \$ 39,052,877 |
| Adjustments to reconcile increase in net assets from operations to net cash provided by (used in) operating activities: | | | | |
| Proceeds from disposition of investments | 664,307 | 51,245 | 1,374,121 | 3,705,584 |
| Purchases of securities | (814,537) | (2,204,263) | (1,761,940) | (9,131,903) |
| Maturities of securities | 166,269 | 900,000 | 394,269 | 1,800,000 |
| Depreciation and amortization | 4,183 | 4,776 | 12,074 | 14,313 |
| Net pension benefit | (63,717) | (68,226) | (191,155) | (204,686) |
| Net realized and unrealized gain on investments | (11,603,525) | (12,872,318) | (2,638,102) | (36,774,627) |
| (Increase) decrease in receivables | (56,542) | 232,740 | (68,986) | 209,352 |
| (Increase) decrease in other assets | 1,496 | 19,993 | (3,050) | 12,761 |
| Increase (decrease) in accrued interest and other liabilities | 15,622 | 63,145 | (91,900) | 108,813 |
| Decrease in accrued pension cost | (41,821) | (41,821) | (125,461) | (125,461) |
| Deferred income taxes | 22,200 | 23,900 | 66,600 | 71,700 |
| | ----- | ----- | ----- | ----- |
| Net cash provided by (used in) operating activities | 1,263,246 | 440,339 | 1,902,848 | (1,261,277) |
| | ----- | ----- | ----- | ----- |
| Cash flows from financing activities | | | | |
| Decrease in note payable to bank | -- | -- | (7,500,000) | -- |
| Distributions from undistributed net investment income | (1,542,821) | (1,542,821) | (2,314,231) | (2,308,631) |
| Proceeds from exercise of employee stock options | -- | -- | -- | 997,500 |
| | ----- | ----- | ----- | ----- |
| Net cash used in financing activities | (1,542,821) | (1,542,821) | (9,814,231) | (1,311,131) |
| | ----- | ----- | ----- | ----- |
| Net decrease in cash and cash equivalents | (279,575) | (1,102,482) | (7,911,383) | (2,572,408) |
| Cash and cash equivalents at beginning of period | 2,518,988 | 3,180,462 | 10,150,796 | 4,650,388 |
| | ----- | ----- | ----- | ----- |
| Cash and cash equivalents at end of period | \$ 2,239,413 | \$ 2,077,980 | \$ 2,239,413 | \$ 2,077,980 |
| | ===== | ===== | ===== | ===== |
| Supplemental disclosure of cash flow information: | | | | |
| Cash paid during the period for: | | | | |
| Interest | \$100,764 | \$131,182 | \$302,964 | \$406,639 |
| Income taxes | \$ -- | \$ -- | \$ -- | \$ -- |

Note:

On September 29, 2004, CSC received 2,936 shares of Tekelec valued at \$54,580 (\$18.59 per share) related to the sale of VocalData, Inc.

(See Notes to Consolidated Financial Statements)

CAPITAL SOUTHWEST CORPORATION
AND SUBSIDIARIES
Notes to Consolidated Financial Statements

(Unaudited)

1. Basis of Presentation

The accompanying consolidated financial statements, which include our accounts and the accounts of our wholly-owned small business investment company subsidiary and our wholly-owned management company, have been prepared on the value method of accounting in accordance with accounting principles generally accepted in the United States for investment companies. All significant intercompany accounts and transactions have been eliminated in consolidation. Certain reclassifications have been made to the 2003 balances to conform with the 2004 financial statement presentation.

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 annual report on Form 10-K for the year ended March 31, 2004. 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.

2. Indemnification

We enter into agreements that contain customary indemnification provisions. The maximum exposure under these indemnification agreements is unknown, but we have had no previous claims or losses and expect the risk of losses to be remote.

3. Stock-Based Compensation

Effective April 1, 2003, we adopted the fair value method of recording compensation expense related to all stock options granted after March 31, 2003, in accordance with FASB Statement Nos. 123 and 148. Accordingly, the fair value of stock options as determined on the date of grant using the Black-Scholes pricing model will be expensed over the vesting period of the related stock options. On July 19, 2004, 7,500 stock options were granted to a new investment associate who terminated December 31, 2004 with no options vested.

The following table illustrates the effect on net asset value and net asset value per share if we had applied the fair value recognition provisions of FASB Statement No. 123 to stock-based compensation.

| | December 31 2004 | December 31 2003 |
|---|---------------------|---------------------|
| | ----- | ----- |
| Net asset value, as reported | \$293,245,497 | \$244,208,721 |
| Deduct: Total fair value computed stock-based compensation | 120,573 | 134,580 |
| Pro forma net asset value | \$293,124,924 | \$244,074,141 |
| | ===== | ===== |
| Net asset value per share: | | |
| Basic - as reported | \$ 76.03 | \$63.31 |
| | ===== | ===== |
| Basic - pro forma | \$ 76.00 | \$63.28 |
| | ===== | ===== |
| Diluted - as reported | \$ 76.00 | \$63.31 |
| | ===== | ===== |
| Diluted - pro forma | \$ 75.96 | \$63.28 |
| | ===== | ===== |

Notes to Consolidated Financial Statements
(continued)

The diluted net asset value per share calculation assumes all vested outstanding options for which the market price exceeds the exercise price have been exercised.

4. Summary of Per Share Information

| | Three Months Ended December 31 | | Nine Months Ended December 31 | |
|--|-----------------------------------|---------|----------------------------------|---------|
| | 2004 | 2003 | 2004 | 2003 |
| Investment income | \$.49 | \$.51 | \$.99 | \$.97 |
| Operating expenses | (.10) | (.09) | (.30) | (.26) |
| Interest expense | (.03) | (.03) | (.08) | (.10) |
| Income taxes | (.01) | (.01) | (.02) | (.02) |
| Net investment income | .35 | .38 | .59 | .59 |
| Distributions from undistributed net investment income | (.40) | (.40) | (.60) | (.60) |
| Net realized gain (loss) on investments | (.89) | (.02) | (1.93) | .48 |
| Net increase in unrealized appreciation of investments after deferred taxes | 3.90 | 3.35 | 2.62 | 9.06 |
| Exercise of employee stock options (1) | -- | -- | -- | (.14) |
| Increase in net asset value | 2.96 | 3.31 | .68 | 9.39 |
| Net asset value: | | | | |
| Beginning of period | 73.07 | 60.00 | 75.35 | 53.92 |
| End of period | \$76.03 | \$63.31 | \$76.03 | \$63.31 |
| Increase in deferred taxes on unrealized appreciation | \$ 2.24 | \$ 1.81 | \$ 1.58 | \$ 4.53 |
| Deferred taxes on unrealized appreciation: | | | | |
| Beginning of period | 27.13 | 20.42 | 27.79 | 17.70 |
| End of period | \$29.37 | \$22.23 | \$29.37 | \$22.23 |
| Shares outstanding at end of period (000s omitted) | 3,857 | 3,857 | 3,857 | 3,857 |

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

5. New Accounting Pronouncements

On December 15, 2004, the FASB issued a revised SFAS No. 123(R), "Share-Based Payment." It requires us to measure all employee stock-based compensation awards using a fair value method and record such expense in our consolidated financial statements. In addition, it requires additional accounting and disclosure related to the cash flow effects resulting from share-based payment arrangements. It is effective beginning as of the first interim period beginning after June 15, 2005. We are in the process of determining the effect on our consolidated financial statements.

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

Net asset value at December 31, 2004 was \$293,245,497, equivalent to \$76.03 per share after deducting an allowance of \$29.37 per share for deferred taxes on net unrealized appreciation of investments. Assuming reinvestment of dividends, the December 31, 2004 net asset value reflects an increase of 4.6% during the preceding three months and an increase of 21.0% during the past twelve months.

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

| | December 31, 2004 | December 31, 2003 |
|----------------------|----------------------|----------------------|
| | ----- | ----- |
| Net assets | \$293,245,497 | \$244,208,721 |
| Shares outstanding | 3,857,051 | 3,857,051 |
| Net assets per share | \$76.03 | \$63.31 |

Results of Operations

The composite measure of our financial performance in the Consolidated Statements of Operations is captioned "Increase 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, net of applicable income tax expense or benefit. The third element is the "Net increase in unrealized appreciation of investments", which is the net change in the market or fair value of our investment portfolio, compared with stated cost, net of an increase in deferred income taxes which would become payable if the unrealized appreciation were realized through the sale or other disposition of the investment portfolio. It should be noted that the "Net realized gain (loss) on investments" and "Net increase in unrealized appreciation of investments" are directly related in that when an appreciated portfolio security is sold to realize a gain, a corresponding decrease in net unrealized appreciation occurs by transferring the gain associated with the transaction from being "unrealized" to being "realized". Conversely, when a loss is realized on a depreciated portfolio security, an increase in net unrealized appreciation occurs.

Net Investment Income

Interest income of \$336,218 in the nine months ended December 31, 2004 increased from \$126,491 in the year-ago period primarily because of an increase in loans to portfolio companies. During the nine months ended December 31, 2004 and 2003, we recorded dividend income from the following sources:

| | Nine Months Ended December 31 | |
|------------------------------------|----------------------------------|---------------|
| | ----- 2004 | ----- 2003 |
| Alamo Group Inc. | \$ 507,834 | \$ 507,834 |
| Balco, Inc. | 252,960 | 252,960 |
| Dennis Tool Company | 25,000 | 37,499 |
| Kimberly-Clark Corporation | 92,616 | 78,723 |
| PalletOne, Inc. | 35,937 | -- |
| The RectorSeal Corporation | 720,000 | 1,167,729 |
| Skylawn Corporation | 450,000 | 800,000 |
| TCI Holdings, Inc | 60,953 | 60,953 |
| Sprint Corporation | 33,750 | 27,000 |
| The Whitmore Manufacturing Company | 786,273 | 180,000 |
| Other | 61,557 | 38,782 |
| | ----- | ----- |
| | \$3,026,880 | \$3,151,480 |
| | ===== | ===== |

Operating expenses totaled \$1,174,746 in the nine months ended December 31, 2004 versus \$997,399 in the nine months ended December 31, 2003. The increase was due mainly to the addition of an investment associate in July 2004, employee raises and an increase in audit and legal fees for ordinary business operations.

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

Interest expense of \$302,726 in the nine months ended December 31, 2004 decreased from \$406,736 in the corresponding period ended December 31, 2003 primarily due to a decrease in notes payable.

Net Realized Gain or Loss on Investments

During the nine months ended December 31, 2004, we reported a realized loss before income taxes of \$12,237,630 which included a loss of \$9,097,124 on our investment in Concert Industries Ltd., a loss of \$3,000,000 on our investment in Texas Petrochemical Holdings, Inc. and a loss of \$1,346,891 on our sale of VocalData, Inc. to Tekelec.

Net Increase in Unrealized Appreciation of Investments

Set forth in the following table are the significant increases and decreases in unrealized appreciation (before the related change in deferred taxes and excluding the effect of gains or losses realized during the periods) by portfolio company:

| | Three Months Ended December 31 | | Nine Months Ended December 31 | |
|------------------------------------|-----------------------------------|--------------|----------------------------------|--------------|
| | 2004 | 2003 | 2004 | 2003 |
| Alamo Group Inc. | \$14,106,000 | \$ 1,410,000 | \$ 19,749,000 | \$ 4,232,000 |
| CMI Holding Company, Inc. | -- | -- | (3,000,000) | -- |
| Cenveo, Inc. (formerly Mail-Well) | (838,635) | 2,327,213 | (2,872,325) | 5,409,197 |
| Encore Wire Corporation | -- | 10,898,000 | (19,071,000) | 19,071,000 |
| Extreme International Inc. | -- | -- | 375,000 | 4,613,661 |
| Media Recovery, Inc. | 3,000,000 | -- | 3,000,000 | 3,000,000 |
| Palm Harbor Homes, Inc. | (7,855,000) | -- | (15,710,000) | -- |
| PETSMART, Inc. | 2,154,000 | 312,000 | 2,541,000 | 3,360,000 |
| The RectorSeal Corporation | -- | -- | 4,000,000 | -- |
| Texas Capital Bancshares, Inc. | 2,427,589 | 1,380,000 | 3,772,418 | 3,965,994 |
| The Whitmore Manufacturing Company | 1,600,000 | -- | 4,000,000 | -- |

As reflected in the above table, at December 31, 2004, the value of our investment in Alamo Group Inc. was increased from our March 31, 2004 value by \$19,749,000 due to the escalation in sales and earnings during 2004 which reflected the favorable performance of Alamo's European operations and an improved U.S. climate for industrial mowers and agricultural equipment.

During the nine months ended December 31, 2004, the value of our investment in Encore Wire Corporation was reduced by \$19,071,000 due to the cyclical variations in Encore's profitability and the effect of copper price fluctuations on Encore's earnings. In the same period a year ago, we increased our value of Encore by \$19,071,000 reflecting increases in the company's sales and earnings which stemmed partly from higher copper prices.

During the nine months ended December 31, 2004, the value of our investment in Palm Harbor Homes, Inc. was reduced by \$15,710,000 due to the unfavorable pattern of the company's earnings and the continuing negative outlook for the manufactured housing industry.

During the nine months ended December 31, 2004, our unrealized appreciation of investments before income taxes increased by \$16,199,562, which included value decreases of \$43,179,510 and value increases of \$46,341,608, plus the \$13,037,464 effect of net realized losses during the period.

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

Portfolio Investments

During the quarter ended December 31, 2004, we made additional investments of \$814,537 in existing portfolio companies.

We have agreed, subject to certain conditions, to invest up to \$1,516,348 in six portfolio companies.

Financial Liquidity and Capital Resources

At December 31, 2004, we had cash and cash equivalents of approximately \$2.2 million. Pursuant to Small Business Administration ("SBA") regulations, cash and cash equivalents of \$221,526 held by Capital Southwest Venture Corporation ("CSVC") 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, CSVC would be entitled to borrow up to \$64.5 million. We also have an unsecured \$25.0 million revolving line of credit from a commercial bank, of which \$17.0 million was available at December 31, 2004. 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 36 years. Retention of future gains is viewed as an important source of funds to sustain our investment activity. Approximately \$56.6 million of our investment portfolio is represented by unrestricted publicly-traded securities, which have an ascertainable market value 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 Skylawn Corporation, The RectorSeal Corporation and The Whitmore Manufacturing Company, wholly-owned portfolio companies, to the extent of their available cash reserves and borrowing capacities. At December 31, 2004, we owed \$5,000,000 to Skylawn Corporation.

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.

Item 3. Quantitative and Qualitative Disclosures 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. The return on our investments is not materially affected by foreign currency fluctuations.

Our investment performance is a function of our portfolio companies' profitability, which may be affected by economic cycles, competitive forces and production costs including labor rates, raw material prices and certain basic commodity prices. All of these factors may have an adverse effect on the value of our investments and on our net asset value. None of the companies in our investment portfolio hedge their exposure to raw material and commodity price fluctuations.

Our investment in portfolio securities consists of fixed rate debt securities which totaled \$5,214,570 at December 31, 2004, equivalent to 1.3% of the value of our total investments. Since these debt securities usually have relatively high fixed rates of interest, minor changes in market yields of publicly-traded debt securities have little or no effect on the values of debt securities in 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.

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

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 stocks 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 value of our investment in such security.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

As of December 31, 2004, an evaluation was performed under the supervision and with the participation of our management, including the President and Chairman of the Board and Secretary-Treasurer, of the effectiveness of the design and operation of our disclosure controls and procedures. Based on that evaluation, our management, including the President and Chairman of the Board and Secretary-Treasurer concluded that our disclosure controls and procedures were effective as of December 31, 2004. There have been no significant changes during the quarter covered by this report in our internal control over financial reporting or in other factors that could significantly affect internal control over financial reporting.

PART II. OTHER INFORMATION

Item 6. Exhibits and Reports on Form 8-K

(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 Secretary-Treasurer 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 Secretary-Treasurer 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.

(b) Reports on Form 8-K

No reports on Form 8-K have been filed during the quarter for which this report is filed.

SIGNATURES

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

CAPITAL SOUTHWEST CORPORATION

Date: February 4, 2005

By: /s/ William R. Thomas

William R. Thomas, President and Chairman
of the Board (chief executive officer)

Date: February 4, 2005

By: /s/ Susan K. Hodgson

Susan K. Hodgson, Secretary-Treasurer
(chief financial/accounting officer)

CERTIFICATIONS

I, William R. Thomas, President and Chairman of the Board of Capital Southwest Corporation, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Capital Southwest Corporation (the "registrant");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the consolidated financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 4, 2005

By: /s/ William R. Thomas

William R. Thomas, President and
Chairman of the Board

CERTIFICATIONS

I, Susan K. Hodgson, Secretary-Treasurer of Capital Southwest Corporation, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Capital Southwest Corporation (the "registrant");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the consolidated financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 4, 2005

By: /s/ Susan K. Hodgson

Susan K. Hodgson, Secretary-Treasurer

Certification of President and Chairman of the Board

Pursuant to Section 1350 of Chapter 63 of Title 18 of the United States Code

I, William R. Thomas, President and Chairman of the Board of Capital Southwest Corporation, certify that, to my knowledge:

1. the Form 10-Q, filed with the Securities and Exchange Commission on February 4, 2005 ("accompanied report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. the information contained in the accompanied report fairly presents, in all material respects, the consolidated financial condition and results of operations of Capital Southwest Corporation.

Date: February 4, 2005

By: /s/ William R. Thomas

William R. Thomas, President and
Chairman of the Board

Certification of Secretary-Treasurer

Pursuant to Section 1350 of Chapter 63 of Title 18 of the United States Code

I, Susan K. Hodgson, Secretary-Treasurer of Capital Southwest Corporation, certify that, to my knowledge:

1. the Form 10-Q, filed with the Securities and Exchange Commission on February 4, 2005 ("accompanied report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. the information contained in the accompanied report fairly presents, in all material respects, the consolidated financial condition and results of operations of Capital Southwest Corporation.

Date: February 4, 2005

By: /s/ Susan K. Hodgson

Susan K. Hodgson, Secretary-Treasurer