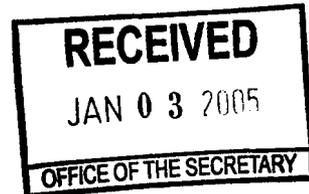


William R. Thomas
President and Chairman

December 28, 2004

3

Mr. Jonathan G. Katz, Secretary
Securities and Exchange Commission
450 Fifth Street, NW
Washington, D.C. 20549-0609



RE: Comments on Definition of Eligible Portfolio Company (File Number S7-37-04)

Dear Mr. Katz:

Our company, Capital Southwest Corporation, is a publicly-owned Business Development Company ("BDC"). Approximately 3,000 investors own our stock, which is traded on NASDAQ under the symbol CSWC. At September, 30, 2004, our total assets were \$402,733,665.

We have reviewed the proposed new rules designed to realign the Investment Company Act definition of "eligible portfolio company" for BDC investments.

With the one exception described in the next paragraph, Capital Southwest Corporation concurs with your proposed Rule 2a-46, which we believe enables BDCs to make capital more readily available to small, developing businesses or financially troubled businesses.

To address the capital requirements of very small publicly-owned businesses, we recommend that a maximum market capitalization standard be added to the SEC's proposed Rule 270.2a-46 as the final paragraph (c), which is set forth below:

or (c) Has a class of securities listed on a national securities exchange or on an automated interdealer quotation system of a national securities association, and has an aggregate market capitalization of less than \$100,000,000 based on total shares outstanding.

Enabling BDCs to provide financing to very small public companies whose market capitalization is less than \$100 million would establish a financing source for these "micro-cap" companies, which are generally too small to obtain capital from institutional investors or additional public offerings.

We believe that a market capitalization limit of \$100 million is appropriate and would be beneficial to small, developing or financially troubled businesses. However, we are opposed to any amount above this limit. A larger ceiling would enable BDCs to focus their investment activities on larger, more mature enterprises and would subtract from the capital available to the small, developing, financially troubled enterprises that BDCs were intended to support.

Sincerely,

A handwritten signature in black ink that reads "William R. Thomas". The signature is written in a cursive style with a long, sweeping underline.