

CAPITAL SOUTHWEST CORP  
Form 10-Q  
August 06, 2012

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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 June 30, 2012

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  
(State or other jurisdiction of incorporation or organization)

75-1072796  
(I.R.S. Employer Identification No.)

12900 Preston Road, Suite 700, Dallas, Texas 75230  
(Address of principal executive offices) (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 has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such filings). 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," "large accelerated filer" and "smaller reporting company" in Rule 12b-2 of the

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Exchange Act. (Check One):

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company

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.

3,798,078 shares of Common Stock, \$1 par value, as of July 31, 2012

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## PART I – FINANCIAL INFORMATION

## Item 1. Consolidated Financial Statements

## CAPITAL SOUTHWEST CORPORATION AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF ASSETS AND LIABILITIES

(In thousands except per share data)

	June 30 2012	March 31 2012
Assets		
Investments at market or fair value		
Companies more than 25% owned (Cost: June 30, 2012 - \$12,678, March 31, 2012 - \$14,870)	\$286,825	\$283,575
Companies 5% to 25% owned (Cost: June 30, 2012 - \$15,594, March 31, 2012 - \$14,003)	126,743	209,222
Companies less than 5% owned (Cost: June 30, 2012 - \$66,354, March 31, 2012 - \$60,120)	72,090	65,749
Total investments (Cost: June 30, 2012 - \$94,626, March 31, 2012 - \$88,993)	485,658	558,546
Cash and cash equivalents	65,735	64,895
Receivables		
Dividends and interest	2,176	1,741
Affiliates	–	220
Other	921	–
Pension assets	7,445	7,349
Other assets	203	238
Total assets	\$562,138	\$632,989
Liabilities		
Other liabilities	\$512	\$688
Investment commitment payable	5,950	–
Accrued pension cost	1,589	1,568
Deferred income taxes	2,053	2,027
Total liabilities	10,104	4,283
Net Assets		
Common stock, \$1 par value: authorized, 5,000,000 shares; issued, 4,382,956 shares at June 30, 2012 and 4,339,416 March 31, 2012	4,383	4,339
Additional capital	181,070	177,841
Accumulated net investment income/ (loss)	(1,075 )	412
Accumulated net realized gain	561	498
Unrealized appreciation of investments	391,032	469,553
Treasury stock - at cost on 584,878 shares	(23,937 )	(23,937 )
Total net assets	552,034	628,706
Total liabilities and net assets	\$562,138	\$632,989
Net asset value per share (on the 3,798,078 shares outstanding at June 30, 2012 and 3,754,538 March 31, 2012)	\$145.73	\$167.45

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)

(In thousands)

	Three Months Ended June 30	
	2012	2011
Investment income:		
Interest	\$587	\$453
Dividends	572	572
Management fees and other income	292	171
	1,451	1,196
Operating expenses:		
Salaries	617	472
Stock option expense	257	245
Net pension benefit	(75 )	(73 )
Professional fees	307	305
Other operating expenses	313	216
	1,419	1,165
Income before income taxes	32	31
Income tax expense	14	17
Net investment income	\$18	\$14
Proceeds from disposition of investments	67,505	39
Cost of investments sold	617	5,950
Net realized gain (loss) on investments	66,888	(5,911 )
Net decrease in unrealized appreciation of investments	(78,521 )	(4,558 )
Net realized and unrealized loss on investments	\$(11,633 )	\$(10,469 )
Decrease in net assets from operations	\$(11,615 )	\$(10,455 )

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  
(Unaudited)  
(In thousands)

	Three Months Ended June 30	
	2012	2011
Operations:		
Net investment income	\$18	\$14
Net realized gain (loss) on investments	66,888	(5,911 )
Net decrease in unrealized appreciation of investments	(78,521 )	(4,558 )
Decrease in net assets from operations	(11,615 )	(10,455 )
Distributions from:		
Undistributed net investment income	(1,505 )	(1,501 )
Undistributed net realized gain	(66,826 )	-
Capital share transactions:		
Exercise of employee stock options	3,017	-
Stock option expense	257	245
Decrease in net assets	(76,672 )	(11,711 )
Net assets, beginning of period	628,706	539,233
Net assets, end of period	\$552,034	\$527,522

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)  
(In thousands)

	Three Months Ended June 30	
	2012	2011
Cash flows from operating activities		
Decrease in net assets from operations	\$(11,615 )	\$(10,455 )
Adjustments to reconcile decrease in net assets from operations to net cash provided by (used in) operating activities:		
Net proceeds from disposition of investments	67,505	39
Proceeds from repayment of loans	-	111
Purchases of securities	(6,251 )	(9,822 )
Depreciation and amortization	11	5
Net pension benefit	(75 )	(73 )
Realized (gain) loss on investments before income tax	(66,888 )	5,911
Net decrease in unrealized appreciation of investments	78,521	4,558
Stock option expense	257	245
Increase in dividend and interest receivable	(435 )	(229 )
(Increase) /Decrease in receivables from affiliates and other receivables	(701 )	340
Increase in other assets	25	1
(Decrease)/Increase in other liabilities	(176 )	22
Increase in commitment payable	5,950	-
Increase in deferred income taxes	26	25
Net cash provided by (used in) operating activities	66,154	(9,322 )
Cash flows from financing activities		
Distributions from undistributed net investment income	(1,505 )	(1,501 )
Proceeds from exercise of employee stock options	3,017	-
Dividends paid from net realized gain	(66,826 )	-
Purchase of treasury stock	-	-
Net cash used in financing activities	(65,314 )	(1,501 )
Net increase (decrease) in cash and cash equivalents	840	(10,823 )
Cash and cash equivalents at beginning of period	64,895	45,498
Cash and cash equivalents at end of period	\$65,735	\$34,675
Supplemental disclosure of cash flow information:		
Income taxes	\$-	\$-

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## CAPITAL SOUTHWEST CORPORATION AND SUBSIDIARIES

## CONSOLIDATED SCHEDULE OF INVESTMENTS

(Unaudited)

June 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	\$ 88,802,196
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	2,299,000
¥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	4,100,000
*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	780,000
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	494,000
			12% subordinated secured promissory note, due 5-9-2017 (acquired 5-9-11 thru 10-26-11)	2,285,700	1,448,000
			12% subordinated secured promissory note, due 8-31-2016 (acquired 9-9-11 and 10-26-11)	1,523,800	965,000
			10% subordinated secured promissory note, due 5-9-2017 (acquired 7-14-08 thru 4-28-10)	6,200,700	3,928,000
				3,033,410	1

			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)		
			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	6,835,001
*†ENCORE 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	35,135,625

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

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## CAPITAL SOUTHWEST CORPORATION AND SUBSIDIARIES

## CONSOLIDATED SCHEDULE OF INVESTMENTS

(Unaudited)

June 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	734,000
			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	8,869,000
			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	845,000
				3,325,875	10,448,000
†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	17,796,062
†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	10,514,073
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	–	–

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stock at \$0.12 per share,  
 expiring 1-21-21 (acquired  
 9-13-10 thru 1-21-11)

				5,078,479	5,078,479
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	5,574,000

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## CAPITAL SOUTHWEST CORPORATION AND SUBSIDIARIES

## CONSOLIDATED SCHEDULE OF INVESTMENTS

(Unaudited)

June 30, 2012

Company	Equity (a)		Investment (b)	Cost	Value (c)
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	4,700,000
			Warrants to purchase 67,789 shares of preferred stock at \$ 0.70 per share, expiring 1-26-2012	-	-
				5,000,000	4,700,000
¥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	2,600,000
			4,000,002 shares common stock (acquired 11-4-97)	4,615,000	12,800,000
				5,415,000	15,400,000
*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	2,000,000
			150,000 shares common stock (acquired 10-18-01)	150,000	2
				1,703,150	2,000,002
¥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	173,800,000
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)	-	792,000

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## CAPITAL SOUTHWEST CORPORATION AND SUBSIDIARIES

## CONSOLIDATED SCHEDULE OF INVESTMENTS

(Unaudited)

June 30, 2012

Company	Equity (a)		Investment (b)	Cost	Value (c)
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
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	6,800,000
				8,200,000	10,000,000
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

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†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	68,200,000
MISCELLANEOUS	–		Ballast Point Ventures II, L.P. 2.2% limited partnership interest (acquired 8-4-08 thru 6-18-10)	1,725,000	1,534,000

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## CAPITAL SOUTHWEST CORPORATION AND SUBSIDIARIES

## CONSOLIDATED SCHEDULE OF INVESTMENTS

(Unaudited)

June 30, 2012

Company	Equity (a)	Investment (b)	Cost	Value (c)
Miscellaneous (continued)	–	BankCap Partners Fund I, L.P. 5.5% limited partnership interest (acquired 7-14-06 thru 11-30-11)	5,850,470	5,012,000
	–	CapitalSouth Partners Fund III, L.P. 1.9% limited partnership interest (acquired 1-22-08 and 11-16-11)	1,331,256	1,548,000
	100.0 %	¥CapStar Holdings Corporation 500 shares common stock (acquired 6-10-10)	3,703,619	5,632,000
	–	Diamond State Ventures, L.P. 1.4% limited partnership interest (acquired 10-12-99 thru 8-26-05)	76,000	201,000
	–	¥Discovery Alliance, LLC 90.0% limited liability company (acquired 9-12-08 thru 10-20-11)	1,180,000	1,735,000
	–	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)	–	162,000
	–	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	384,000
	–	Sterling Group Partners I, L.P. 1.7% limited partnership interest (acquired 4-20-01 thru 1-24-05)	1,064,042	416,000
<b>TOTAL INVESTMENTS</b>			<b>\$94,626,397</b>	<b>\$485,658,440</b>

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(a)

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## CONSOLIDATED SCHEDULE OF INVESTMENTS

March 31, 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	\$ 85,138,938
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	2,299,000
¥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	4,100,000
*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	600,000
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	444,189
			12% subordinated secured promissory note, due 5-9-2017 (acquired 5-9-11 thru 10-26-11)	2,285,700	1,302,849
			12% subordinated secured promissory note, due 8-31-2016 (acquired 9-9-11 and 10-26-11)	1,264,754	720,910
			10% subordinated secured promissory note, due 5-9-2017 (acquired 7-14-08 thru 4-28-10)	6,200,700	3,534,399

			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)	–	–
				13,563,842	6,002,348
*†ENCORE WIRE CORPORATION McKinney, Texas Electric wire and cable for residential, commercial and industrial construction use.	16.9	%	‡4,086,750 shares common stock (acquired 7-16-92 thru 10-7-98)	5,800,000	121,458,210

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## CAPITAL SOUTHWEST CORPORATION AND SUBSIDIARIES

## CONSOLIDATED SCHEDULE OF INVESTMENTS

March 31, 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	714,000
			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	8,626,000
			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	822,000
				3,325,875	10,162,000
†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	20,498,082
†HOLOGIC, INC. Bedford, Massachusetts Medical instruments including bone densitometers, mammography devices and digital radiography systems.	< 1	%	‡632,820 shares common stock (acquired 8-27-99)	220,000	13,637,271
iMEMORIES, INC. Scottsdale, Arizona Enables online video and photo sharing and DVD creation for home movies recorded in analog and new digital format.	25.3	%	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,	–	–

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			expiring 1-21-21 (acquired 9-13-10 thru 1-21-11)	5,078,479	5,078,479
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	5,000,000
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 10,204,082 shares of common stock at \$0.49 per share (acquired 9-08-09)	5,000,000	3,200,000

†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

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## CAPITAL SOUTHWEST CORPORATION AND SUBSIDIARIES

## CONSOLIDATED SCHEDULE OF INVESTMENTS

March 31, 2012

Company	Equity (a)		Investment (b)	Cost	Value (c)
¥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	3,100,000
			4,000,002 shares common stock (acquired 11-4-97)	4,615,000	15,600,000
				5,415,000	18,700,000
*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	2,000,000
			150,000 shares common stock (acquired 10-18-01)	150,000	2
				1,703,150	2,000,002
¥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	166,300,000
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)	—	802,000
TRAX HOLDINGS, INC. Scottsdale, Arizona Provides a comprehensive set of solutions to improve the transportation validation, accounting, payment and information management process.	29.4	%	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	6,600,000

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				8,200,000	9,800,000
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

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

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## CAPITAL SOUTHWEST CORPORATION AND SUBSIDIARIES

## CONSOLIDATED SCHEDULE OF INVESTMENTS

March 31, 2012

Company	Equity (a)	Investment (b)	Cost	Value (c)
¥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	67,200,000
MISCELLANEOUS	–	Ballast Point Ventures II, L.P. 2.2% limited partnership interest (acquired 8-4-08 thru 6-18-10)	1,725,000	1,551,000
	–	BankCap Partners Fund I, L.P. 5.5% limited partnership interest (acquired 7-14-06 thru 11-30-11)	5,808,470	5,012,000
	–	CapitalSouth Partners Fund III, L.P. 1.9% limited partnership interest (acquired 1-22-08 and 11-16-11)	1,331,256	1,438,000
	100.0 %	¥CapStar Holdings Corporation 500 shares common stock (acquired 6-10-10)	3,703,619	5,338,000
	–	Diamond State Ventures, L.P. 1.4% limited partnership interest (acquired 10-12-99 thru 8-26-05)	76,000	184,000
	–	¥Discovery Alliance, LLC 90.0% limited liability company (acquired 9-12-08 thru 10-20-11)	1,180,000	1,280,000
	–	First Capital Group of Texas III, L.P. 3.0% limited partnership interest (acquired 12-26-00 thru 8-12-05)	778,895	662,000
	100 %	¥Humac Company 1,041,000 shares common stock (acquired 1-31-75 and 12-31-75)	–	159,000
	–	STARTech Seed Fund I	178,066	39,000

12.1% limited partnership interest  
(acquired 4-17-98 thru 1-5-00)

-	STARTech Seed Fund II	843,891	371,000
	3.2% limited partnership interest (acquired 4-28-00 thru 2-23-05)		

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

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## CAPITAL SOUTHWEST CORPORATION AND SUBSIDIARIES

## CONSOLIDATED SCHEDULE OF INVESTMENTS

March 31, 2012

Company	Equity (a)	Investment (b)	Cost	Value (c)
Miscellaneous (continued)	–	Sterling Group Partners I, L.P. 1.7% limited partnership interest (acquired 4-20-01 thru 1-24-05)	1,064,042	511,000
<b>TOTAL INVESTMENTS</b>			<b>\$88,992,822</b>	<b>\$558,546,332</b>

†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

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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 June 30, 2012 and March 31, 2012, restricted securities represented approximately 68.7% 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; and 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.



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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 June 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.

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Notes to Consolidated Financial Statements

1. ORGANIZATION AND BASIS OF PRESENTATION

Organization

Capital Southwest Corporation ("CSC") was organized as a Texas corporation on April 19, 1961. Until September 1969, CSC operated as a licensee under the Small Business Investment Act of 1958. At that time, we transferred to our wholly-owned subsidiary, Capital Southwest Venture Corporation ("CSVC"), certain assets and our license as a small business investment company ("SBIC"). CSVC is a closed-end, non-diversified investment company registered under the Investment Company Act of 1940 (the "1940 Act"). Prior to March 30, 1988, CSC was registered as a closed-end, non-diversified investment company under the 1940 Act. On that date, CSC elected to become a Business Development Company ("BDC") subject to the provisions of the 1940 Act, as amended by the Small Business Incentive Act of 1980. Because CSC wholly owns CSVC, the portfolios of both CSC and CSVC are referred to collectively as "our," "we" and "us." Capital Southwest Management Company ("CSMC"), a wholly-owned subsidiary of CSC, is the management company for CSC and CSVC. CSMC generally incurs all normal operating and administrative expenses, including, but not limited to, salaries and related benefits, rent, equipment and other administrative costs required for its day-to-day operations.

Our portfolio is a composite of companies, consisting of companies in which we have controlling interests, developing companies and marketable securities of established publicly traded companies. We make available significant managerial assistance to the companies in which we invest and believe that providing managerial assistance to such investee companies is critical to their business development activities. CSMC receives a monthly fixed fee for management services provided to certain of its control portfolio companies.

Basis of Presentation

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). 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. Accordingly, consolidated financial statements include CSMC, our management company.

The financial statements included herein have been prepared in accordance with GAAP 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 in Form 10-K for the year ended March 31, 2012 (the "Form 10-K"), as filed with the Securities and Exchange Commission (SEC). Certain information and footnotes normally included in financial statements prepared in accordance with GAAP have been condensed or omitted, although we believe that the disclosures provided in this Form 10-Q 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 period.

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Portfolio Investment Classification

We classify our investments in accordance with the requirements of the 1940 Act. Under the 1940 Act, “Control Investments” are defined as investments in which we own more than 25% of the voting securities or have rights to maintain greater than 50% of the board representation; “Affiliated Investments” are defined as investments in which we own between 5% and 25% of the voting securities; and “Non-Control/Non-Affiliated Investments” are defined as investments that are neither “Control Investments” nor “Affiliated Investments.”

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following is a summary of significant accounting policies followed in the preparation of the consolidated financial statements of CSC, CSVC and CSMC.

**Fair Value Measurements** We adopted FASB ASC Topic 820 on April 1, 2008. ASC Topic 820 (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 Topic 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 Topic does not change existing accounting rules governing what can or what must be recognized and reported at fair value in our financial statements, or disclosed at fair value in our notes to financial statements. Additionally, ASC Topic 820 does not eliminate practicability exceptions that exist in accounting pronouncements amended by this Topic when measuring fair value.

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, we use valuation techniques that place greater reliance on observable inputs and less reliance on unobservable inputs. Due to the inherent uncertainty in the valuation process, our estimate of fair value may differ materially from the values that would have been used had a ready market for the securities existed. In addition, changes in the market environment, portfolio company performance and other events may occur over the lives of the investments that may cause the gains or losses ultimately realized on these investments to be materially different than the valuations currently assigned. We determine the fair value of each individual investment and record changes in fair value as unrealized appreciation or depreciation.

Pursuant to our internal valuation process, each portfolio company is valued once a quarter. In addition to our internal valuation process, our Board of Directors retains a nationally recognized firm to provide limited scope third party valuation services on certain portfolio investments at the end of our fiscal year. Our Board of Directors retained Duff & Phelps to provide limited scope third party valuation services on six investments comprising 85.8% of our net asset value at March 31, 2012. For full disclosure of Duff & Phelps’ services, see page 5 of the Form 10-K under the heading “Determination of Net Asset Value and Portfolio Valuation Process.”

We believe our investments at June 30, 2012 and March 31, 2012 approximate fair value based on the market in which we operate and other conditions in existence as of these dates.

**Investments** Investments are stated at fair value determined by our Board of Directors as described in Notes to the Consolidated Schedule of Investments and Note 3 below. The average cost method is used in determining cost of investments sold. Investments are recorded on a trade date basis.



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**Cash and Cash Equivalents** Cash and cash equivalents consist of highly liquid investments with an original maturity of three months or less at the date of purchase. Cash and cash equivalents are carried at cost, which approximates fair value.

**Segment Information** We operate and manage our business in a singular segment. As an investment company, we invest in portfolio companies in various industries and geographic areas as presented in the Consolidated Schedule of Investments.

**Use of Estimates** The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

**Interest and Dividend Income** Interest and dividend income is recorded on an accrual basis to the extent amounts are expected to be collected. Dividend income is recorded at the ex-dividend date for marketable securities and restricted securities. In accordance with our valuation policy, accrued interest and dividend income is evaluated periodically for collectability. When a debt or loan becomes 90 days or more past due, and if we otherwise do not expect the debtor to be able to service all of its debt or other obligations, we will generally establish a reserve against the interest income, thereby placing the loan or debt security's status on non-accrual basis, and cease to recognize interest income on that loan or debt security until the borrower has demonstrated the ability and intent to pay contractual amounts due. If a loan or debt security's status significantly improves regarding ability to service debt or other obligations, it will be restored to accrual basis.

**Federal Income Taxes** CSC and CSVC have elected and intend to comply with the requirements of the Internal Revenue Code (IRC) necessary to qualify as regulated investment companies (RICs). By meeting these requirements, they will not be subject to corporate federal income taxes on ordinary income distributed to shareholders. In order to comply as a RIC, each company is required to timely distribute to its shareholders at least 90% of investment taxable income, as defined by the IRC, each year. Taxable income generally differs from net income for financial reporting purposes due to temporary and permanent differences in the recognition of income and expenses. Taxable income generally excludes net unrealized appreciation or depreciation, as investment gains and losses are not included in taxable income until they are realized.

In addition to the requirement that we must annually distribute at least 90% of our investment company taxable income, we may either distribute or retain our realized net capital gains from investments, but any net capital gains not distributed may be subject to corporate level tax. Historically, we have not distributed net capital gains; however, during the quarter ended June 30, 2012 we distributed capital gains dividends in the amount of \$17.59 per share to our shareholders. When we retain the capital gains, they are classified as a "deemed distribution" to our shareholders and are subject to our corporate tax rate of 35%. As an investment company that qualifies as a RIC under the IRC, federal income taxes payable on security gains that we elect to retain are accrued only on the last day of our tax year, December 31. Any capital gains actually distributed to shareholders are generally taxable to the shareholders as long-term capital gains. See Note 4 for further discussion.

CSMC, a wholly owned subsidiary of CSC, is not a RIC and is required to pay taxes at the current corporate rate.

We account for interest and penalties as part of operating expenses. There were no interest or penalties incurred during the three months ended June 30, 2012 and 2011.

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**Deferred Taxes** CSMC sponsors a qualified defined benefit pension plan which covers its employees and employees of certain of its controlled affiliates. Deferred taxes related to the qualified defined benefit pension plan are recorded as incurred.

**Stock-Based Compensation** We account for our stock-based compensation using the fair value method, as prescribed by ASC 718, Compensation – Stock Compensation. Accordingly, we recognize stock-based 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. For restricted stock awards, we measured the grant date fair value based upon the market price of our common stock on the date of the grant and will amortize this fair value to share-based compensation expense over the vesting term. See Note 6 for further discussion.

**Defined Pension Benefits and Other Postretirement Plans** We record annual amounts relating to the defined benefit pension plan based on calculations, which include various actuarial assumptions such as discount rates and assumed rates of return depending on the pension plan. Material changes in pension costs may occur in the future due to changes in the discount rate, changes in the expected long-term rate of return, changes in level of contributions to the plans and other factors. The funded status is the difference between the fair value of plan assets and the benefit obligation. We recognize changes in the funded status of defined benefit plan in the Statement of Assets and Liabilities in the year in which the changes occur and measure defined benefit plan assets and obligations as of the date of the employer's fiscal year-end. We presently use March 31 as the measurement date for our defined benefit plan.

**Concentration of Risk** We place our idle cash in financial institutions, and at times, such balances may be in excess of the federally insured limits. On November 19, 2010, the Federal Deposit Insurance Corporation ("FDIC") issued a Final Rule implementing section 343 of the Dodd-Frank Wall Street Reform and Consumer Protection Act that provides for unlimited insurance coverage of noninterest-bearing transaction accounts beginning December 31, 2010 through December 31, 2012.

**Recent Accounting Pronouncements**

In May 2011, the FASB issued Accounting Standards Update ("ASU") 2011-04, Fair Value Measurements (Topic 820), Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs ("ASU 2011-04"). ASU 2011-04 results in common fair value measurement and disclosure requirements in U.S. GAAP and IFRSs. ASU 2011-04 is effective for interim and annual reporting periods beginning after December 15, 2011. The adoption of ASU 2011-04 did not have a significant impact on our financial condition and results of operations. See Note 3 Investment for further information regarding valuation technique and quantitative information about the significant unobservable inputs utilized by our Company to value Level 3 investments.

3. **INVESTMENTS**

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



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The levels of fair value inputs used to measure our investments are characterized in accordance with the fair value hierarchy established by the Accounting Standard Codification (“ASC”). We use judgment and consider factors specific to the investment in determining the significance of an input to a fair value measurement. While management believes our valuation methodologies are appropriate and consistent with market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date. The three levels of the fair value hierarchy and investments that fall into each of the levels are described below:

- Level 1: Investments whose values are based on unadjusted quoted prices in active markets for identical assets or liabilities that we have the ability to access. We use Level 1 inputs for publicly traded securities. 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 NASDAQ securities on the valuation date.
- Level 2: Investments whose values are based on observable inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. These inputs may include quoted prices for the identical instrument in non-active markets, quoted prices for similar instruments in active markets and similar data. We did not value any of our investments using Level 2 inputs as of June 30, 2012 and 2011.
- Level 3: Investments whose values are based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement. These inputs reflect management’s own assumptions about the assumptions a market participant would use in pricing the investment. We use Level 3 inputs for measuring the fair value of approximately 68.7% of our investments.

As required by Topic ASC 820, when the inputs used to measure fair value fall within different levels of the hierarchy, the level within the fair value measurement is categorized based on the lowest level input that is significant to the fair value measurement which may include inputs that are observable (Levels 1 and 2) and unobservable (Level 3). Therefore, gains and losses for such investments categorized within the Level 3 table below may include changes in fair value that are attributable to both observable inputs (Levels 1 and 2) and unobservable (Level 3). We conduct reviews of fair value hierarchy classifications on a quarterly basis. Changes in the observability of valuation inputs may result in a reclassification of certain investments.

Unobservable inputs are those inputs for which little or no market data exists and, therefore, require an entity to develop its own assumptions. The fair value determination of each portfolio company requires one or more of the following unobservable inputs:

- Financial information obtained from each portfolio company, including audited and unaudited statements of operations and balance sheets for the most recent period available as compared to budgeted numbers;
  - Current and projected financial condition of the portfolio company;
  - Current and projected ability of the portfolio company to service its debt obligations;

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- Projected operating results of the portfolio company;
- Current information regarding any offers to purchase the investment or recent private sales transactions;
  - Current ability of the portfolio company to raise any additional financing as needed;
- Change in the economic environment which may have a material impact on the operating results of the portfolio company;
  - Qualitative assessment of key management;
  - Contractual rights, obligations or restrictions associated with the investment; and
    - Other factors deemed relevant

Preferred Stock and Common Stock

The significant unobservable inputs used in the fair value measurement of our equity securities are EBITDA multiples, revenue multiples, net book values, tangible book value multiples, and the weighted average cost of capital (“WACC”). Generally, increases or decreases in EBITDA or revenue multiple inputs result in a higher or lower fair value measurement, respectively. Generally, increases or decreases in WACC inputs result in a lower or higher fair value measurement, respectively. However, due to the nature of certain investments, fair value measurements may be based on other criteria, such as third party appraisals. For recent investments, we generally rely on our cost basis to determine the fair value unless fair market value is deemed to have departed from this level.

Debt Securities

The significant unobservable inputs used in the fair value measurement of our debt securities are risk adjusted discount factors used in the yield valuation technique and probability of principal recovery. Significant increase or decrease in any of these valuation inputs in isolation would result in a significantly lower or higher fair value measurement. However, due to the nature of certain investments, fair value measurements may be based on other criteria, such as third party inputs.

Limited Partnership or Limited Liability Company Interests

For recent investments, we evaluate limited partnership or limited liability company interests at cost, which is deemed to represent market value, unless or until there is substantive evidence that cost does not correspond to fair value. Thereafter, these securities are generally valued at our percentage interest of the fund or company's calculated net asset value, unless there is a substantive evidence that the net asset value does not correspond to fair value. All funds are valued in accordance to Topic ASC 820.

Warrants

We generally use the Black-Scholes option pricing model to determine the fair value of warrants held in our portfolio. Option pricing models, including the Black-Scholes model, require the use of subjective inputs, including expected volatility, expected life, expected dividend rate, and expected risk-free rate of return. In the Black-Scholes model, variation in the expected volatility or expected term assumptions has a significant impact on fair value.



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The table below presents the valuation technique and quantitative information about the significant unobservable inputs utilized by the Company to value our Level 3 investments. Unobservable inputs are those inputs for which little or no market data exists and therefore require an entity to develop its own assumptions. The table is not intended to be all inclusive, but instead captures the significant unobservable inputs relevant to our determination of fair value.

Type	Valuation Technique	Fair Value (in millions)	Unobservable Input	Range	Weighted Average
Preferred & Common Equity	Market Approach	\$278.0	EBITDA Multiple	3.25x - 6.50x	5.76
	Market Approach	\$8.2	Revenue Multiple	1.10x - 3.00x	1.42