

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
ANNUAL REPORT PURSUANT TO SECTIONS 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
FORM 10-K

(Mark One)
 ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended **March 31, 2009**

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
(Address of principal executive offices)

75230
(Zip Code)

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

Securities registered pursuant to section 12(b) of the Act: **None**

Securities registered pursuant to section 12(g) of the Act: **Common Stock, \$1.00 par value**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ___ No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ___ No

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 files). Yes ___ No ___

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large accelerated filer ___ Accelerated filer Non-accelerated filer ___

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

The aggregate market value of the voting stock held by non-affiliates of the registrant as of September 30, 2008 was \$314,927,409, based on the last sale price of such stock as quoted by Nasdaq on such date.

The number of shares of common stock outstanding as of May 1, 2009 was 3,741,638.

Documents Incorporated by Reference

Proxy Statement for Annual Meeting of Shareholders
to be held July 20, 2009

Part of Form 10-K

Part III

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Item 1. Business

Overview

Capital Southwest Corporation ("CSC") was organized as a Texas corporation on April 19, 1961. Until September 1969, we 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 of the management type registered under the Investment Company Act of 1940 (the "1940 Act"). Prior to March 30, 1988, we were registered as a closed-end, non-diversified investment company under the 1940 Act. On that date, we 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 we wholly own CSVC, the portfolios of both entities 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 in which we have major interests as well as a number of 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 material assistance to such investee companies is critical to their business development activities.

The 12 largest investments we own had a combined cost of \$38,324,183 and a value of \$367,811,182, representing 92.7% of the value of our consolidated investment portfolio at March 31, 2009. For a narrative description of the 12 largest investments, see "Twelve Largest Investments - March 31, 2009" in Exhibit 13.1 of this Form 10-K which is herein incorporated by reference. Certain of the information presented on the 12 largest investments has been obtained from the respective companies and, in certain cases, from public filings of such companies. The financial information presented on each of the respective companies is from such companies' audited financial statements.

Investment Criteria and Objectives

We are a venture capital investment company whose objective is to achieve capital appreciation through long-term investments in businesses believed to have favorable growth potential. Our investment interests are focused on expansion financings, management buyouts, minority recapitalizations, industry consolidations and early-stage financings in a broad range of industry segments.

Our investment team has identified the following investment criteria that it believes are important in evaluating prospective portfolio companies:

- **Excellent Management:** Management teams with a proven record of achievement, exceptional ability, unyielding determination and unquestionable integrity. We believe management teams with these attributes are more likely to manage the companies in a manner that protects our debt investment and enhances the value of our equity investment.
- **Investment Size:** \$5 million to \$15 million of equity capital. We occasionally partner with other investors to engage in larger transactions.
- **Established Companies with Positive Cash Flow:** We seek to invest in established companies with sound historical financial performance. We typically focus on companies that have historically generated positive EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortization) or have a plan to achieve positive EBITDA in the near term.

- Industry: We primarily focus on companies having competitive advantages in their respective markets and or operating in industries with barriers to entry, which may help protect their market position. Overall, our portfolio is spread over many diverse industries.
- Location: We focus on companies located in the United States, although we are more focused on the Southwest, Southeast, Midwest and Mountain Regions.
- Quality referral from a reputable source: Excellent management is a cornerstone of our investment philosophy. Accomplished managers generally have prior investors or directors willing to speak on their behalf.

Investment Process

Our investment team is responsible for all aspects of our investment process. Our investment strategy involves a "team" approach, whereby potential transactions are screened by the team before they are presented to the Board of Directors for approval. Our investment team generally categorizes the investment process into seven distinctive stages:

- Deal Generation/Origination: Deal generation and origination is maximized through long-standing and extensive relationships with industry contacts, brokers, commercial and investment bankers, entrepreneurs, service providers such as lawyers and accountants, as well as current and former portfolio companies and investors.
- Screening: Once it is determined that a potential investment has met our investment criteria, we will perform preliminary due diligence or screening. It is during this stage that we will take into consideration potential investment structures and price terms, as well as regulatory compliance. Upon successful screening of the proposed investment, the investment team makes a recommendation to move forward. We then issue a non-binding term sheet.
- Term Sheet: The non-binding term sheet will include the key economic terms based upon our analysis performed during the screening process as well as a proposed timeline and our qualitative expectation for the transaction. Upon execution of the term sheet, we begin our formal due diligence process.
- Due Diligence: Due diligence is performed by the leader of the designated investment team and certain external resources who together perform due diligence to understand the relationships among the prospective portfolio company's business plan, operations, and financial performance. Additionally, we may include site visits with management and key personnel; detailed review of historical and projected financial statements; interviews with key customers and suppliers; detailed evaluation of company management, including background checks; review of material contracts; in-depth industry, market and strategy analysis; and review by legal, environmental or other consultants, if needed. In certain cases, we may decide not to make an investment based on the results of due diligence.
- Document and Close: Upon completion of a satisfactory due diligence review, the investment team presents its findings, in writing, to our Board of Directors for approval. If any adjustments to the investment terms or structures are proposed by the Board of Directors, such changes are made and applicable analysis is updated. Upon Board approval for the investment, we will re-confirm regulatory company compliance, process and finalize all required legal documents, and fund the investment.

- **Post-Investment:** We continuously monitor the status and progress of our portfolio companies. We offer managerial assistance to our portfolio companies, giving them access to our investment experience, direct industry expertise and contacts. The same investment team lead that was involved in the investment process will continue his involvement in the portfolio company post-investment. This provides for continuity of knowledge and allows the investment team to maintain a strong business relationship with key management of our portfolio companies for post-investment assistance and monitoring purposes. As part of the monitoring process, the investment team leader will analyze monthly/quarterly/annual financial statements versus the previous periods, review financial projections, meet with management, attend board meetings, and review all compliance certificates and covenants. While we maintain limited involvement in the ordinary course of operations of our portfolio companies, we maintain a higher level of involvement in non-ordinary course financings, potential acquisitions and other strategic activities.
- **Exit Strategies:** While our approach is primarily focused on providing long-term patient capital for sustained growth, we assist our portfolio companies in developing and planning exit opportunities, including any sale or merger of our portfolio companies, at the appropriate time. We assist in the structure, timing, execution and transition of the exit strategy.

Determination of Net Asset Value and Portfolio Valuation Process

We determine our net asset value per share on a quarterly basis. The net asset value per share is equal to our total assets minus liabilities and any preferred stock outstanding divided by the total number of shares of common stock outstanding.

We determine in good faith the fair value of our portfolio investments pursuant to a valuation policy in accordance with Statement of Financial Accounting Standards ("SFAS") No. 157, Fair Value Measurements ("SFAS 157") and a valuation process approved by our Board of Directors and in accordance with the 1940 Act. Our valuation policy is intended to provide a consistent basis for determining the fair value of the portfolio.

As described below, we undertake a multi-step valuation process each quarter in connection with determining the fair value of our investments, with our Board of Directors ultimately and solely responsible for overseeing, reviewing and approving, in good faith, our estimate of the fair value of each individual investment.

- Our quarterly valuation process begins with each portfolio company or investment being initially valued by the investment team lead responsible for the portfolio investment; and
- Preliminary valuation conclusions will then be reviewed and discussed with the Investment Team; and
- The Board of Directors will assess the valuations and will ultimately approve the fair value of each investment in our portfolio, in good faith.

Duff & Phelps, LLC ("Duff & Phelps") provided third party valuation consulting services to our Board of Directors, which consisted of certain limited procedures that our Board of Directors identified and requested them to perform. For the year ended March 31, 2009, the Board of Directors asked Duff & Phelps to perform the limited procedures on eight investments comprising approximately 85.9% of the total investments at fair value as of March 31, 2009. Upon completion of the limited procedures, Duff & Phelps concluded that the fair value of those investments subject to the limited procedures did not appear unreasonable.

Competition

We compete for attractive investment opportunities with private equity funds, venture capital partnerships and corporations, venture capital affiliates of industrial and financial companies, SBICs and wealthy individuals.

1940 Act Regulations

The Small Business Investment Incentive Act of 1980 added the provisions of the 1940 Act applicable to BDCs. BDCs are a special type of investment company. After a company files its election to be treated as a BDC, it may not withdraw its election without first obtaining the approval of the holders of a majority of its voting securities. The following is a brief description of the 1940 Act provisions applicable to BDCs, qualified in its entirety by reference to the full text of the 1940 Act and rules issued thereunder by the SEC.

Generally, to be eligible to elect BDC status, a company must primarily engage in the business of furnishing capital and making significant managerial assistance available to companies that do not have ready access through conventional financial channels. Such companies that satisfy certain additional criteria are termed to be "eligible portfolio companies." In general, in order to qualify as a BDC, a company must: (i) be a domestic company; (ii) have registered a class of its securities pursuant to Section 12 of the Securities Exchange Act of 1934; (iii) operate for the purpose of investing in the securities of certain types of portfolio companies, including early stage or emerging companies and businesses suffering or just recovering from financial distress (see following paragraph); (iv) make available significant managerial assistance to such portfolio companies; and (v) file a proper notice of election with the SEC.

An eligible portfolio company generally is a domestic company that is not an investment company or a company excluded from investment company status pursuant to exclusions for certain types of financial companies (such as brokerage firms, banks, insurance companies and investment banking firms) and that: (i) has a market capitalization of less than \$250 million and has a class of equity securities listed on a national securities exchange; (ii) does not have a class of securities listed on a national securities exchange; or (iii) is controlled by the BDC itself or together with others (control under the 1940 Act is presumed to exist where a person owns at least 25% of the outstanding voting securities of the portfolio company) and has a representative on the Board of Directors of such company.

As with other companies regulated by the 1940 Act, a BDC must adhere to certain substantive regulatory requirements. A majority of the directors must be persons who are not interested persons, as that term is defined by the 1940 Act. Additionally, we are required to provide and maintain a bond issued by a reputable fidelity insurance company to protect the BDC. Furthermore, as a BDC, we are prohibited from protecting any director or officer against any liability to us or our shareholders arising from willful malfeasance, bad faith, gross negligence or reckless disregard of the duties involved in the conduct of such person's office.

We are required to adopt and implement written policies and procedures reasonably designed to prevent violation of the federal securities laws, review these policies and procedures annually for their adequacy and the effectiveness of their implementation, and to designate a chief compliance officer to be responsible for administering these policies and procedures.

The 1940 Act provides that we may not make an investment in non-qualifying assets unless at the time at least 70% of the value of our total assets (measured as of the date of our most recently filed financial statements) consists of qualifying assets. Qualifying assets include: (i) securities of eligible portfolio companies; (ii) securities of certain companies that were eligible companies at the time we initially acquired their securities and in which we retain a substantial interest; (iii) securities of certain controlled companies; (iv) securities of certain bankrupt, insolvent or distressed companies; (v) securities received in exchange for or distributed in or with respect to any of the foregoing; and (vi) cash items, U.S. government securities and high-quality short-term debt. The SEC has adopted a rule permitting a BDC to invest its funds in certain money market funds. The 1940 Act also places restrictions on the nature of the transactions in which, and the persons for whom, securities can be purchased in some instances in order for the securities to be considered qualifying assets.

We are permitted by the 1940 Act, under specific conditions, to issue multiple classes of debt and a single class of preferred stock if our asset coverage, as defined by the 1940 Act, is at least 200% after the issuance of the debt or the preferred stock (i.e. such senior securities may not be in excess of our net assets). Under specific conditions, we are also permitted by the 1940 Act to issue warrants.

Except under certain conditions, we may sell our securities at a price that is below the prevailing net asset value per share only during the 12-month period after (i) a majority of our directors and our disinterested investors have determined that such sale would be in the best interests of us and our stockholders and (ii) the holders of a majority of our outstanding voting securities and the holders of a majority of our voting securities held by persons who are not affiliated person of ours approve such issuances. A majority of the disinterested directors must determine in good faith that the price of the securities being sold is not less than a price which closely approximates market value of the securities, less any distribution discount or commission.

Certain transactions involving certain closely related persons of the Company, including its directors, officers and employees, may require approval of the SEC. However, the 1940 Act ordinarily does not restrict transactions between us and our portfolio companies.

We may be periodically examined by the SEC for compliance with the 1940 Act.

Small Business Investment Company Regulations

CSVC is licensed by the Small Business Administration ("SBA") to operate as a SBIC under Section 301(c) of the Small Business Investment Act of 1958.

SBICs are designed to stimulate the flow of private equity capital to eligible small businesses. Under SBIC regulations, a SBIC may make loans to eligible small businesses, invest in equity securities of such businesses and provide them with consulting and advisory services.

Under present SBIC regulations, eligible small businesses generally include businesses that (together with their affiliates) have a tangible net worth not exceeding \$18 million and have average annual net income after federal income taxes not exceeding \$6 million (average net income to be computed without benefit of any carryover loss) for the two most recent fiscal years. In addition, an SBIC must devote 20% of its investment activity to "smaller" concerns as defined by the SBA. A smaller concern generally includes businesses that have a tangible net worth not exceeding \$6 million and have average annual net income after federal income taxes not exceeding \$2 million (average net income to be computed without benefit of any net carryover loss) for the two most recent fiscal years. SBIC regulations also provide alternative size standard criteria to determine eligibility for designation as an eligible small business or smaller concern, which criteria depend on the primary industry in which the business is engaged and are based on such factors as the number of employees and gross revenue. However, once an SBIC has invested in a company, it may continue to make follow on investments in the company, regardless of the size of the portfolio company at the time of the follow on investment, up to the time of the portfolio company's initial public offering.

The SBA prohibits a SBIC from providing funds to small businesses for certain purposes, such as relending and investment outside the United States, to businesses engaged in a few prohibited industries, and to certain "passive" (non-operating) companies. In addition, without prior SBA approval, an SBIC may not invest an amount equal to more than approximately 30% of the SBIC's regulatory capital in any one portfolio company and its affiliates.

The SBA places certain limitations on the financing terms of investments by SBICs in portfolio companies (such as limiting the permissible interest rate on debt securities held by an SBIC in a portfolio company). Although prior regulations prohibited an SBIC from controlling a small business concern except in limited circumstances, regulations adopted by the SBA in 2002 now allow an SBIC to exercise control over a small business for a period of seven years from the date on which the SBIC initially acquires its control position. This control period may be extended for an additional period of time with the SBA's prior written approval.

The SBA restricts the ability of an SBIC to lend money to any of its officers, directors and employees or to invest in affiliates thereof. The SBA also prohibits, without prior SBA approval, a "change of control" of an SBIC or transfers that would result in any person (or a group of persons acting in concert) owning 10% or more of a class of capital stock of a licensed SBIC. A "change of control" is any event which would result in the transfer of the power, direct or indirect, to direct the management and policies of an SBIC, whether through ownership, contractual arrangements or otherwise.

An SBIC (or group of SBICs under common control) may generally have outstanding debentures guaranteed by the SBA in amounts up to twice the amount of the privately-raised funds of the SBIC(s). Debentures guaranteed by the SBA have a maturity of 10 years, require semi-annual payments of interest, do not require any principal payments prior to maturity, and, historically, were subject to certain prepayment penalties. Those prepayment penalties no longer apply as of September 2006. As of March 31, 2009, we had no SBA-guaranteed debentures.

SBICs must invest idle funds that are not being used to make loans in investments permitted under SBIC regulations in the following limited types of securities: (i) direct obligations of, or obligations guaranteed as to principal and interest by, the United States government, which mature within 15 months from the date of the investment; (ii) repurchase agreements with federally insured institutions with a maturity of seven days or less (and the securities underlying the repurchase obligations must be direct obligations of or guaranteed by the federal government); (iii) certificates of deposit with a maturity of one year or less, issued by a federally insured institution; (iv) a deposit account in a federally insured institution that is subject to a withdrawal restriction of one year or less; (v) a checking account in a federally insured institution; or (vi) a reasonable petty cash fund.

SBICs are periodically examined and audited by the SBA's staff to determine their compliance with SBIC regulations and are periodically required to file forms with the SBA.

The Nasdaq Global Select Market Corporate Governance Regulations

The Nasdaq Global Select Market has adopted corporate governance regulations that listed companies must comply with in order to remain listed. We believe we are in compliance with such corporate governance listing standards. We intend to monitor our compliance with all future listing standards and to take all necessary actions to ensure that we stay in compliance.

Taxation as a Regulated Investment Company

We elected to be treated as a regulated investment company (a "RIC"), taxable under Subchapter M of the Internal Revenue Code of 1986, as amended (the "Code"), for federal income tax purposes. In general, a RIC is not taxed on its income or gains to the extent it distributes such income or gains to its shareholders. In order to qualify as a RIC, we must, in general, (1) annually derive at least 90% of our gross income from dividends, interest and gains from the sale of securities and similar sources (the "Income Source Rule"); (2) quarterly meet certain investment asset diversification requirements; and (3) annually distribute at least 90% of our investment company taxable income as a dividend (the "Income Distribution Rule"). Any taxable investment company income not distributed is subject to corporate level tax. Any taxable investment company income distributed generally is taxable to shareholders as dividend income.

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. It is our current intention not to distribute net capital gains. Any net capital gains distributed generally will be taxable to shareholders as long-term capital gains.

In lieu of actually distributing our realized net capital gains, we as a RIC may retain all or part of our net capital gains and elect to be deemed to have made a distribution of the retained portion to our shareholders under the "designated undistributed capital gain" rules of the Code. We currently intend to retain and so designate all of our net capital gains. In this case, the "deemed distribution" generally is taxable to our shareholders as long-term capital gains. Although we pay tax at the corporate rate on the amount deemed to have been distributed, our shareholders receive a tax credit equal to their proportionate share of the tax paid and an increase in the tax basis of their shares by the amount per share retained by us.

To the extent that we retain capital gains and have a "deemed distribution," each shareholder will receive an IRS Form 2439 that will reflect each shareholder's receipt of the deemed distribution income and a tax credit equal to each shareholder's proportionate share of the tax paid by us. This tax credit, which is paid at the corporate rate, is often credited at a higher rate than the actual tax due by a shareholder on the deemed distribution income. The "residual" credit can be used by the shareholder to offset other taxes due in that year or to generate a tax refund to the shareholder. Tax exempt investors may file for a refund.

Although we may retain income and gains subject to the limitations described above (including paying corporate level tax on such amounts), we could be subject to an additional 4% excise tax if we fail to distribute 98% of our aggregate annual taxable income.

Corporate information

Our principal executive offices are located at 12900 Preston Road, Suite 700, Dallas, Texas 75230. We maintain a website on the internet at www.capitalsouthwest.com. You can review the filings we have made with the SEC, free of charge by linking directly from our website to NASDAQ, a database that links to EDGAR, the Electronic Data Gathering, Analysis, and Retrieval System of the SEC. You should be able to access our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934. The charters adopted by the committees of our board of directors are also available on our website.

Employees

As of March 31, 2009, we had nine employees, each of whom was employed by our management company, Capital Southwest Management Corporation. These employees include our corporate officers, investment and portfolio management professionals and administrative staff. During the year ended March 31, 2009, we hired additional investment and administrative personnel. We will hire additional investment professionals, and additional administrative personnel, as necessary. All of our employees are located in our Dallas office.

Item 1A. Risk Factors

You should carefully consider the risks described below and all other information contained in this annual report on Form 10-K, including our consolidated financial statements and the related notes thereto. The risks and uncertainties described below are not the only risks we face. Additional risks and uncertainties not presently known to us, or not presently deemed material by us, may also impair our operations and performance. If any of the following risks actually occur, our business, financial condition or results of operations could be materially adversely affected. If that happens, the trading price of our common stock could decline, and you may lose all or part of your investment.

Our business, as well as our portfolio companies' businesses, may be adversely affected by the recent financial crisis and our ability to access the capital markets.

The global financial markets are in turmoil, and the economies of the U.S. and many other countries are in recession, which may be severe and prolonged. This status results in diminished opportunities for liquidity and credit availability, declines in consumer confidence, declines in economic growth, increases in unemployment rates, and uncertainty about overall economic stability, and there can be no assurance against further decline. The end markets for certain of our portfolio companies' products and services have experienced, and continue to experience, negative economic trends. We are unable to predict the likely duration and severity of this global financial turmoil, and if the current uncertainty continues or economic conditions further deteriorate, our business and the businesses of our portfolio companies could be materially and adversely affected.

There is uncertainty regarding the value of our investments in restricted securities.

Under the 1940 Act, we are required to carry our portfolio investments at market value or, if there is no readily available market value, at fair value as determined by us with our Board of Directors having final responsibility for overseeing, reviewing and approving, in good faith, our estimate of fair value. Because of the inherent uncertainty of the valuation of portfolio securities which do not have readily ascertainable market values, our fair value determinations may differ materially from the values a third party would be willing to pay for such securities or the values which would be applicable to unrestricted securities having a public market.

The lack of liquidity of our restricted securities may adversely affect our business.

Our portfolio contains many securities which are subject to restrictions on sale because they were acquired from issuers in "private placement" transactions or because we are deemed to be an affiliate of the issuer. Unless an exemption from the registration requirements of the Securities Act of 1933 is available, we will not be able to sell these securities publicly without the expense and time required to register the securities under applicable federal and state securities laws. In addition, contractual or practical limitations may restrict our ability to liquidate our securities in portfolio companies, because we may own a relatively large percentage of the issuer's outstanding securities. Sales may also be limited by unfavorable market conditions. The illiquidity of our investments may preclude or delay the disposition of such securities, which may make it difficult for us to obtain cash equal to the value at which we record our investments.

There is limited publicly available information regarding the companies in which we invest.

Many of the securities in our portfolio are issued by privately held companies. There is generally little or no publicly available information about such companies, and we must rely on the diligence of our management to obtain the information necessary for our decision to invest. There can be no assurance that such diligence efforts will uncover all material information necessary to make fully informed investment decisions.

Certain of our portfolio companies are highly leveraged.

Many of our portfolio companies have incurred substantial indebtedness in relation to their overall capital base. Such indebtedness often has a term that will require the balance of the loan to be refinanced when it matures. If portfolio companies cannot generate adequate cash flow to meet the principal and interest payments on their indebtedness, the value of our investments could be reduced or eliminated through foreclosure on the portfolio company's assets or by the portfolio company's reorganization or bankruptcy.

Fluctuations may occur in our quarterly results.

Our quarterly operating results may fluctuate materially due to a number of factors including, among others, variations in and the timing of the recognition of realized and unrealized gains or losses, the degree to which we encounter competition in our portfolio companies' markets, the ability to find and close suitable investments, and general economic conditions. As a result of these factors, results for any period should not be relied upon as being indicative of performance in future periods.

We may not continue to qualify for pass-through tax treatment.

We may not qualify for conduit tax treatment as a RIC if we are unable to comply with the requirements of Subchapter M of the Code. If we fail to satisfy such requirements and cease to qualify for conduit tax treatment, we will be subject to federal taxes on our net investment income. To the extent we had unrealized gains, we would have to establish reserves for taxes, which would reduce our net asset value accordingly. In addition, if we, as a RIC, were to decide to make a deemed distribution of net realized capital gains and retain the net realized capital gain, we would have to establish appropriate reserves for taxes, at the end of the tax year, that we would have to pay on behalf of our shareholders. The loss of this pass-through tax treatment could have a material adverse effect on the total return, if any, obtainable from an investment in our common stock.

Historically, we have distributed net investment income semi-annually. Our current intention is to continue these distributions of ordinary income to our shareholders. Also, historically, we have retained net realized capital gains, paid the resulting tax at the corporate level and retained the after-tax gains to supplement our equity capital and support continuing additions to our portfolio. Our shareholders then report such capital gains on their tax returns, receive credit for the tax we paid and are deemed to have reinvested the amount of the retained after-tax gain. We cannot assure you that we will achieve investment results or maintain a RIC tax status that will allow any specified level of cash distributions or our shareholders' current tax treatment of realized and retained capital gains.

Investment in shares of our common stock should not be considered a complete investment program.

Our stock is intended for investors seeking long-term capital appreciation. Our investments in portfolio securities generally require many years to reach maturity, and such investments generally are illiquid. An investment in our shares should not be considered a complete investment program. Each prospective purchaser should take into account his or her investment objectives as well as his or her other investments when considering the purchase of our shares.

Our common stock often trades at a discount from net asset value.

Our common stock is listed on The Nasdaq Global Market ("NASDAQ"). Shareholders desiring liquidity may sell their shares on NASDAQ at current market value, which has often been below net asset value. Shares of closed-end investment companies frequently trade at discounts from net asset value, which is a risk separate and distinct from the risk that a fund's performance will cause its net asset value to decrease.

Our financial condition and results of operations will depend on our ability to effectively manage any future growth.

Sustaining growth depends on our ability to identify, evaluate, finance, and invest in companies that meet our investment criteria. Accomplishing such results on a cost-effective basis is a function of our marketing capabilities and skillful management of the investment process. Failure to achieve future growth could have a material adverse effect on our business, financial condition, and results of operations.

We are dependent upon management for our future success.

Selection, structuring and closing our investments depends upon the diligence and skill of our management, which is responsible for identifying, evaluating, negotiating, monitoring and disposing of our investments. Our management's capabilities may significantly impact our results of operations. If we lose any member of our management team and he/she cannot be promptly replaced with an equally capable team member, our results of operations could be significantly impacted.

We operate in a highly competitive market for investment opportunities.

We compete for attractive investment opportunities with private equity funds, venture capital partnerships and corporations, venture capital affiliates of industrial and financial companies, SBICs and wealthy individuals. Some of these competitors are substantially larger and have greater financial resources, and some are subject to different and frequently less stringent regulation. As a result of this competition, we may not be able to take advantage of attractive investment opportunities from time to time and there can be no assurance that we will be able to identify and make investments that satisfy our objectives.

Changes in laws or regulations governing our operations or our failure to comply with those laws or regulations may adversely affect our business.

We and our portfolio companies are subject to regulation by laws at the local, state and federal level. These laws and regulations, as well as their interpretation, may be changed from time to time. Accordingly, any changes in these laws and regulations or failure to comply with them could have a material adverse effect on our business. Certain of these laws and regulations pertain specifically to BDCs such as ours.

Failure to deploy new capital may reduce our return on equity.

If we fail to invest our capital effectively, our return on equity may be decreased, which could reduce the price of the shares of our common stock.

The market price of our common stock may fluctuate significantly.

The market price and marketability of shares of our common stock may from time to time be significantly affected by numerous factors, including our investment results, market conditions, and other influences and events over which we have no control and that may not be directly related to us.

Item 1B. Unresolved Staff Comments

We have no unresolved staff comments to report pursuant to Item 1B.

Item 2. Properties

We maintain our offices at 12900 Preston Road, Suite 700, Dallas, Texas, 75230, where we rent approximately 4,738 square feet of office space pursuant to a lease agreement expiring in February 2013. We believe that our offices are adequate to meet our current and expected future needs.

Item 3. Legal Proceedings

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

We, Capital Southwest Corporation and CSVC, have been named in a lawsuit filed on August 27, 2007 in the United States District Court of the Northern District of Texas, Dallas Division, against Heelys, Inc and their Chief Executive Officer, Chief Financial Officer, the directors who signed their registration statement with the Securities and Exchange Commission in connection with their December 7, 2006 initial public offering ("IPO"), and their underwriters for the IPO. The complaint alleges violations of Sections 11 and 15 of the Securities Act of 1933 and the plaintiffs are seeking compensatory damages in an unspecified amount, as well as reasonable costs and expenses incurred in the action, including counsel fees and expert fees. Similar suits were also filed in 2007 and 2008 in the United States District Court of the Northern District of Texas making substantially similar allegations under Sections 11, 12 and 15 of the Securities Act of 1933, and seeking substantially similar damages. These lawsuits have been transferred to a single judge, and we expect that all the cases will be consolidated into a single action, with a consolidated complaint filed shortly thereafter. During a mediation conducted by the Hon. Nicholas H. Politan (ret.), Plaintiffs and Defendants reached a settlement pursuant to which Defendants will pay Plaintiffs and a proposed plaintiff settlement class a total of \$7.5 million, including attorneys' fees and expenses. Heelys, Inc. has reached an agreement in principal with its insurers for their insurance policies to fund the majority of this settlement amount. This settlement is subject to final documentation and approval by the Court. Heelys, Inc. expects that the proposed settlement will be submitted to the Court for preliminary approval within the next month. If the Court preliminarily approves the settlement, notice will be provided to shareholders, who will be provided an opportunity to object to the settlement or to opt out of the proposed settlement class.

Heelys, Inc., its former Chief Executive Officer, its former Chief Financial Officer, and its directors who signed the Company's registration statement filed with the Securities and Exchange Commission in connection with the IPO, along with us, Capital Southwest Corporation and CSVC, and the underwriters for the Heelys, Inc. IPO—are defendants in a lawsuit originally filed on May 16, 2008 by individual shareholder Carl Dick in the County Court of Law No. 1, Dallas County, Texas. This lawsuit asserts claims that are substantially similar to those asserted in the consolidated class action described above. The petition alleges violations of Sections 11, 12(a)(2), and 15 of the Securities Act of 1933 and Sections 33(A), (C), and (F) of the Texas Securities Act. Defendants withdrew their previously-filed special exceptions to Plaintiff's petition seeking to have all claims dismissed, and discovery in this case is proceeding. The case is scheduled for trial in October 2009. While the Company cannot predict the outcome of this matter, the Company believes that the plaintiff's claims are without merit, denies the allegations in the complaints, and the Company intends to vigorously defend the lawsuits.

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

No matters were submitted to a vote of security holders during the quarter ended March 31, 2009.

PART II

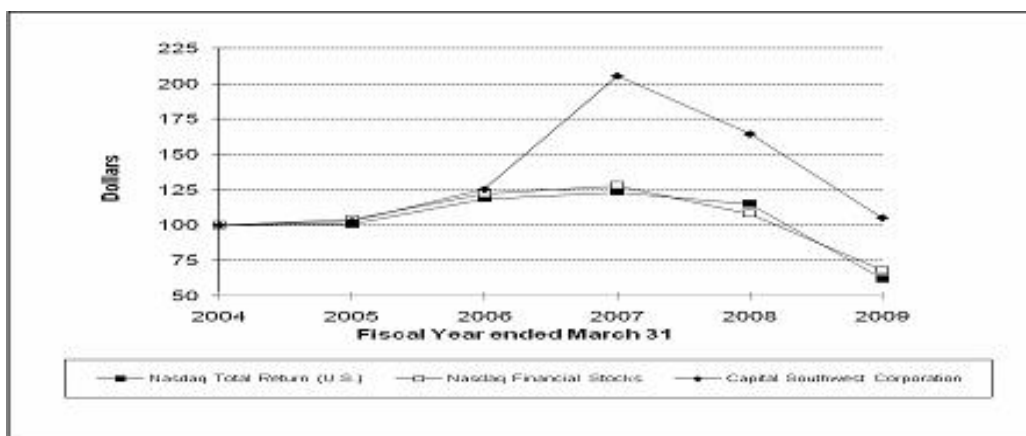
Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Information set forth under the captions "Shareholder Information - Shareholders, Market Prices and Dividends" in Exhibit 13.1 of this Form 10-K is herein incorporated by reference.

Performance Graph

The following graph compares our cumulative total shareholder return during the last five years (based on the market price of our common stock and assuming reinvestment of all dividends and tax credits on retained long-term capital gains) with the Total Return Index for NASDAQ (U.S. companies) and with the Total Return Index for Nasdaq Financial Stocks, both of which indices have been prepared by the Center for Research in Security Prices at the University of Chicago.

Comparison of Five Year Cumulative Total Returns



Item 6. Selected Financial Data

See Exhibit 13.1 "Selected Consolidated Financial Data" of this Form 10-K.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

See Exhibit 13.1 "Selected Consolidated Financial Data" of this Form 10-K.

Item 7A. 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.

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

Our investment in portfolio securities includes fixed-rate debt securities which totaled \$8,263,002 at March 31, 2009, equivalent to 2.1% of the value of our total investments. Generally, these debt securities are below investment grade and have relatively high fixed rates of interest; therefore, minor changes in market yields of publicly traded debt securities have little or no effect on the values of debt securities in our portfolio and no effect on interest income. Our investments in debt securities are generally held to maturity and their fair values are determined on the basis of the terms of the debt security and the financial condition of the issuer.

A portion of our investment portfolio consists of debt and equity securities of private companies. We anticipate little or no effect on the values of these investments from modest changes in public market equity valuations. Should significant changes in market valuations of comparable publicly traded 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 stocks of publicly traded 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 traded companies. A portion of our investment portfolio also consists of unrestricted, freely marketable common stocks of publicly traded 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 8. Financial Statements and Supplementary Data

See Item 15 of this Form 10-K - "Exhibits and Financial Statement Schedules."

Selected Quarterly Financial Data (Unaudited)

The following presents a summary of the unaudited quarterly consolidated financial information for the years ended March 31, 2009 and 2008.

	<u>First Quarter</u>	<u>Second Quarter</u>	<u>Third Quarter</u>	<u>Fourth Quarter</u>	<u>Total</u>
(In thousands, except per share amounts)					
2009					
Net investment income	\$ 585	\$ 429	\$ 9,471	\$ (302)	\$ 10,183
Net realized gain (loss) on investments	--	(48)	10,762	42	10,756
Net decrease in unrealized appreciation of investments	(257)	(30,970)	(67,136)	(60,884)	(159,247)
Net increase (decrease) in net assets from operations	328	(30,589)	(46,903)	(61,143)	(138,307)
Net increase (decrease) in net assets from operations per share	.08	(8.18)	(12.53)	(16.34)	(36.97)
	<u>First Quarter</u>	<u>Second Quarter</u>	<u>Third Quarter</u>	<u>Fourth Quarter</u>	<u>Total</u>
(In thousands, except per share amounts)					
2008					
Net investment income	\$ 641	\$ 1,211	\$ 1,806	\$ 57	\$ 3,715
Net realized gain (loss) on investments	326	403	(489)	--	240
Net increase (decrease) in unrealized appreciation of investments	17,148	(138,129)	(64,798)	42,809	(142,970)
Net increase (decrease) in net assets from operations	18,115	(136,515)	(63,481)	42,866	(139,015)
Net increase (decrease) in net assets from operations per share	4.66	(35.10)	(16.32)	11.02	(35.74)

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

(i) Evaluation of Disclosure Controls and Procedures

As of March 31, 2009, an evaluation was performed under the supervision and with the participation of our management, including the Chairman of the Board and President and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934 (the "1934 Act")). Disclosure controls and procedures means controls and other procedures of an issuer that are designed to ensure that information required to be disclosed by the issuer in the reports that it files or submits under the 1934 Act is recorded, processed, summarized and reported, within time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to the issuer's management, as appropriate, to allow timely decisions regarding required disclosures. Based on this evaluation of our disclosure controls and procedures, our Chairman of the Board and President and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of March 31, 2009.

(ii) Internal Control Over Financial Reporting

(a) Management's report on internal control over financial reporting

The Company's management report on internal control over financial reporting is set forth in our 2009 Annual Report and is incorporated herein by reference.

(b) Attestation report of the registered public accounting firm

Our independent registered public accountants, Grant Thornton LLP, audited the consolidated financial statements and have issued an attestation report on the effectiveness of our internal control over financial reporting as of March 31, 2009, which is set forth in our 2009 Annual Report and is incorporated herein by reference.

(c) Changes in internal control over financial reporting

There has been no changes in our internal control over financial reporting ("ICOFR") (as defined in Rule 13a-15(f) of the SEC Act of 1934) that occurred during our most recently completed fiscal quarter, that have materially affected, or are reasonably likely to materially affect our ICOFR.

Item 9B. Other Information

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

The section of our 2009 Proxy Statement captioned "Nominees for Director" under "Proposal 1. Election of Directors" identifies members of our board of directors and nominees, and is incorporated in this Item 10 by reference.

The names and ages of our executive officers as of June 2, 2009, together with certain biographical information, are as follows:

William M. Ashbaugh, age 54, has served as Senior Vice President since 2005 and Vice President since 2001. He previously served as Managing Director in the corporate finance departments of Hoak Breedlove Wesneski & Co. from 1998 to 2001, Principal Financial Securities from 1997 to 1998 and Southwest Securities from 1995 to 1997.

Gary L. Martin, age 62, was named Chairman of the Board in July 2008 and has served as President since July 2007, has been a director since July 1988 and has served as Vice President since 1984. He previously served as Vice President from 1978 to 1980. From 1979 to 2007, Mr. Martin served as President and Chief Executive Officer of The Whitmore Manufacturing Company, a wholly-owned portfolio company.

Jeffrey G. Peterson, age 35, was named Secretary and Compliance Officer in August 2007, has served as Vice President since 2005 and was an Investment Associate since 2001. He previously held positions with the investment banking division of Scott & Stringfellow, Inc. and the corporate lending division of Bank One.

Tracy L. Morris, age 43, was named Chief Financial Officer in July 2008, has served as Controller since 2007. She previously served as Controller of Best Merchant Partners, LP and Silverleaf Resorts, Inc.

William R. Thomas III, age 38, was named Assistant Vice President in July 2008, has served as Investment Associate since 2006. He previously served as a U.S. Air Force officer in varied positions including chief pilot of an airlift group, director of logistics operations and chief of aircraft development contracts. He has also served as a consultant for Investor Group Services, where he analyzed potential investments in mid-market companies.

The sections of our 2009 Proxy Statement captioned "Meetings and Committees of the Board of Directors" under "Proposal 1. Election of Directors" and "Report of the Audit Committee" identifies members of our audit committee of our board of directors and our audit committee financial expert, and are incorporated in this Item 10 by reference.

The section of our 2009 Proxy Statement captioned "Section 16(a) Beneficial Ownership Reporting Compliance" is incorporated in this Item 10 by reference.

Code of Ethics

We have adopted a code of ethics pursuant to Rule 17j-1 under the 1940 Act that applies to all our directors, officers and employees. We have made the Code of Conduct and Ethics available on our website at www.capitalsouthwest.com. Shareholders may request a free copy of the Code of Conduct and Ethics from: Jeffrey G. Peterson, Corporate Secretary.

Item 11. Executive Compensation

The information in the section of our 2009 Proxy Statement captioned "Compensation Discussion and Analysis" is incorporated in this Item 11 by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information in the sections of our 2009 Proxy Statement captioned "Stock Ownership of Certain Beneficial Owners" is incorporated in this Item 12 by reference.

The table below sets forth certain information as of March 31, 2009 regarding the shares of our common stock available for grant or granted under stock option plans that (i) were approved by our shareholders, and (ii) were not approved by our shareholders.

Equity Compensation Plan Information

<u>Plan Category</u>	<u>Number of Securities To Be Issued Upon Exercise of Outstanding Options, Warrants And Rights</u>	<u>Weighted-Average Exercise Price Of Outstanding Options, Warrants And Rights</u>	<u>Number of Securities Remaining Available For Future Issuance Under Equity Compensation Plans</u>
Equity compensation plans approved by security holders ⁽¹⁾	107,900	\$114.767	0
Equity compensation plans not approved by security holders ⁽²⁾	0	0	0
Total	107,900	\$114.767	0

(1) Includes the 1999 Stock Option Plan. For a description of this plan, please refer to Footnote 5 contained in our consolidated financial statements.

(2) We have no equity compensation plans that were not approved by security holders.

Item 13. Certain Relationships and Related Transactions, and Director Independence

The information in the sections of our 2009 Proxy Statement captioned "Meetings and Committees of the Board of Directors" – "Committee Member Independence" and "Certain Relationships and Related Party Transactions" are incorporated in this Item 13 by reference.

Item 14. Principal Accountant Fees and Services

The information in the sections of our 2009 Proxy Statement captioned "Proposal 2: Ratification of Appointment of Independent Registered Accounting Firm" and "Audit and Other Fees" are incorporated in this Item 14 by reference.

PART IV

Item 15. Exhibits and Financial Statement Schedules

(a)(1) The following information included in Exhibit 13.1 is herein incorporated by reference:

(A) Portfolio of Investments – March 31, 2009

Consolidated Statements of Financial Condition - March 31, 2009 and 2008

Consolidated Statements of Operations - Years Ended March 31, 2009, 2008 and 2007

Consolidated Statements of Changes in Net Assets - Years Ended March 31, 2009, 2008 and 2007

Consolidated Statements of Cash Flows - Years Ended March 31, 2009, 2008 and 2007

(B) Notes to Consolidated Financial Statements

(C) Notes to Portfolio of Investments

(D) Selected Per Share Data and Ratios

(E) Management's Report on Internal Control over Financial Reporting

(F) Reports of Independent Registered Public Accounting Firm

(G) Portfolio Changes During the Year

(a)(2) All schedules are omitted because they are not applicable or not required, or the information is otherwise supplied.

(a)(3) See the Exhibit Index.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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

By: /s/ Gary L. Martin
Gary L. Martin, Chairman of the Board and President

Date: May 29, 2009

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS that each of Capital Southwest Corporation and its Subsidiaries undersigned directors hereby constitutes and appoints Gary L. Martin, its or his true and lawful attorney-in-fact and agent, for it or him and in its or his name, place and stead, in any and all capacities, with full power to act alone, to sign any and all amendments to this Report, and to file each such amendment to the Report, with all exhibits thereto, and any and all other documents in connection therewith, with the Securities and Exchange Commission, hereby granting unto said attorney-in-fact and agent full power and authority to do and perform any and all acts and things requisite and necessary to be done in and about the premises as fully to all intents and purposes as it or he might or could do in person, hereby ratifying and confirming all that said attorney-in-fact and agent may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirement of the Securities and Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated:

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ Gary L. Martin</u> Gary L. Martin	Chairman of the Board and President (chief executive officer)	May 29, 2009
<u>/s/ Donald W. Burton</u> Donald W. Burton	Director	May 29, 2009
<u>/s/ Graeme W. Henderson</u> Graeme W. Henderson	Director	May 29, 2009
<u>/s/ Samuel B. Ligon</u> Samuel B. Ligon	Director	May 29, 2009
<u>/s/ Gary L. Martin</u> Gary L. Martin	Director	May 29, 2009
<u>/s/ John H. Wilson</u> John H. Wilson	Director	May 29, 2009
<u>/s/ Tracy L. Morris</u> Tracy L. Morris	Chief Financial Officer (chief financial/accounting officer)	May 29, 2009

EXHIBIT INDEX

The following exhibits are filed with this report or are incorporated herein by reference to a prior filing, in accordance with Rule 12b-32 under the Securities Exchange Act of 1934. Asterisk denotes exhibits filed with this report. Double asterick denotes exhibits furnished with this report.

<u>Exhibit No.</u>	<u>Description</u>
3.1(a)	Articles of Incorporation and Articles of Amendment to Articles of Incorporation, dated June 25, 1969 (filed as Exhibit 1(a) and 1(b) to Amendment No. 3 to Form N-2 for the fiscal year ended March 31, 1979).
3.1(b)	Articles of Amendment to Articles of Incorporation, dated July 20, 1987 (filed as an exhibit to Form N-SAR for the six month period ended September 30, 1987).
3.2	By-Laws of the Company, as amended (filed as Exhibit 3.2 to form 10-K for the fiscal year ended March 31, 2007).
4.1	Specimen of Common Stock certificate (filed as Exhibit 4.1 to Form 10-K for the fiscal year ended March 31, 2002).
10.1	The RectorSeal Corporation and Jet-Lube, Inc. Employee Stock Ownership Plan as revised and restated effective April 1, 2007 (filed as Exhibit 10.1 to form 10-K for the fiscal year ended March 31, 2007).
10.2	Retirement Plan for Employees of Capital Southwest Corporation and Its Affiliates as amended and restated effective April 1, 2006 (filed as Exhibit 10.2 to form 10-K for the fiscal year ended March 31, 2007).
10.3*	Capital Southwest Corporation and Its Affiliates Restoration of Retirement Income Plan as amended and restated effective January 1, 2008.
10.6	Form of Indemnification Agreement which has been established with all directors and executive officers of the Company (filed as Exhibit 10.9 to Form 8-K dated February 10, 1994).
10.7	Capital Southwest Corporation 1999 Stock Option Plan (filed as Exhibit 10.10 to Form 10-K for the fiscal year ended March 31, 2000).
10.8	Severance Pay Agreement with William M. Ashbaugh (filed as Exhibit 10.1 to Form 8-K dated July 18, 2005).
10.10	Severance Pay Agreement with Jeffrey G. Peterson (filed as Exhibit 10.4 to Form 8-K dated July 18, 2005).
10.11	Amendment One to Retirement Plan for Employees of Capital Southwest Corporation and its Affiliates as amended and restated effective April 1, 2006 (filed as Exhibit 10.11 to form 10-K for the fiscal year ended March 31, 2008).
13.1*	Selected Consolidated Financial Data.
21.1*	List of subsidiaries of the Company.
23.1*	Consent of Independent Registered Public Accounting Firm – Grant Thornton LLP.
31.1*	Certification of Chairman of the Board and President 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.
31.2*	Certification of Chief Financial Officer required by Rule 13a-14(a) or Rule 15d-14(a) of the Exchange Act, filed herewith.
32.1**	Certification of Chairman of the Board and President 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.
32.2**	Certification of Chief Financial Officer required by Rule 13a-14(b) or Rule 15d-14(b) of the Exchange Act and Section 1350 of Chapter 63 of Title 18 of the United States Code, furnished herewith.

CAPITAL SOUTHWEST CORPORATION AND ITS AFFILIATES
2009 RESTORATION OF RETIREMENT INCOME PLAN

First effective April 1, 1993

Restatement Effective January 1, 2008

**CAPITAL SOUTHWEST CORPORATION AND ITS AFFILIATES
2009 RESTORATION OF RETIREMENT INCOME PLAN**

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**CAPITAL SOUTHWEST CORPORATION AND ITS AFFILIATES
2009 RESTORATION OF RETIREMENT INCOME PLAN**

SECTION 1

INTRODUCTION

- 1.1 **Introduction.** As of April 1, 1993, Capital Southwest Corporation (the “Company”), along with Capital Southwest Management Corporation, Jet-Lube, Inc., The RectorSeal Corporation, and The Whitmore Manufacturing Company, established the Capital Southwest Corporation and its Affiliates Restoration of Retirement Income Plan for Certain Highly Compensated Superseded Plan Participants, (“1993 Restoration Plan”) to provide each Participant with an additional restoration benefit to the benefit the Participant would have received under the Retirement Plan for Employees of Capital Southwest Corporation and its Affiliates (“Qualified Plan”) and the First Supplement to the Retirement Plan for Employees of Capital Southwest Corporation and its Affiliates (“First Supplement”) as in effect at that time and subsequently amended.

Effective January 1, 2005, §409A was added to the Code as part of the American Jobs Creation Act of 2004, effective as to deferred compensation earned on and after January 1, 2005.

Effective January 1, 2008, the Company fully amends, restates and renames the 1993 Restoration Plan as this Capital Southwest Corporation and its Affiliates 2009 Restoration of Retirement Income Plan (“Plan”) for the purpose of providing each Participant with a restoration benefit equal to the additional benefit the Participant would have received under the Qualified Plan, if the limits on such benefits imposed by Code §401(a)(17) and §415 did not apply, and as such restoration benefits may be modified under this Plan.

- 1.2 **Definitions.** When the following terms are used herein with initial capital letters, they shall have the following meanings:

1.2.1 **Accrued Benefit** – means the benefit of a Participant determined under the provisions of Section 3.

1.2.2 **Actuarial Equivalent** – means a benefit of equivalent value determined by the using the actuarial factors used under the Qualified Plan from time to time.

1.2.3 **Affiliate** – means any entity included with the Company in a controlled group of corporations or trades or businesses under common control within the meaning of Code §414(b) or §414(c), an affiliated service group within the meaning of Code §414(m), or any other entity required to be aggregated with the Company under Code §414(o). For all purposes under this Plan, in applying Code §1563(a)(1), (2) and (3) for purposes of determining the Company’s Affiliates under Code §414(b), the language “at least 80%” shall be applied as it appears in those sections, and in applying Treas. Reg. §1.414(c)-2 for purposes of determining trades or business (whether or not incorporated) that are under common control for purposes of Code §414(c), the language “at least 80%” shall be used as it appears in such regulation.

1.2.4 **Beneficiary** – means the person(s) designated to receive the benefits which may be payable under the Plan in the event of the Participant’s death as provided by Section 5.

- 1.2.5 **Benefit Commencement Date** – the first day of the seventh month that follows the occurrence of a payment event described in Section 4.1 with respect to a Participant. A Plan benefit will be treated as made upon the Participant’s Benefit Commencement Date if the payment is made at such date or a later date within the same calendar year or, if later, by the 15th day of the third calendar month following such Benefit Commencement Date. If calculation of the amount of the Plan benefit is not administratively practicable due to events beyond the control of the Company, the payment will be treated as made upon such Benefit Commencement Date if the benefit is paid during the first calendar year in which calculation of such benefit is administratively practicable.
- 1.2.6 **Code** – means the Internal Revenue Code of 1986, including applicable regulations for the specified section of the Code. Any reference herein to a section of the Code, including the applicable regulations, shall be considered also to mean and refer to any subsequent amendment or replacement of that section or regulation.
- 1.2.7 **Company** – means Capital Southwest Corporation, and its successor or successors.
- 1.2.8 **Compensation** – means the Participant’s compensation as defined under the Qualified Plan, except that for purposes of this Plan, Compensation shall not be limited by the provisions of Code §401(a)(17) and §415 as in effect from time to time.
- 1.2.9 **Credited Service** – means the same as that term is defined in the Qualified Plan, as in effect on December 31, 2008, including any subsequent adjustments described therein.
- 1.2.10 **Effective Date** – means April 1, 1993 for the original 1993 Restoration Plan. The effective date of this restatement is January 1, 2008.
- 1.2.11 **Eligible Employee** – means, for any Plan Year, the Presidents of Jet-Lube, Inc.; The RectorSeal Corporation; The Whitmore Manufacturing Company; Smoke Guard, Inc.; and Blue Magic, Inc.; as well any active employee of the Capital Southwest Management Company whose compensation is greater than the Code §401(a)(17) compensation limit, as indexed and applicable for that year.
- 1.2.12 **Employer** – means the Company, any business entity that is an Affiliate, and any business unit or division of the Company or an Affiliate that is designated by the Company as employing employees that are eligible to participate in this Plan. Any successor to an Employer shall also be an Employer for purposes of this Plan unless otherwise designated by the Company. An Employer shall cease to be such effective as of the date the entity, business unit or division ceases to be an Affiliate (or part of an Affiliate).
- 1.2.13 **ERISA** – means the Employee Retirement Income Security Act of 1974, including regulations for the specified section of ERISA. Any reference herein to a section of ERISA, including applicable regulations, shall be considered also to mean and refer to any subsequent amendment or replacement of that section or regulations.
- 1.2.14 **Final Average Monthly Compensation** – means the same as that term is defined in the Qualified Plan, as in effect on December 31, 2008, including any subsequent adjustments described therein.

- 1.2.15 **Monthly Covered Compensation** – means the same as that term is defined in the Qualified Plan, as in effect on December 31, 2008, including any subsequent adjustments described therein.
- 1.2.16 **Participant** – means anyone who is or has been an Eligible Employee and who has an Accrued Benefit under the Plan. An individual shall remain a Participant until the earlier of the Participant’s death or the date as of which the Participant’s entire Accrued Benefit shall have been distributed.
- 1.2.17 **Participation Date** – means the date as of which an Eligible Employee first becomes a Participant pursuant to the provisions of Section 2.
- 1.2.18 **Plan** – means this nonqualified defined benefit pension program maintained by the Company and established for the benefit of Participants eligible to participate therein, as set forth in this document as amended from time to time.
- 1.2.19 **Plan Year** – means each 12-month period commencing each April 1 and ending the next following March 31.
- 1.2.20 **Qualified Plan** – means the Retirement Plan for Employees of Capital Southwest Corporation and its Affiliates, as amended from time to time.
- 1.2.21 **Separation from Service** – means:
- (a) A Participant’s death, retirement or other termination of employment, from the Company and all Affiliates. A Separation from Service shall not be considered to have occurred and the Participant’s employment relationship is treated as continuing while the Participant is on military leave, sick leave, or other bona fide leave of absence if such period of leave does not exceed 6 months or, if longer, so long as the Participant’s right to reemployment is provided by statute or by contract. If the period of leave exceeds 6 months and such reemployment rights are not provided, then the Participant is deemed to have a termination of employment on the first date immediately following such 6-month period.
 - (b) A termination of employment will occur as of a specified date if the facts and circumstances indicate that (1) the Employer and the Participant reasonably anticipated that no further services would be performed after that date or (2) the level of bona fide services the Participant would perform after that date (whether as an employee or an independent contractor) would permanently decrease to 20% or less of the average level of bona fide services performed (whether as an employee or an independent contractor) over the immediately preceding 36-month period (or the full period of such services, if less than 36 months).
 - (c) A Participant is presumed to (1) have incurred a termination of employment from the Company and all Affiliates where the level of bona fide services the Participant performs after such date decreases to a level equal to 20% or less of the average level of services performed by the Participant over the immediately preceding 36-month period (on the full period of such services, if less than 36 months); and (2) not to have incurred a termination of employment from the Company and all Affiliates where the level of bona fide services the Participant performs after such date continues at a level equal to 50% or more of the average level of services performed by the Participant over the immediately preceding 36-month period (or the full period of such services, if less than 36 months). These presumptions can be rebutted by showing that the Employer and the Participant reasonably anticipated that there either would or would not have been a Separation from Service in accordance with paragraph (b).

- (d) In the case of a Participant who is an independent contractor, Separation from Service means the expiration of the contract (or, as applicable, all contracts) under which services are performed for the Company or any of its Affiliates if the expiration constitutes a good-faith and complete termination of the contractual relationship.

1.2.22 **Spouse** – means a Participant’s “spouse,” if any, as determined under the Qualified Plan.

1.2.23 **Trust** – means a grantor trust agreement for the Plan, if any, established by the Company pursuant to Section 6.

1.2.24 **Trust Fund** – means the fund or funds, if any, held under the Trust established by the Company pursuant to Section 6.

1.2.25 **Trustee** – means that person or entity, if any, which shall have been appointed by the Company to hold the assets of any Trust created pursuant to Section 6.

1.3 **Rules of Interpretation.** The following rules shall apply for purposes of interpreting this Plan:

1.3.1 An individual shall be considered to have attained a given age on such individual’s birthday for that age (and not on the day before). Individuals born on February 29 in a leap year shall be considered to have their birthdays on February 28 in each year that is not a leap year.

1.3.2 Whenever appropriate, words used herein in the singular may be read in the plural, or words used herein in the plural may be read in the singular; the masculine may include the feminine; and the words “hereof,” “herein” or “hereunder” or other similar compounds of the word “here” shall mean and refer to this entire Plan document and not to any particular paragraph or section of this Plan document unless the context clearly indicates to the contrary.

1.3.3 If, under the rules of this Plan, an election, form or other document (whether in written or electronic form) must be filed with or received by the Company, it must be actually received by the Company or its agent to be effective. The determination of whether or when an election, form or other document has been received by the Company shall be made by the Company on the basis of what documents are acknowledged by the Company to be in its actual possession without regard to any “mailbox rule” or similar rule of evidence. The absence of a document in the Company’s records and files shall be conclusive and binding proof that the document was not received.

1.3.4 The titles given to the various sections of this Plan document are inserted for convenience of reference only and are not part of this Plan document, and they shall not be considered in determining the purpose, meaning or intent of any provision hereof.

1.3.5 This Plan shall be construed and this Plan shall be administered to create an unfunded plan providing deferred compensation to a select group of management or highly compensated employees so that it is exempt from the requirements of Parts 2, 3 and 4 of Title I of ERISA and qualifies for a form of simplified, alternative compliance with the reporting and disclosure requirements of Part 1 of Title I of ERISA. It is further intended that this Plan shall satisfy the conditions for a deferral of income pursuant to the provisions of Code §409A. If any provision of this Plan may be susceptible to more than one interpretation or to an interpretation that may result in the Plan’s failing to satisfy Code §409A, such provision shall be applied as construed in a manner that is consistent with the provisions of such Code section.

- 1.3.6 This Plan shall be binding upon and inure to the benefit of the Company and its Affiliates, and its successors and assigns, and to the benefit of the Participants, their Spouses, Beneficiaries, assigns, successors, heirs, executors, and administrators.
- 1.3.7 This document has been executed and delivered in the State of Texas and has been drawn in conformity to the laws of that State and shall, subject to the foregoing, be construed and enforced in accordance with the laws of the State of Texas.

SECTION 2

PARTICIPATION

- 2.1 **Participation.** The Participation Date of each Eligible Employee shall be the first date he accrues a benefit under Section 3 of this Plan. If an Eligible Employee dies or incurs a Separation from Service before his Participation Date, such individual shall have no benefit entitlement under this Plan.
- 2.2 **Cessation of Eligibility.** If during a Plan Year, a Participant has a Separation from Service, his accruals shall cease on the date of such separation. If during a Plan Year, a Participant continues in employment but ceases to satisfy the criteria that qualified him as an Eligible Employee (including, for this purpose, the requirement that such individual be member of a select group of management or highly compensated employees (as that expression is used in ERISA)), his accruals under the Plan shall continue for the rest of such Plan Year and shall then cease. The Company may from time to time amend this Plan such that the accruals of any Participant shall cease as to Plan Years after the Plan Year of such Company decision. Such employee shall, however, remain a Participant in this Plan until his Plan benefit has been distributed.

SECTION 3

BENEFIT

- 3.1 **Accrued Benefit.** If, at any time any benefit that would otherwise be accrued and become payable under the provisions of the Qualified Plan to a Participant, including any benefit payable to the Participant's Spouse or other Beneficiary, shall be reduced by reason of the limitations on maximum benefits under Code §415 (as adjusted under the Code) and/or the limitation on the amount of Compensation of a Participant that may be considered under Code §401(a)(17) (as adjusted under the Code), the Participant or his Spouse or other Beneficiary shall be entitled to receive a benefit under this Plan, equal to excess, if any, of –

- (a) amount equal to the sum of:
- (1) 1.20% of his Final Average Monthly Compensation multiplied by his number of years of Credited Service that are not in excess of 40 years, calculated without regard to the limitations imposed by Code §415(b) (as adjusted under the Code) and /or the limitation on the amount of Compensation of a Participant that may be considered under Code §401(a)(17);

plus
 - (2) 0.65% of that portion, if any, of his Final Average Monthly Compensation that is in excess of the Monthly Covered Compensation that applies to him multiplied by his number of years of Credited Service that are not in excess of 40 years, calculated without regard to the limitations imposed by Code §415(b) (as adjusted under the Code) and /or the limitation on the amount of Compensation of a Participant that may be considered under Code §401(a)(17);

over
- (b) the amount of the Participant's actual benefit under the Qualified Plan as limited by Code §401(a)(17) and/or §415.

The net amount so determined shall be multiplied by a percentage that is the Participant's Vested Percentage, as that term is defined and determined under the Qualified Plan, and the product shall be the Participant's Accrued Benefit under this Plan.

- 3.2 **No Duplication of Benefits.** This Plan shall supplement, but not duplicate, the benefits provided to Participants under the Qualified Plan, or any other, similar plan or contract or other arrangement.

SECTION 4

PAYMENT OF BENEFITS

- 4.1 **Payment.** Subject to the following provisions of this Section 4, a Participant's Accrued Benefit shall be paid as an annuity in accordance with Section 4.2 and the Participant's Benefit Commencement Date shall follow the later to occur of the Participant's attainment of age 55 or Separation from Service. Notwithstanding the foregoing:
- 4.1.1 **Small Amounts.** If the lump sum present value of the Participant's Accrued Benefit (determined using the factors for actuarial equivalencies under the Qualified Plan) at the time of such Participant's Separation from Service is less than \$10,000, such Participant's benefit under this Plan shall be paid as a single lump sum payment and the Participant's Benefit Commencement Date shall be determined based upon such Participant's Separation from Service and such payment shall be deemed to satisfy and terminate fully the Participant's interest in this Plan. Any such payment shall be made on or before the later of December 31 of the calendar year of such Separation from Service, or the 15th day of the third month following such Separation from Service.
 - 4.1.2 **Death.** A Participant who dies before his Separation from Service shall have a Benefit Commencement Date determined based upon the date of his death and such Participant's benefit under this Plan shall be paid as a single lump sum payment.

- 4.2 **Form of Payment.** The form of payment of the Participant's Accrued Benefit, except in the case of a small amount as described in Section 4.1.1 or upon the Participant's death before his Separation from Service, shall be as elected by the Participant from among the actuarially equivalent life annuity optional forms of benefit under the Qualified Plan at the time such election is made. Such election must be made in the manner prescribed by the Company from time to time and must be made by the Participant before the earlier of the Participant's Benefit Commencement Date or the date the Participant's benefit payments actually commence. If the Participant fails to file an election or if such election is void, the Participant's benefit shall be paid in the form of a single life annuity if the Participant is unmarried or a 100% qualified joint and survivor benefit if the Participant is married. For purposes of the foregoing, a determination whether a Qualified Plan optional benefit form is an "actuarially equivalent life annuity" shall be made pursuant to the provisions of Code §409A, and shall not include any installment payments and shall not include a lump sum payment option except as provided under Section 4.1.1 or 4.1.2, above.
- 4.3 **Withholding of Taxes.** The benefits payable under this Plan shall be subject to the deduction of any federal, state, or local income taxes, FICA, FUTA or other taxes that are required to be withheld from such payments by applicable laws and regulations.
- 4.4 **Acceleration of Benefit Payments.** Notwithstanding the preceding provisions of this Section 4, the Company, in its sole discretion, may decide to make payments under the Plan under this Section 4.4 prior to the Participant's Benefit Commencement Date in accordance with Treas. Reg. Section 1.409A-3(j)(4). If payments are made to or on behalf of a Participant in accordance with this Section 4.4 then any payments that would otherwise be made under this Plan at any later date shall be reduced by the payments so made. Payments that may be made in accordance with this Section 4.4 shall be paid as of the "Benefit Commencement Date" that would apply if the payment event under this Section 4.4 were substituted for the payment event otherwise applicable under Section 4.1. Payment events under this Section 4.4 shall include, but shall not be limited to, payments made under the following circumstances:
- 4.4.1 **Payment upon Income Inclusion under Code §409A.** If this Plan fails to meet the requirements of Code §409A, the amount of a Participant's Accrued Benefit that is required to be included in the income of the affected Participant due to such failure shall be paid to such Participant in a single lump sum.
- 4.4.2 **Conflicts of Interest.** Each Participant's Accrued Benefit shall be paid at such time and to the extent permitted by Treas. Reg. §1.409A-3(j)(4)(iii) in connection with ethics agreements with the Federal government and applicable Federal, state, local or foreign ethics or conflicts of interest laws.
- 4.5 **Delay of Payments.** Notwithstanding any provision of this Plan to the contrary, the payment of any benefit under this Plan may be postponed until after the Participant's Benefit Commencement Date to the extent permitted under the provisions of Code §409A and related regulations, but if such payment is described in 4.5.1 or 4.5.2 below then all payments to similarly situated Participants shall be treated in the same manner. The types of delays that are permitted include, but are not limited to, the following:
- 4.5.1 If the Company reasonably determines that if a payment were made as scheduled the Employer's deduction with respect to such payment would not be permitted under Code §162(m), then the Company may unilaterally delay the payment of such benefit provided such payment is made either during the first calendar year in which the Employer reasonably anticipates that such deduction will not be barred by application of Code §162(m), or, if later, during the period beginning on the date of the Participant's Separation from Service and ending on the later of the last day of the calendar in year in which such Separation from Service occurred or the first day of the seventh month following the Participant's Separation from Service.

- 4.5.2 If the Company reasonably anticipates that the payment of a benefit would violate Federal securities laws or other applicable law, the Company may cause the Plan to delay payment of a Participant's benefit until such time as the Company reasonably anticipates that the payment of such benefit will not cause such violation.
- 4.5.3 A payment may be delayed to the extent that the Company reasonably determines that payment will jeopardize the Company's ability to continue as a going concern, provided that payment is made during the first calendar year in the payment would not have such effect.
- 4.5.4 A payment may be delayed to the extent that the Company reasonably determines that due to circumstances beyond the control of the Participant the calculation of the amount of the Participant's payment is not administratively practicable, provided that payment is made during the first calendar year in which the calculation of the payment amount is administratively practicable.

4.6 **Forfeiture of Benefits.** If a Participant's Separation from Service is a result of dishonest conduct injurious to an Employer, or if dishonest conduct injurious to an Employer committed by a Participant is determined by the Company during the lifetime of the Participant and within one year after his Separation from Service or within one year after his retirement under the Qualified Plan, the Company may terminate such Participant's benefits rights and interest under this Plan. The dishonest conduct injurious to the Employer committed by a Participant shall be determined and decided by the Company only after a full investigation of such alleged dishonest conduct and an opportunity has been given the Participant or his representative to appear before the Company to present his case in accordance with the rules and regulations provided under Section 8. The decision made by the Company in such cases shall be final and binding on all Participants and any other person claiming any benefit forfeited as a result of such decision or otherwise affected by such decision.

SECTION 5

BENEFICIARIES

5.1 **Designation.** Each Participant may, from time to time during his or her lifetime and prior to the Participant's Benefit Commencement Date, designate the Beneficiary(s) to receive the benefits which may be payable under the Plan in the event of the Participant's death. Each such designation will revoke all prior designations by such Participant and shall be in writing on a form provided for that purpose and filed with the Company. A Participant's Spouse must consent in writing to the designation and form of benefit if the Spouse is not the primary beneficiary. Such consent shall be made in the time and form specified by the Company from time to time. The designated Beneficiary may be changed by a Participant from time to time before the Participant's Accrued Benefit is paid or payment commences, pursuant to rules established by the Administrator. The designation last made by the Participant before his death shall control. In the event a Participant fails to make a Beneficiary designation under this Plan, the Participant's Beneficiary shall be the same as his Beneficiary under the Qualified Plan.

5.2 **Application for Payment.** No distribution shall be made to any Participant or Beneficiary of a deceased Participant until such Participant or Beneficiary has provided to the Company such information as the Company may from time to time prescribe and the Company has approved the information so provided.

5.3 **Facility of Payment.** If a Participant is under a legal disability or, by reason of illness or mental or physical disability, is, in the opinion of the Company, unable to attend to the Participant's personal financial matters, the Company may make such payments in such of the following ways as the Company shall determine: (i) directly to such Participant or Beneficiary, (ii) to the legal representative of such Participant or Beneficiary, or (iii) to a custodian for the benefit of such Participant or Beneficiary, which custodian may be any person eligible to act for such person (including but not limited to a relative by blood or marriage, or a friend) under the applicable Uniform Custodial Trust Act. Any payment made pursuant to these provisions shall be a complete discharge of the obligations to the Participant under the Plan.

SECTION 6

UNFUNDED PLAN

6.1 **Establishment of Trust.** The obligation of the Employer to make payments under this Plan constitutes only the unsecured (but legally enforceable) and unfunded promise of the Employer to make such payments. A Participant shall have no lien, prior claim or other security interest in any property of the Employer. The Employer is not required to establish or maintain any fund, trust or account (other than a bookkeeping account or reserve) for the purpose of funding or paying the benefits promised under this Plan. If such a fund is established, the property therein shall remain the sole and exclusive property of the Employer.

6.2 **Funding and Location of Trust.** Any trust established by the Company for purposes of paying benefits under this Plan, and the taxation of any assets held in such trust on behalf of Participants, shall be subject to the requirements of Code §409A, including (a) the rules pertaining to offshore funding set forth in Code §409A(b)(1), (b) the transfers of assets for the benefit of covered employees (as defined in Code §409A(b)(3)(d)(ii)) when a defined benefit plan of the Company defined benefit pension plan is in a restricted period, and (c) the restriction of assets in connection with a change in the Company's financial health under Code §409A(b)(2).

6.3 **Interrelationship of the Plan and the Trust.** The provisions of the Plan shall govern the rights of a Participant or Beneficiary to receive distributions pursuant to the Plan. The provisions of the Trust (if any) shall govern the rights of the Employer, the Participants, and the creditors of the Employer relative to any property of the Employer set aside therein. The Employer shall at all times prior to the Plan's termination remain liable to carry out its responsibilities under the Plan.

6.4 **Distributions from the Trust.** The Employers' obligations under the Plan may be satisfied with assets of the Trust, if any, distributed pursuant to the terms thereof, and any such distribution shall reduce the Employers' obligations under the Plan.

6.5 **Spendthrift Provision.** No Participant or Beneficiary shall have any interest in any account or Trust which can be transferred nor shall any Participant or Beneficiary have any power to anticipate, alienate, dispose of, pledge or encumber the same while in the possession or control of the Employer or the Trustee, if any, nor shall any Accrued Benefit or the Trust, if any, be subject to attachment, garnishment, execution following judgment or other legal process while in the possession or control of the Employer or any Trustee.

SECTION 7

AMENDMENT AND TERMINATION

- 7.1 **Amendment.** The Plan may be amended consistent with Code §409A from time to time in any respect whatever by the Company without the consent of Participants or Beneficiaries. Any such amendment may be retroactive, prospective or both. No such amendment of the Plan, however, shall reduce a Participant's Accrued Benefit earned as of the date of such amendment unless the Participant so affected consents in writing to the amendment.
- 7.2 **Termination.** The Company reserves the right at any time to discontinue benefit accruals and terminate this Plan; provided, however, if this Plan should be terminated, the Employer shall be liable for any benefits accrued under this Plan as of the date of such action for Participants who are or have been employed by the Employer, where such accrued benefits shall be the actuarially determined benefits as of such date of amendment or termination which each Participant, Spouse or Beneficiary is receiving under this Plan or, with respect to a Participant who is in the employment of the Employer on such date, which such Participant would have received as of such date under this Plan if his employment had terminated for a reason other than death as of the date of such amendment or termination. No amendment or discontinuance shall accelerate the time for the payment of the benefits accrued under this Plan. Such benefits shall be paid in accordance with the terms of Section 4 of this Plan, which shall survive the termination of the Plan and remain in full force and effect until all Participants have received full payment of their benefits under this Plan.

SECTION 8

DETERMINATIONS — RULES AND REGULATIONS

- 8.1 **Determinations.** The Company shall make such determinations as may be required from time to time in the administration of the Plan. The Company shall have the sole discretion, authority and responsibility to interpret and construe this Plan document and to determine all factual and legal questions under the Plan, including but not limited to the entitlement of any persons to benefits and the amounts of their benefits. The actuary, the Trustee and other interested parties may act and rely upon all information reported to them hereunder and need not inquire into the accuracy thereof nor be charged with any notice to the contrary.
- 8.2 **Rules and Regulations.** Any rule not in conflict or at variance with the provisions hereof may be adopted by the Company.
- 8.3 **Method of Executing Instruments.** Information to be supplied or written notices to be made or consents to be given by the Company pursuant to any provision of this Plan document may be signed in the name of the Company by any committee appointed by the Company or by any officer who has been authorized to make such certification or to give such notices or consents.
- 8.4 **Claims and Review Procedure.** Until modified by the Company, the claims and review procedure set forth in this Section 8.4 shall be the mandatory claims and review procedure for the resolution of disputes and disposition of claims filed under the Plan. An application for benefits shall be considered as a claim for the purposes of this Section 8.4.

- 8.4.1 **Initial Claim.** An individual may, subject to any applicable deadline, file with the Company a written claim for benefits under the Plan in a form and manner prescribed by the Company.
- (a) If the claim is denied in whole or in part, the Company shall notify the claimant of the adverse benefit determination within ninety (90) days after receipt of the claim.
 - (b) The ninety (90)-day period for making the claim determination may be extended for ninety (90) days if the Company determines that special circumstances require an extension of time for determination of the claim, provided that the Company notifies the claimant, prior to the expiration of the initial ninety (90)-day period, of the special circumstances requiring an extension and the date by which a claim determination is expected to be made.
- 8.4.2 **Notice of Initial Adverse Determination.** A notice of an adverse determination shall set forth in a manner calculated to be understood by the claimant:
- (a) the specific reasons for the adverse determination;
 - (b) references to the specific provisions of the Plan document (or other applicable Plan document) on which the adverse determination is based;
 - (c) a description of any additional material or information necessary to perfect the claim and an explanation of why such material or information is necessary; and
 - (d) a description of the claims review procedure, including the time limits applicable to such procedure, and a statement of the claimant's right to bring a civil action under ERISA §502(a) following an adverse determination on review.
- 8.4.3 **Request for Review.** Within sixty (60) days after receipt of an initial adverse benefit determination notice, the claimant may file with the Company a written request for a review of the adverse determination and may, in connection therewith submit written comments, documents, records and other information relating to the claim benefits. Any request for review of the initial adverse determination not filed within sixty (60) days after receipt of the initial adverse determination notice shall be untimely.
- 8.4.4 **Claim on Review.** If the claim, upon review, is denied in whole or in part, the Company shall notify the claimant of the adverse benefit determination within sixty (60) days after receipt of such a request for review.
- (a) The sixty (60)-day period for deciding the claim on review may be extended for sixty (60) days if the Company determines that special circumstances require an extension of time for determination of the claim, provided that the Company notifies the claimant, prior to the expiration of the initial sixty (60)-day period, of the special circumstances requiring an extension and the date by which a claim determination is expected to be made.
 - (b) In the event that the time period is extended due to a claimant's failure to submit information necessary to decide a claim on review, the claimant shall have sixty (60) days within which to provide the necessary information and the period for making the claim determination on review shall be tolled from the date on which the notification of the extension is sent to the claimant until the date on which the claimant responds to the request for additional information or, if earlier, the expiration of sixty (60) days.

- (c) The Company's review of a denied claim shall take into account all comments, documents, records, and other information submitted by the claimant relating to the claim, without regard to whether such information was submitted or considered in the initial benefit determination.

8.4.5 **Notice of Adverse Determination for Claim on Review.** A notice of an adverse determination for a claim on review shall set forth in a manner calculated to be understood by the claimant:

- (a) the specific reasons for the denial;
- (b) references to the specific provisions of the Plan document (or other applicable Plan document) on which the adverse determination is based;
- (c) a statement that the claimant is entitled to receive, upon request and free of charge, reasonable access to, and copies of, all documents, records, and other information relevant to the claimant's claim for benefits;
- (d) a statement describing any voluntary appeal procedures offered by the Plan and the claimant's right to obtain information about such procedures; and
- (e) a statement of the claimant's right to bring an action under ERISA §502(a).

8.5 **Deadline to File Claim.** To be considered timely under the Plan's claim and review procedure, a claim must be filed with the Company within one (1) year after the claimant knew or reasonably should have known of the principal facts upon which the claim is based.

8.6 **Exhaustion of Administrative Remedies.** The exhaustion of the claim and review procedure is mandatory for resolving every claim and dispute arising under the Plan. As to such claims and disputes:

- (a) no claimant shall be permitted to commence any legal action to recover Plan benefits or to enforce or clarify rights under the Plan under ERISA §502 or §510 or under any other provision of law, whether or not statutory, until the claim and review procedure set forth herein have been exhausted in their entirety; and
- (b) in any such legal action all explicit and all implicit determinations by the Company (including, but not limited to, determinations as to whether the claim, or a request for a review of a denied claim, was timely filed) shall be afforded the maximum deference permitted by law.

8.7 **Deadline to File Legal Action.** No legal action to recover Plan benefits or to enforce or clarify rights under the Plan under ERISA §502 or §510 or under any other provision of law, whether or not statutory, may be brought by any claimant on any matter pertaining to the Plan unless the legal action is commenced in the proper forum before the earlier of:

- (a) thirty (36) months after the claimant knew or reasonably should have known of the principal facts on which the claim is based, or

(b) twelve (12) months after the claimant has exhausted the claim and review procedure.

- 8.8 **Knowledge of Fact by Participant Imputed to Beneficiary.** Knowledge of all facts that a Participant knew or reasonably should have known shall be imputed to every claimant who is or claims to be a Beneficiary of the Participant or otherwise claims to derive an entitlement by reference to the Participant.
- 8.9 **Information Furnished by Participants.** The Company shall not be liable or responsible for any error in the computation of the Accrued Benefit of a Participant resulting from any misstatement of fact made directly or indirectly by the Participant and used by the Company in determining the Participant's Accrued Benefit. The Company shall not be obligated or required to increase the Accrued Benefit of such Participant which, on discovery of the misstatement, is found to be understated as a result of such misstatement of the Participant. However, the Accrued Benefit of any Participant which is overstated by reason of any such misstatement shall be reduced to the amount appropriate in view of accurate facts.
- 8.10 **Errors in Benefit Statement or Distributions.** If an error is made in any benefit statement, such error shall be corrected on the next benefit statement following the date such error is discovered. In the event of an error in a distribution, the Participant's remaining benefit payments shall promptly be adjusted to correct such error and such adjustment shall to the extent practicable be done in a manner that complies with Code §409A.
- 8.11 **Inability to Locate Participant.** Each person entitled to benefits under the Plan shall also furnish the Company with such documents, evidence, data, or information as the Company considers necessary or desirable for the purposes of administering the Plan. It is the responsibility of a Participant or his Beneficiary to notify the Company of any change in address of the Participant or his Beneficiary. In the event that the Company is unable to locate a Participant or Beneficiary within two years following the date distributions from this Plan to a Participant or a Beneficiary are scheduled to commence then such amounts shall be forfeited. If, after such forfeiture, the Participant or Beneficiary later claims such benefit, then subject to the requirements of Code §409A, such benefit shall be reinstated as of the date of forfeiture without deemed earnings or losses being credited after the date of forfeiture thereon.
- 8.12 **Overpayments.** If a payment or series of payments made from this Plan is found to be greater than the Accrued Benefit to which a Participant or Beneficiary is entitled due to factual errors, mathematical errors or otherwise, the Company may, in its discretion and to the extent consistent with Code §409A and in addition to or in lieu of any other legal remedies it may have, suspend or reduce future benefits to such Participant or Beneficiary as it deems appropriate to correct the overpayment.

SECTION 9

ADMINISTRATION

- 9.1 **Administration.** Except as hereinafter provided, administrative functions generally assigned to the Company shall be discharged by the Company's Board of Directors. The Board of Directors shall have the authority to make such rules and regulations and to take such action as may be necessary to carry out the provisions of the Plan and shall, subject to the provisions of the Plan, decide any questions arising in the administration, interpretation and application of the Plan, which decisions shall be conclusive and binding on all parties. The Board of Directors may allocate or delegate any part of its authority and duties as it deems expedient. To the extent so delegated, any references to the Company or the Board of Directors as to administrative matters shall be treated as references to the Board of Director's delegate.

- 9.2 **Actuary.** The actuary will do such technical and advisory work as the Company may request. The actuary shall be appointed by the Board of Directors to serve as long as it is agreeable to the Company and the actuary.
- 9.3 **Service of Process.** In the absence of any designation to the contrary by the Company, the Secretary of the Company is designated as the appropriate and exclusive agent for the receipt of service of process directed to the Plan in any legal proceeding, including arbitration, involving the Plan.
- 9.4 **Administrative Expenses.** The reasonable expenses of administering the Plan shall be payable out of the Trust Fund, if any, except to the extent that the Employer, in its discretion, directly pays the expenses.

SECTION 10

DISCLAIMERS

- 10.1 **Term of Employment.** Neither the terms of this Plan document nor the benefits hereunder nor the continuance thereof shall be a term of the employment of any employee. The Employer shall not be obliged to continue the Plan. The terms of this Plan document shall not give any employee the right to be retained in the employment of the Employer.
- 10.2 **Source of Payment.** Each Participant, Spouse, Beneficiary or any other person entitled at any time to payments hereunder shall look solely to the assets of the Employer for such payments. In each case where benefits shall have been distributed to a former Participant (or any Spouse, Beneficiary or any other person claiming benefits under such Participant) and which purports to cover in full the Accrued Benefit payable by the Plan, such former Participant (or any Spouse, Beneficiary or any other person claiming benefits under such Participant) shall have no further right or interest in the Plan or in other assets of the Employer. Neither the Employer nor any of its officers, nor the Board of Directors nor any member of such Board shall be under any liability or responsibility for failure to affect any of the objectives or purposes of the Plan by reason of the insolvency of the Employer.
- 10.3 **Delegation.** The Employer, and its officers and the members of its Board of Directors shall not be liable for an act or omission of another person with regard to a responsibility that has been allocated to or delegated to such other person pursuant to the terms of this Plan document or pursuant to procedures set forth in this Plan document.

[NEXT PAGE IS PAGE 15]

IN WITNESS WHEREOF, CAPITAL SOUTHWEST CORPORATION, CAPITAL SOUTHWEST MANAGEMENT CORPORATION, JET-LUBE, INC., THE RECTORSEAL CORPORATION, THE WHITMORE MANUFACTURING COMPANY, SMOKE GUARD, INC. and BLUE MAGIC, INC. have caused this instrument to be executed by their duly authorized officers on this ____ day of _____, 20____, effective as of April 1, 2008.

CAPITAL SOUTHWEST CORPORATION

CAPITAL SOUTHWEST MANAGEMENT CORPORATION

By _____

By

Title: _____

Title:

JET-LUBE, INC.

THE RECTORSEAL CORPORATION

By _____

By

Title: _____

Title:

THE WHITMORE MANUFACTURING COMPANY

SMOKE GUARD, INC.

By _____

By

Title: _____

Title:

BLUE MAGIC, INC.

By _____

Title: _____

The RectorSeal Corporation **\$107,200,000**

The RectorSeal Corporation, Houston, Texas, with facilities in Texas, New York and Idaho, manufactures specialty chemical products including pipe thread sealants, firestop sealants, plastic cements and other formulations for plumbing, HVAC, electrical and industrial applications. The company also makes special tools for plumbers and systems for containing smoke from building fires. RectorSeal's subsidiary, Jet-Lube, Inc., with plants in Texas, England and Canada, produces anti-seize compounds, specialty lubricants and other products used in industrial and oil field applications. Another subsidiary produces and sells automotive chemical products. RectorSeal also owns a 20% equity interest in The Whitmore Manufacturing Company (described on page 5).

During the year ended March 31, 2009, RectorSeal earned \$10,170,000 on revenues of \$111,792,000, compared with earnings of \$11,649,000 on revenues of \$112,029,000 in the previous year. RectorSeal's earnings do not reflect its 20% equity in The Whitmore Manufacturing Company.

At March 31, 2009, Capital Southwest owned 100% of RectorSeal's common stock having a cost of \$52,600 and a value of \$107,200,000.

Lifemark Group **\$71,000,000**

Lifemark Group, Hayward, California, owns and operates cemeteries, funeral homes, mausoleums and mortuaries. Lifemark's operations, all of which are in California, include a major cemetery and funeral home in San Mateo, a mausoleum and an adjacent mortuary in Oakland and cemeteries, mausoleums and mortuaries in Hayward and Sacramento. The company also owns a funeral home in San Bruno. Its funeral and cemetery trusts enable Lifemark's clients to make pre-need arrangements. The company's assets also include excess real estate holdings.

For the fiscal year ended March 31, 2009, Lifemark reported earnings of \$635,000 on revenues of \$28,193,000, compared with earnings of \$529,000 on revenues of \$29,682,000 in the previous year.

At March 31, 2009, Capital Southwest owned 100% of Lifemark Group's common stock, which had a cost of \$4,510,400 and was valued at \$71,000,000.

Encore Wire Corporation **\$65,388,000**

Encore Wire Corporation, McKinney, Texas, manufactures a broad line of copper electrical building wire and cable including non-metallic sheathed, underground feeder and THHN wire and cable as well as armored cable for residential, commercial and industrial construction. Encore's products are sold through distributors and building materials retailers.

For the year ended December 31, 2008, Encore reported net income of \$39,771,000 (\$1.72 per share) on net sales of \$1,081,132,000, compared with net income of \$30,796,000 (\$1.32 per share) on net sales of \$1,184,786,000 in the previous year. The March 31, 2009 closing Nasdaq bid price of Encore's common stock was \$21.41 per share.

At March 31, 2009, the \$5,800,000 investment in 4,086,750 shares of Encore's restricted common stock by Capital Southwest and its subsidiary was valued at \$65,388,000 (\$16.00 per share), representing a fully-diluted equity interest of 17.2%.

The Whitmore Manufacturing Company **\$36,000,000**

The Whitmore Manufacturing Company, Rockwall, Texas, manufactures specialty lubricants for heavy equipment used in surface mining, railroads and other industries, and produces water-based coatings for the automotive and primary metals industries. Whitmore's Air Sentry division manufactures fluid contamination control devices. The company's assets also include several commercial real estate interests.

During the year ended March 31, 2009, Whitmore reported net income of \$3,209,000 on net sales of \$28,163,000, compared with net income of \$2,879,000 on net sales of \$23,148,000 in the previous year. The company is owned 80% by Capital Southwest and 20% by Capital Southwest's subsidiary, The RectorSeal Corporation (described on page 5).

At March 31, 2009, the direct investment in 80% of Whitmore by Capital Southwest was valued at \$36,000,000 and had a cost of \$1,600,000.

Alamo Group Inc.**\$22,642,400**

Alamo Group Inc., Seguin, Texas, is a leading designer, manufacturer and distributor of heavy-duty, tractor and truck mounted mowing and other vegetation maintenance equipment, mobile excavators, street-sweeping and snow removal equipment and replacement parts. Founded in 1969, Alamo Group operates 16 manufacturing facilities and serves governmental, industrial and agricultural markets in North America, Europe, and Australia.

For the year ended December 31, 2008, Alamo reported net income of \$10,999,000 (\$1.11 per share) on net sales of \$557,135,000, compared with net income of \$12,365,000 (\$1.24 per share) on net sales of \$504,386,000 in the previous year. The March 31, 2009 closing NYSE market price of Alamo's common stock was \$10.66 per share.

At March 31, 2009, the \$2,190,937 investment in Alamo by Capital Southwest and its subsidiary was valued at \$22,642,400 (\$8.00 per share), consisting of 2,830,300 restricted shares of common stock, representing a fully-diluted equity interest of 26.0%.

Media Recovery, Inc.**\$14,800,000**

Media Recovery, Inc. (MRI) is a holding company of three operating divisions, Media Recovery, ShockWatch and Damage Prevention Company. Its Media Recovery division provides datacenter supplies and services to corporate customers through its direct sales force. Its ShockWatch division manufactures monitoring devices used to detect mishandled shipments and devices for monitoring material handling equipment. Media Recovery's subsidiary, The Damage Prevention Company, Denver, Colorado, manufactures dunnage products used to prevent damage in trucking, rail and export container shipments.

During the year ended September 30, 2008, Media Recovery reported net income of \$4,354,000 on net sales of \$132,864,000, compared with net income of \$4,744,000 on net sales of \$134,180,000 in the previous year.

At March 31, 2009, the \$5,415,000 investment in Media Recovery by Capital Southwest and its subsidiary was valued at \$14,800,000, consisting of 800,000 shares of Series A convertible preferred stock and 4,000,002 shares of common stock, representing a fully-diluted equity interest of 97.1%.

Heelys, Inc.**\$13,975,965**

Heelys, Inc., Carrollton, Texas, markets and distributes specialty stealth skate footwear, equipment and apparel under the brand name Heelys. The company manufactures its products in China and Korea and distributes them through domestic and international sporting goods chains, department and lifestyle stores and specialty footwear retailers.

During the year ended December 31, 2008, Heelys reported net loss of \$5,924,000 (-\$0.22 per share) on net sales of \$70,741,000, compared with net income of \$22,317,000 (\$0.79 per share) on net sales of \$183,472,000 in the previous year. The March 31, 2009 closing Nasdaq bid price of Heely's common stock was \$1.70 per share.

At March 31, 2008, the \$102,490 investment in Heelys by Capital Southwest's subsidiary was valued at \$13,975,965 (\$1.50 per share), consisting of 9,317,310 restricted shares of common stock, representing a fully-diluted equity interest of 31.1%.

Palm Harbor Homes, Inc.**\$9,818,901**

Palm Harbor Homes, Dallas, Texas, is an integrated manufacturer and retailer of manufactured and modular housing produced in 9 plants and sold in 29 states by 86 company-owned retail stores and builder locations and approximately 150 independent dealers, builders and developers.

During the year ended March 27, 2009, Palm Harbor reported a net loss of \$26,304,000 (-\$1.15 per share) on net sales of \$409,274,000, compared with net loss of 124,262,000 (-\$5.44 per share) on net sales of 555,096,000 for the year ended March 28, 2008. The March 31, 2009 closing Nasdaq bid price of Palm Harbor's common stock was \$2.21 per share.

At March 31, 2009, the \$10,931,955 investment in Palm Harbor by Capital Southwest and its subsidiary was valued at \$9,818,901 (\$1.25 per share), consisting of 7,855,121 restricted shares of common stock, representing a fully-diluted equity interest of 31.5%.

Hologic, Inc.	\$8,277,286
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Hologic, Inc., Bedford, Massachusetts, is a leading developer, manufacturer and supplier of bone densitometers, mammography and breast biopsy devices, direct-to-digital x-ray systems and other x-ray based imaging systems. These products are generally targeted to address women's healthcare and general radiographic applications.

For the year ended September 27, 2008, Hologic reported net loss of \$385,617,000 (-\$1.57 per share) on net sales of \$1,674,499,000, compared with net income of \$94,578,000 (\$0.86 per share) on net sales of \$738,368,000 in the previous year. The March 31, 2009 closing Nasdaq bid price of Hologic's common stock was \$13.08 per share.

At March 31, 2009, Capital Southwest and its subsidiary owned 632,820 unrestricted shares of common stock, having a cost of \$220,000 and a market value of \$8,277,288 (\$13.08 per share).

Balco, Inc.	\$6,600,000
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Balco, Inc., Wichita, Kansas, designs and manufactures innovative architectural products used in the construction and remodeling of educational facilities, commercial and industrial buildings, airports, hotels, hospitals, parking garages and high-end residential condominiums. Company products include an extensive line of high quality, standard or custom-engineered expansion joint covers, floor grids and mats, stair nosings, grates and frames and trench and access covers.

During the year ended May 31, 2008, Balco reported net income of \$841,000 on net sales of \$14,035,000, compared with net income of \$920,000 on net sales of \$15,237,000 in the previous year.

At March 31, 2009, the \$624,920 investment in Balco by Capital Southwest was valued at \$6,600,000 consisting of 445,000 shares of common stock and 60,920 shares of Class B non-voting common stock, representing a fully-diluted equity interest of 90.9%.

Extreme International, Inc.	\$6,600,000
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Extreme International, Inc., Sugar Land, Texas, owns Bill Young Productions, Texas Video and Post, and Extreme Communications, which produce radio and television commercials and corporate communications videos.

During the year ended September 30, 2008, Extreme reported net income of \$1,435,000 on net sales of \$11,545,000, compared with net income of \$1,688,000 on net sales of \$12,470,000 in the previous year.

At March 31, 2009, Capital Southwest and its subsidiary owned 39,359 shares of Series C Convertible Preferred Stock, 3,750 shares of 8% Series A Convertible Preferred Stock and 13,035 shares of common stock, having a cost of \$3,325,875 and a market value of \$6,600,000, representing a fully-diluted equity interest of 53.6%.

Texas Capital Bancshares, Inc.	\$5,508,630
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Texas Capital Bancshares, Inc. of Dallas, Texas, formed in 1998, has total assets of approximately \$4.3 billion. With branch banks in Austin, Dallas, Fort Worth, Houston, Plano and San Antonio, Texas Capital Bancshares conducts its business through its subsidiary, Texas Capital Bank, N.A., which targets middle market commercial and wealthy private client customers in Texas.

For the year ended December 31, 2008, Texas Capital reported net income of \$24,266,000 (\$0.87 per share), compared with net income of \$29,422,000 (\$1.10 per share) in the previous year. The March 31, 2009 closing Nasdaq bid price of Texas Capital's common stock was \$11.25 per share

At March 31, 2009, Capital Southwest owned 489,656 unrestricted shares of common stock, having a cost of \$3,550,006 and a market value of \$5,508,630 (\$11.25 per share).

Consolidated Statement of Investments – March 31, 2009

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.	26.0%	2,830,300 shares common stock (acquired 4-1-73 thru 5-25-07)	\$ 2,190,937	\$ 22,642,400
ALL COMPONENTS, INC. Austin, Texas Electronics contract manufacturing; distribution and production of memory and other components for computer manufacturers, retailers and value-added resellers.	80.0%	8.25% subordinated note due 2012 (acquired 6-27-07) 150,000 shares Series A Convertible Preferred Stock, convertible into 600,000 shares of common stock at \$0.25 per share (acquired 9-16-94) Warrants to purchase 350,000 shares of common stock at \$11.00 per share, expiring 2017 (acquired 6-27-07)	6,000,000 150,000 — 6,150,000	3,000,000 1 — 3,000,001
ATLANTIC CAPITAL BANCSHARES, INC. Atlanta, Georgia Holding company of Atlantic Capital Bank, a full service commercial bank.	2.0%	300,000 shares common stock (acquired 4-10-07)	3,000,000	3,000,000
BALCO, INC. Wichita, Kansas Specialty architectural products used in the construction and remodeling of commercial and institutional buildings.	90.9%	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	6,600,000
BOXX TECHNOLOGIES, INC. Austin, Texas Workstations for computer graphic imaging and design.	15.2%	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	2
CMI HOLDING COMPANY, INC. Richardson, Texas Owns Chase Medical, which develops and sells devices used in cardiac surgery to relieve congestive heart failure; develops and supports cardiac imaging systems.	15.3%	10% convertible subordinated note, due 2009 (acquired 7-2-07 thru 10-9-07) 2,327,658 shares Series A Convertible Preferred Stock, convertible into 2,327,658 shares of common stock at \$1.72 per share (acquired 8-21-02 and 6-4-03) Warrants to purchase 109,012 shares of common stock at \$1.72 per share, expiring 2012 (acquired 4-7-04) Warrant to purchase 431,982 shares of Series A-1 Convertible Preferred Stock at \$1.72 per share, expiring 2017 (acquired 7-2-07)	2,363,347 4,000,000 — — — 6,363,347	1,000,000 2 — — — 1,000,002

†Publicly-owned company

‡Unrestricted securities as defined in Note (b)

Company	Equity (a)	Investment (b)	Cost	Value (c)
CINATRA CLEAN TECHNOLOGIES, INC. Houston, Texas Cleans above ground oil storage tanks with a patented, automated system.	59.2%	10% subordinated secured promissory note (acquired 7-14-08 thru 12/08/08) 1,128,649 shares Series A Convertible Preferred Stock, convertible into 1,128,649 shares common stock at \$1.00 per share (acquired 7-14-08 and 11-19-08)	\$ 4,263,000 1,128,649 5,391,649	\$ 4,263,000 1,128,649 5,391,649
DENNIS TOOL COMPANY Houston, Texas Polycrystalline diamond compacts (PDCs) used in oil field drill bits and in mining and industrial applications.	67.4%	20,725 shares 5% Convertible Preferred Stock, convertible into 20,725 shares of common stock at \$48.25 per share (acquired 8-10-98) 140,137 shares common stock (acquired 3-7-94 and 8-10-98)	999,981 2,329,963 3,329,944	999,981 2,868,000 3,867,981
†ENCORE WIRE CORPORATION McKinney, Texas Electric wire and cable for residential, commercial and industrial construction use.	17.2%	4,086,750 shares common stock (acquired 7-16-92 thru 10-7-98)	5,800,000	65,388,000
EXTREME INTERNATIONAL, INC. Sugar Land, Texas Owns Bill Young Productions, Texas Video and Post, and Extreme Communications, which produce radio and television commercials and corporate communications videos.	53.6%	13,035 shares Series A common stock (acquired 9-26-08 and 12-18-08) 39,359.18 shares Series C Convertible Preferred Stock, convertible into 157,436.72 shares of common stock at \$25.00 per share (acquired 9-30-03) 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)	325,875 2,625,000 375,000 3,325,875	463,850 5,602,376 533,774 6,600,000
†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	13,975,965
†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	8,277,286
LIFEMARK GROUP Hayward, California Cemeteries, mausoleums and mortuaries located in northern California.	100.0%	1,449,026 shares common stock (acquired 7-16-69)	4,510,400	71,000,000

†Publicly-owned company

‡Unrestricted securities as defined in Note (b)

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.	97.1%	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) 4,000,002 shares common stock (acquired 11-4-97)	\$ 800,000 4,615,000 <u>5,415,000</u>	\$ 2,500,000 12,300,000 <u>14,800,000</u>
PALLETONE, INC. Bartow, Florida Manufacturer of wooden pallets and pressure-treated lumber.	8.5%	12.3% senior subordinated notes due 2012 (acquired 9-25-06) 150,000 shares common stock (acquired 10-18-01) Warrant to purchase 15,294 shares of common stock at \$1.00 per share, expiring 2011 (acquired 2-17-06)	1,553,150 150,000 45,746 <u>1,748,896</u>	2 2 — <u>4</u>
PALM HARBOR HOMES, INC. Dallas, Texas Integrated manufacturing, retailing, financing and insuring of manufactured housing and modular homes.	31.5%	7,855,121 shares common stock (acquired 1-3-85 thru 7-31-95)	10,931,955	9,818,902
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.	100.00%	27,907 shares common stock (acquired 1-5-73 and 3-31-73)	52,600	107,200,000
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)	—	677,250
TEXAS CAPITAL BANCSHARES, INC. Dallas, Texas Regional bank holding company with banking operations in six Texas cities.	1.6%	‡489,656 shares common stock (acquired 5-1-00)	3,550,006	5,508,630
TRAX HOLDINGS, INC. Scottsdale, Arizona Provides a comprehensive set of solutions to improve the transportation validation, accounting, payment and information management process.	32.5%	1,061,279 shares Series A Convertible Preferred Stock, convertible into 1,061,279 common stock at \$4.71 per share (acquired 12-08-08 and 2-17-09)	5,000,000	5,000,000
VIA HOLDINGS, INC. Sparks, Nevada Designer, manufacturer and distributor of high-quality office seating.	28.1%	9,118 shares Series B Preferred Stock (acquired 9-19-05) 1,118 shares Series C Preferred Stock (acquired 11-01-07)	4,559,000 281,523 <u>4,840,523</u>	2 2 <u>4</u>

†Publicly-owned company

‡Unrestricted securities as defined in Note (b)

Company	Equity (a)	Investment (b)	Cost	Value (c)
WELLOGIX, INC. Houston, Texas Developer and supporter of software used by the oil and gas industry.	19.9%	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	\$ 2
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	36,000,000
MISCELLANEOUS				
	–	Ballast Point Ventures II, L.P. – 2.6% limited partnership interest (acquired 8-4-08 thru 10-24-08)	375,000	375,000
	–	BankCap Partners Fund I, L.P. – 6.0% limited partnership interest (acquired 7-14-06 thru 10-10-08)	3,766,681	3,766,681
	–	CapitalSouth Partners Fund III, L.P. – 2.8% limited partnership interest (acquired 1-22-08 and 2-12-09)	831,256	831,256
	–	Diamond State Ventures, L.P. – 1.9% limited partnership interest (acquired 10-12-99 thru 8-26-05)	111,000	111,000
	–	Discovery Alliance, LLC – 90.0% limited liability company (acquired 9-12-08 thru 3-01-09)	450,000	450,000
	–	First Capital Group of Texas III, L.P. – 3.0% limited partnership interest (acquired 12-26-00 thru 8-12-05)	964,604	840,260
	100.0%	Humac Company – 1,041,000 shares common stock (acquired 1-31-75 and 12-31-75)	–	133,000
	–	STARTech Seed Fund I – 12.1% limited partnership interest (acquired 4-17-98 thru 1-5-00)	178,066	1
	–	STARTech Seed Fund II – 3.2% limited partnership interest (acquired 4-28-00 thru 2-23-05)	950,000	1
	–	Sterling Group Partners I, L.P. – 1.7% limited partnership interest (acquired 4-20-01 thru 1-24-05)	1,064,042	379,746
TOTAL INVESTMENTS			\$89,339,191	\$396,635,023

†Publicly-owned company

‡Unrestricted securities as defined in Note (b)

Notes to Consolidated Statement of Investments

(a) 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. The symbol “<1%” indicates that the Company holds a potential equity interest of less than 1%.

(b) **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 March 31, 2009, restricted securities represented approximately 96.5% of the value of the consolidated investment portfolio.

(c) Under the valuation policy of the Company, unrestricted securities are valued at the closing sale price for NYSE listed securities and at the lower of the closing bid price or the last sale price for Nasdaq securities on the valuation date. Restricted securities, including securities of publicly-owned companies which are subject to restrictions on resale, are valued at fair value as determined by the Board of Directors. Fair value is considered to be the amount which the Company may reasonably expect to receive for portfolio securities if such securities were sold on the valuation date. Valuations as of any particular date, however, are not necessarily indicative of amounts which may ultimately be realized as a result of future sales or other dispositions of securities.

Among the factors considered by the Board of Directors in determining the fair value of restricted securities are the logic and methodology of SFAS 157, the financial condition and operating results of the issuer, the long-term potential of the business of the issuer, the market for and recent sales prices of the issuer’s securities, the values of similar securities issued by companies in similar businesses, the proportion of the issuer’s securities owned by the Company, the nature and duration of resale restrictions and the nature of any rights enabling the Company to require the issuer to register restricted securities under applicable securities laws. In determining the fair value of restricted securities, the Board of Directors considers the inherent value of such securities without regard to the restrictive feature and adjusts for any diminution in value resulting from restrictions on resale. Our Board of Directors retained Duff & Phelps to provide limited scope third party valuation services on eight investments comprising 85.9% of our net asset value at March 31, 2009. Please refer to our Form 10-K for full disclosure of Duff & Phelps’ services.

(d) Agreements between certain issuers and the Company provide that the issuers will bear substantially all costs in connection with the disposition of 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 March 31, 2009 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, Lifemark Group and The Whitmore Manufacturing Company.

(e) The descriptions of the companies and ownership percentages shown in the portfolio of investments were obtained from published reports and other sources believed to be reliable, are supplemental and are not covered by the report of our independent registered public accounting firm. 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.

Portfolio Changes During the Year

New Investments and Additions to Previous Investments

	Amount
Ballast Point Ventures II, L.P.	\$ 375,000
BankCap Partners Fund I, L.P.	1,309,541
CapitalSouth Partners Fund III, L.P.	130,000
Cinatra Clean Technologies, Inc.	5,391,649
Discovery Alliance, LLC	450,000
Extreme International, Inc.	325,876
Trax Holdings, Inc.	5,000,000
Miscellaneous	48,041
	\$13,030,107

Dispositions

	Cost	Amount Received
Ascent Media Corporation	\$ -	\$ 78,318
AT&T, Inc.	12	569,426
Comcast Corporation	21	1,109,725
Discovery Communications, Inc.	20,262	889,201
Embarq Corporation	46,532	151,182
Exopack, Inc.	--	20,252
FMC Corporation	66,727	486,097
FMC Technologies, Inc.	57,051	852,673
John Bean Technologies Corporation	--	45,360
Kimberly-Clark Corporation	2,358,518	4,349,773
Liberty Global, Inc.	207,423	1,524,611
Liberty Media Capital Group	7,833	275,117
Liberty Media Entertainment	43,996	2,531,015
Liberty Media Interactive Group	66,423	1,137,907
PETSMART, Inc.	1,318,771	6,299,194
Sprint Nextel Corporation	457,113	284,367
Sterling Group Partners I, L.P.	--	12,687
Windstream Corporation	19,656	80,742
Miscellaneous	48,043	--
	\$ 4,718,381	\$20,697,647
Repayments Received		\$0

Capital Southwest Corporation and Subsidiaries
Consolidated Statements of Financial Condition

	March 31	
Assets	2009	2008
Investments at market or fair value		
Companies more than 25% owned (Cost: 2009 – \$29,208,246, 2008 - \$28,758,246)	\$286,488,248	\$410,026,178
Companies 5% to 25% owned (Cost: 2009 – \$20,412,243, 2008 - \$20,412,243)	66,388,010	54,895,381
Companies less than 5% owned (Cost: 2009 – \$39,718,702, 2008 - \$31,856,977)	43,758,765	82,648,943
Total investments (Cost: 2009 – \$89,339,191, 2008 – \$81,027,466)	396,635,023	547,570,502
Cash and cash equivalents	14,721,730	31,327,758
Receivables	515,212	156,322
Other assets	5,671,174	7,630,486
Totals	<u>\$417,543,139</u>	<u>\$586,685,068</u>

	March 31	
Liabilities and Shareholders' Equity	2009	2008
Other liabilities	\$ 1,187,721	\$ 1,187,796
Deferred income taxes	1,092,427	1,797,058
Total liabilities	<u>2,280,148</u>	<u>2,984,854</u>
Shareholders' equity		
Common stock, \$1 par value: authorized, 5,000,000 shares; issued, 4,326,516 shares at March 31, 2009 and March 31, 2008	4,326,516	4,326,516
Additional capital	124,571,029	115,687,153
Undistributed net investment income	2,963,640	7,036,929
Undistributed net realized gain (loss) on investments	42,622	(2,860,118)
Unrealized appreciation of investments..	307,295,832	466,543,036
Treasury stock – at cost 584,878 shares at March 31, 2009 and 437,365 shares at March 31, 2008	(23,936,648)	(7,033,302)
Net assets at market or fair value, equivalent to \$110.98 per share at March 31, 2009 on the 3,741,638 shares outstanding and \$150.09 per share at March 31, 2008 on the 3,889,151 shares outstanding	415,262,991	583,700,214
Totals	<u>\$417,543,139</u>	<u>\$586,685,068</u>

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

Capital Southwest Corporation and Subsidiaries
Consolidated Statements of Operations

	Years Ended March 31		
	2009	2008	2007
Investment income (see note 10):			
Interest	\$ 1,375,215	\$ 2,255,550	\$ 2,308,660
Dividends	11,533,878	3,656,833	3,954,875
Management and directors' fees	1,076,039	882,300	708,900
	<u>13,985,132</u>	<u>6,794,683</u>	<u>6,972,435</u>
Operating expenses:			
Salaries	2,294,187	1,619,008	1,356,062
Net pension benefit	(253,229)	(327,345)	(144,945)
Other operating expenses	1,624,543	1,676,660	1,014,255
	<u>3,665,501</u>	<u>2,968,323</u>	<u>2,225,372</u>
Income before interest expense and income taxes	10,319,631	3,826,360	4,747,063
Interest expense	--	--	460,399
Income before income taxes	10,319,631	3,826,360	4,286,664
Income tax expense	136,176	111,160	53,324
	<u>10,183,455</u>	<u>3,715,200</u>	<u>4,233,340</u>
Net investment income	<u>\$ 10,183,455</u>	<u>\$ 3,715,200</u>	<u>\$ 4,233,340</u>
Proceeds from disposition of investments	\$ 20,697,647	\$ 1,433,891	\$ 42,919,988
Cost of investments sold	4,718,381	1,193,867	16,872,993
Realized gain on investments before income taxes	15,979,266	240,024	26,046,995
Income tax expense	5,222,964	--	11,080,699
	<u>10,756,302</u>	<u>240,024</u>	<u>14,966,296</u>
Net realized gain on investments	<u>10,756,302</u>	<u>240,024</u>	<u>14,966,296</u>
Net increase (decrease) in unrealized appreciation of investments	<u>(159,247,203)</u>	<u>(142,969,698)</u>	<u>147,681,609</u>
Net realized and unrealized gain (loss) on investments	<u>\$ (148,490,901)</u>	<u>\$ (142,729,674)</u>	<u>\$ 162,647,905</u>
Increase (decrease) in net assets from operations	<u>\$ (138,307,446)</u>	<u>\$ (139,014,474)</u>	<u>\$ 166,881,245</u>

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

Capital Southwest Corporation and Subsidiaries
Consolidated Statements of Changes in Net Assets

	Years Ended March 31		
	2009	2008	2007
Operations:			
Net investment income	\$ 10,183,455	\$ 3,715,200	\$ 4,233,340
Net realized gain on investments	10,756,302	240,024	14,966,296
Net increase (decrease) in unrealized appreciation of investments	(159,247,203)	(142,969,698)	147,681,609
Increase (decrease) in net assets from operations	(138,307,446)	(139,014,474)	166,881,245
Distributions from:			
Undistributed net investment income	(12,256,745)	(2,333,291)	(2,323,150)
Deemed distribution to shareholders	(8,646,560)	--	(11,417,283)
Capital share transactions:			
Allocated increase in share value for deemed distribution	8,646,560	--	11,417,283
Exercise of employee stock options	--	231,390	1,794,850
Adjustment to initially apply FASB No. 158, net of tax	--	--	1,173,751
Change in pension plan funded status	(1,473,329)	(1,178,764)	--
Stock option expense	503,645	263,664	169,003
Treasury stock	(16,903,346)	--	--
Increase (decrease) in net assets	(168,437,221)	(142,031,475)	167,695,699
Net assets, beginning of year	583,700,212	725,731,689	558,035,990
Net assets, end of year	<u>\$415,262,991</u>	<u>\$583,700,214</u>	<u>\$725,731,689</u>

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

Capital Southwest Corporation and Subsidiaries
Consolidated Statements of Cash Flows

	Years Ended March 31		
	2009	2008	2007
Cash flows from operating activities			
Increase (decrease) in net assets from operations	\$(138,307,446)	\$(139,014,474)	\$ 166,881,245
Adjustments to reconcile increase (decrease) in net assets from operations to net cash provided by (used in) operating activities:			
Proceeds from disposition of investments	20,697,647	1,433,891	42,919,988
Purchases of securities	(13,030,107)	(10,733,536)	(803,269)
Maturities of securities	--	154,500	884,935
Depreciation and amortization	40,478	32,756	16,808
Net pension benefit	(253,229)	(327,345)	(144,945)
Net realized gain on investments	(10,756,302)	(240,024)	(14,966,296)
Net (increase) decrease in unrealized appreciation of investments	159,247,203	142,969,698	(147,681,609)
Stock option expense	503,645	263,664	169,003
(Increase) decrease in receivables	(358,890)	181,570	(202,005)
Increase in other assets	(33,358)	(80,195)	(39,982)
Increase (decrease) in other liabilities	7,620	(33,281)	8,934
Decrease in accrued pension liability	(68,934)	(135,768)	(144,171)
Increase in deferred income taxes	88,700	114,000	50,700
Net cash provided by (used in) operating activities	<u>17,777,027</u>	<u>(5,414,544)</u>	<u>46,949,336</u>
Cash flows from financing activities			
Decrease in note payable to bank	--	--	(8,000,000)
Distributions from undistributed net investment income	(12,256,745)	(2,333,291)	(2,323,150)
Proceeds from exercise of employee stock options	--	231,390	1,794,850
Purchase of treasury stock	(16,903,346)	--	--
Payment of federal income tax for deemed capital gains distribution	(5,222,964)	--	(11,080,699)
Net cash used in financing activities	<u>(34,383,055)</u>	<u>(2,101,901)</u>	<u>(19,608,999)</u>
Net increase (decrease) in cash and cash equivalents	<u>(16,606,028)</u>	<u>(7,516,445)</u>	<u>27,340,337</u>
Cash and cash equivalents at beginning of year	31,327,758	38,844,203	11,503,866
Cash and cash equivalents at end of year	<u>\$ 14,721,730</u>	<u>\$ 31,327,758</u>	<u>\$ 38,844,203</u>
Supplemental disclosure of cash flow information:			
Cash paid during the year for:			
Interest	\$ --	\$ --	\$ 460,399
Income taxes	\$ 3,576	\$ --	\$ 20,000

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

Notes to Consolidated Financial Statements

1. Summary of Significant Accounting Policies

Capital Southwest Corporation (“CSC”) is a business development company subject to regulation under the Investment Company Act of 1940. Capital Southwest Venture Corporation (“CSVC”), a wholly-owned subsidiary of CSC, is a Federal licensee under the Small Business Investment Act of 1958. Capital Southwest Management Corporation (“CSMC”), a wholly-owned subsidiary of CSC, is the management company for CSC and CSVC. The following is a summary of significant accounting policies followed in the preparation of the consolidated financial statements of CSC, CSVC and CSMC (together, the “Company”):

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

Fair Value Measurements. The Company adopted SFAS No. 157, *Fair Value Measurements* (“SFAS 157”), on April 1, 2008. SFAS 157 (1) creates a single definition of fair value, (2) establishes a framework for measuring fair value, and (3) expands disclosure requirements about items measured at fair value. The Statement applies to both items recognized and reported at fair value in the financial statements and items disclosed at fair value in the notes to the financial statements. The Statement does not change existing accounting rules governing what can or what must be recognized and reported at fair value in the Company’s financial statements, or disclosed at fair value in the Company’s notes to the financial statements. Additionally, SFAS 157 does not eliminate practicability exceptions that exist in accounting pronouncements amended by this Statement when measuring fair value. As a result, the Company will not be required to recognize any new assets or liabilities at fair value.

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

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

Cash and Cash Equivalents. All temporary cash investments having a maturity of three months or less when purchased are considered to be cash equivalents.

Investments. Investments are stated at market or fair value determined by the Board of Directors as described in the Notes to Portfolio of Investments and Note 2 below. The average cost method is used in determining cost of investments sold. Investments are recorded on a trade date basis. Dividends are recognized on the ex-dividend date and interest income is accrued daily.

Segment Information. The Company operates and manages its business in a singular segment. As an investment company, the Company invests in portfolio companies in various industries and geographic areas as presented in the portfolio of investments.

Use of Estimates. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Federal Income Taxes. CSC and CSVC 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. The Company's policy is to retain and pay the 35% corporate tax on realized long-term capital gains. For investment companies that qualify as RICs under the IRC, federal income taxes payable on security gains that the company elects to retain are accrued only on the last day of the tax year, December 31. Therefore, CSC and CSVC made no provision for federal income taxes on such gains and net investment income in their financial statements.

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

In June 2006, the Financial Accounting Standards Board ("FASB") issued Interpretation No. 48 ("FIN 48"), which clarifies the accounting for uncertainty in income taxes recognized in an entity's financial statements in accordance with FASB Statement 109, "Accounting for Income Taxes". FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The Company adopted FIN 48 on April 1, 2007, which had no effect on the Company's financial statements.

Deferred Taxes. The Company 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. In December 2004, the Financial Accounting Standards Board (FASB) issued SFAS No. 123 (revised 2004), *Share-Based Payment* (SFAS 123R), which revised SFAS 123. SFAS 123R also supersedes APB 25 and amends SFAS No. 95, Statement of Cash Flows. SFAS 123R eliminates the alternative to account for employee stock options under APB 25 and requires that the fair value of all share-based payments to employees, including the fair value of grants of employee stock options, be recognized in the income statement, generally over the vesting period.

In March 2005, the Securities and Exchange Commission issued Staff Accounting Bulletin (SAB) No. 107, which provides additional implementation guidance for SFAS 123R. Among other things, SAB 107 provides guidance on share-based payment valuations, income statement classification and presentation, capitalization of costs and related income tax accounting.

Effective April 1, 2006, the Company adopted SFAS 123R using the modified prospective transition method. The Company recognizes compensation cost over the straight-line method for all share-based payments granted on or after that date and for all awards granted to employees prior to April 1, 2006 that remain unvested on that date. The fair value of stock options are determined on the date of grant using the Black-Scholes pricing model and are expensed over the vesting period of the related stock options. Accordingly, for the years ended March 31, 2009 and March 31, 2008, the Company recognized compensation expense of \$503,645 and \$263,664, respectively.

As of March 31, 2009, the total remaining unrecognized compensation cost related to non-vested stock options was \$2,362,927 which will be amortized over the weighted-average service period of approximately 4.69 years.

Defined Pension Benefits and Other Postretirement Plans

Effective March 31, 2007, the Company adopted Statement of Financial Accounting Standards (SFAS) No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements Nos. 87, 88, 106 and 132R* (SFAS 158). SFAS 158 is required to be adopted on a prospective basis and prior year financial statements and related disclosures are not permitted to be restated. SFAS 158 requires an employer that sponsors one or more postretirement defined benefit plan(s) to:

- Recognize the funded status of postretirement defined benefit plans – measured as the difference between the fair value of plan assets and the benefit obligations – in its balance sheet.
- Recognize changes in the funded status of postretirement defined benefit plans in shareholder's equity in the year in which the changes occur.
- Measure postretirement defined benefit plan assets and obligations as of the date of the employer's fiscal year-end. The Company presently uses March 31 as the measurement date for all of its postretirement defined benefit plans.

Concentration of Credit Risk

The Company places its idle cash with financial institutions in various money market accounts, which routinely exceed the Federal Deposit Insurance Corporation insured limit. As of March 31, 2009, the Company's money market account balances exceeded the Federal Deposit Insurance Corporation's limits by \$13.8 million.

Recent Accounting Pronouncements

The Company adopted FASB Statement No. 157, *"Fair Value Measurements"* ("SFAS 157"), on a prospective basis on April 1, 2008. SFAS 157 requires that the Company assume that the portfolio investment is to be sold in a principal market to market participants, or in the absence of a principal market, the most advantageous market, which may be a hypothetical market.

In October 2008, FASB Staff Position 157-3, *"Determining the Fair Value of a Financial Asset When the Market for that Asset is not Active"* ("FSP 157-3") was issued. FSP 157-3 reiterated that an entity should utilize its own assumptions, information and techniques to estimate fair value when relevant observable inputs are not available, including the use of risk-adjusted factors for non-performance risk or liquidity risk.

In April 2009, the FASB issued FASB Staff Position FAS 157-4, *"Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly"* ("FSP 157-4"). FSP 157-4 indicates that if an entity determines that either the volume and/or level of activity for an asset or liability has significantly decreased (from normal conditions for that asset or liability) or price quotations or observable inputs are not associated with orderly transactions, increased analysis and management judgment will be required to estimate fair value. FSP 157-4 is effective for interim and annual periods ending after June 15, 2009, with early adoption permitted. FSP 157-4 must be applied prospectively. The Company does not believe the adoption of FSP 157-4 will have a material impact on the consolidated financial statements.

In April 2009, the FASB issued FASB Staff Position FAS 107-1 and APB 28-1, "Interim Disclosures about Fair Value of Financial Instruments" ("FSP 107-1"). FSP 107-1 relates to fair value disclosures in public entity financial statements for financial instruments that are within the scope of Statement of Financial Accounting Standards No. 107, "Disclosures about Fair Value of Financial Instruments" ("SFAS 107"). This guidance increases the frequency of those disclosures, requiring public entities to provide the disclosures on a quarterly basis (rather than just annually). The quarterly disclosures are intended to provide financial statement users with more timely information about the effects of current market conditions on an entity's financial instruments that are not otherwise reported at fair value. FSP 107-1 is effective for interim and annual periods ending after June 15, 2009. FSP 107-1 must be applied prospectively. The Company does not believe the adoption of FSP 107-1 will have a material impact on the consolidated financial statements.

2. Investments

We fair value our investments in accordance with GAAP as determined in good faith by our Board of Directors. When available, we base the fair value of our investments on directly observable market prices or on market data derived for comparable assets. For all other investments, inputs used to measure fair value reflect management's best estimate of assumptions that would be used by market participants in pricing the investments in a hypothetical transaction.

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

- *Level 1:* Level 1 inputs are unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities. We use Level 1 inputs for publicly traded unrestricted securities for which we do not have a controlling interest. Such investments are valued at the closing price for listed securities and at the lower of the closing bid price or the closing sale price for over-the-counter (NASDAQ) securities on the valuation date.
- *Level 2:* Level 2 inputs are inputs other than the quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. We did not value any of our investments using level 2 inputs as of March 31, 2009.
- *Level 3:* Level 3 inputs are unobservable and cannot be corroborated by observable market data. We use Level 3 inputs for measuring the fair value of substantially all of our investments. See "Notes to Portfolio of Investments" (c) on page 12 for the investment policy used to determine the fair value of these investments.

The following fair value hierarchy table sets forth our investment portfolio by level as of March 31, 2009 (in millions):

	Level 1	Level 2	Level 3	Total
Debt	\$ --	\$ --	\$ 8.3	\$ 8.3
Partnership Interests	--	--	6.7	6.7
Preferred Equity	--	--	15.8	15.8
Common Equity	13.8	--	352.1	365.9
Equity Warrants	--	--	--	--
Total Investments	<u>\$ 13.8</u>	<u>\$ --</u>	<u>\$382.9</u>	<u>\$396.7</u>

The following table sets forth a summary of changes in the fair value of investment assets and liabilities measured using Level 3 inputs during the quarter ended March 31, 2009 (in millions):

	Beginning Balance	Unrealized gain (loss)	Purchases Sales, Issuance & Settlement	Ending Balance
Debt	\$ 9.2	\$ (0.9)	\$ --	\$ 8.3
Partnership Interests	6.8	(0.4)	0.3	6.7
Preferred Equity	17.0	(2.2)	1.0	15.8
Common Equity	408.4	(56.3)	--	352.1
Total Investments	<u>\$ 441.4</u>	<u>\$ (59.8)</u>	<u>\$ 1.3</u>	<u>\$ 382.9</u>

The following table sets forth a summary of changes in the fair value of investment assets and liabilities measured using Level 3 inputs during the year ended March 31, 2009 (in millions):

	Beginning Balance	Unrealized gain (loss)	Purchases Sales, Issuance & Settlement	Ending Balance
Debt	\$ 9.0	\$ (5.0)	\$ 4.3	\$ 8.3
Partnership Interests	5.3	(0.9)	2.3	6.7
Preferred Equity	21.8	(12.2)	6.1	15.8
Common Equity	458.3	(106.5)	0.3	352.1
Equity Warrants	0.4	(0.4)	--	--
Total Investments	<u>\$ 494.8</u>	<u>\$ (124.9)</u>	<u>\$ 13.0</u>	<u>\$ 382.9</u>

3. Income Taxes

CSC and CSVC operate to qualify as a RIC under Subchapter M of the Code. In order to qualify as a RIC, we must annually distribute at least 90% of our taxable ordinary income, based on our tax year, to our shareholders in a timely manner. Ordinary income includes net short-term capital gains but excludes net long-term capital gains. A RIC is not subject to federal income tax on the portion of its ordinary income and long-term capital gains that are distributed to its shareholders, including “deemed distributions” discussed below. As permitted by the IRC, a RIC can designate dividends paid in the subsequent tax year as dividends of current year ordinary income and net long-term gains if those dividends are both declared by the extended due date of the RIC’s federal income tax return and paid to shareholders by the last day of the subsequent tax year. We have distributed or intend to distribute sufficient dividends to eliminate taxable income for our completed tax fiscal years. If we fail to satisfy the 90% distribution requirement or otherwise fail to qualify as a RIC in any tax year, we would be subject to tax in such year on all of our taxable income, regardless of whether we made any distributions to our shareholders. For the tax years ended December 31, 2008 and 2007, CSC and CSVC qualified to be taxed as RICs. We intend to meet the applicable qualifications to be taxed as a RIC in future years; management feels it is probable that we will maintain our RIC status for a period longer than one year. However, either company’s ability to meet certain portfolio diversification requirements of RICs in future years may not be controllable by such company.

A RIC may elect to retain its long-term capital gains by designating them as a “deemed distribution” to its shareholders and paying a federal tax of 35% on the long-term capital gains for the benefit of its shareholders. Shareholders would then report their share of the retained capital gains on their income tax returns as if it had been received and report a tax credit for the tax paid on their behalf by the RIC. Shareholders then add the amount of the “deemed distribution,” net of such tax, to the basis of their shares.

As permitted by the IRC, a RIC can designate dividends paid in the subsequent tax year as dividends of the current year ordinary taxable income and long-term capital gains if those dividends are both declared by the extended due date of the RIC’s federal income tax return and paid to shareholders by the last day of the subsequent tax year. For the tax years ended December 31, 2008 and 2007 we declared and paid dividends in the amounts of \$12,256,745 and \$2,333,291, respectively.

Additionally, we are also subject to a nondeductible federal excise tax of 4% if we do not distribute at least 98% of our investment company ordinary taxable income before the end of our tax year. For the tax year ended December 31, 2008 we distributed 100% of our investment company ordinary taxable income. As a result we have made no provision for income taxes on ordinary taxable income for the tax year ended December 31, 2008. For the tax year ended December 31, 2007, we distributed 100% of our investment company ordinary taxable income, however only 70% was distributed by the end of the tax year. As a result, we incurred and an excise tax of 4% of the undistributed income or \$41,543, which was paid in 2008 and is included in income tax expense on the accompanying consolidated statements of operation.

CSMC, a wholly owned subsidiary of CSC, is not a RIC and is required to pay taxes at the current corporate rate. The Company sponsors a qualified defined benefit pension plan which covers its employees and employees of certain of its wholly owned portfolio companies. Deferred taxes related to the qualified defined pension plan are recorded as incurred.

4. Undistributed Net Realized Gains (Losses) on Investments

Distributions made by RICs often differ from aggregate GAAP-basis undistributed net investment income and accumulated net realized gains (total GAAP-basis net realized gains). The principal cause is that required minimum fund distributions are based on income and gain amounts determined in accordance with federal income tax regulations, rather than GAAP. The differences created can be temporary, meaning that they will reverse in the future, or they can be permanent. In subsequent periods, when all or a portion of a temporary difference becomes a permanent difference, the amount of the permanent difference will be reclassified to "additional capital."

For the tax year ended December 31, 2008, we have estimated net long-term capital gains of \$14,922,751 for tax purposes and \$15,936,644 for book purposes, which we elected to retain and treat as deemed distributions to our shareholders. For the tax year ended December 31, 2007, we had net long-term capital losses of \$944,872 for tax purposes and \$860,118 for book purposes, which we carried forward and offset by future net long-term capital gains. In order to make the election to retain capital gains, we incurred a federal tax on behalf of our shareholders of \$5,222,964 for the tax year ended December 31, 2008. As of December 31, 2008, we did not have any undistributed long-term capital gains since they are treated as being distributed through the "deemed distribution."

As of March 31, 2009 and 2008, our undistributed net realized gains (losses) on investments determined in accordance with GAAP as reflected on our consolidated statement of financial condition were comprised of the following:

<u>As of March 31,</u>	<u>2009</u>	<u>2008</u>
Undistributed net realized gains (losses) on investments	\$42,622	(\$2,860,118)

5. Share Repurchase Plan

On June 12, 2008, CSC announced that its Board of Directors authorized a share repurchase plan, which allowed for the repurchase of up to 10% (or 388,915 shares) of its Common Stock at prices not above the lower of the net asset value per share of its Common Stock, or prices prevailing in the over-the-counter market at the time of such purchases. The repurchase program remained in effect through December 10, 2008. CSC did not make purchases under the plan during the quarter ended March 31, 2009. In total CSC purchased 147,513 shares of Common Stock for \$16,903,346 at an average price of \$114.59 per share, on the open market, while the plan was in effect.

6. Employee Stock Option Plan

On July 19, 1999, shareholders approved the 1999 Stock Option Plan ("Plan"), which provides for the granting of stock options to employees and officers of the Company and authorizes the issuance of common stock upon exercise of such options for up to 140,000 shares. All options are granted at or above market price, generally expire 10 years from the date of grant and are generally exercisable on or after the first anniversary of the date of grant in 5 to 10 annual installments.

At March 31, 2009, there were no shares available for grant under the Plan. The following table summarizes the price per option at grant date using the Black-Scholes Pricing Model:

Date of Issuance	Weighted Average Fair Value	Black-Scholes Pricing Model Assumptions			
		Expected Dividend Yield	Risk-Free Interest Rate	Expected Volatility	Expected Life (in years)
May 15, 2006	\$31.28	0.64%	5.08%	21.1%	7
July 17, 2006	\$33.05	0.61%	5.04%	21.2%	7
July 16, 2007	\$41.78	0.39%	4.95%	19.9%	5
July 21, 2008	\$27.35	0.67%	3.41%	20.2%	5
July 30, 2008	\$29.93	0.62%	3.36%	20.2%	5

The following summarizes activity in the stock option plans for the years ended March 31, 2009, 2008 and 2007:

	Number of shares	Weighted Average Exercise Price
Balance at March 31, 2007	52,500	\$ 68.411
Granted	25,000	94.136
Exercised	(3,100)	69.568
Canceled	(4,000)	89.482
Balance at March 31, 2008	70,400	109.998
Granted	37,500	123.721
Exercised	--	--
Canceled	--	--
Balance at March 31, 2009	107,900	\$114.767

	Weighted Average Aggregate Intrinsic Remaining Contractual Term	Value
March 31, 2009		
Outstanding	4.7 years	\$3,255,618
Exercisable	4.4 years	\$ 608,339

At March 31, 2009, the range of exercise prices and weighted-average remaining contractual life of outstanding options was \$65.00 to \$152.98 and 4.69 years, respectively. There were no options exercised during the year ended March 31, 2009. The total intrinsic value of options exercised during the years ended March 31, 2008 and 2007 were \$75,129 and \$571,565, respectively. The exercise prices ranged from \$65.00 to \$93.49 per share for the each of the years ended March 31, 2008 and 2007. New shares were issued for, \$0, \$231,390 and \$1,794,850 cash received from option exercises for the years ended March 31, 2009, 2008 and 2007, respectively.

At March 31, 2009, 2008 and 2007, the number of options exercisable was 21,445, 9,930 and 8,515, respectively and the weighted-average exercise price of those options was \$97.00, \$79.01 and \$69.15, respectively.

7. Employee Stock Ownership Plan

CSC and one of its controlled affiliates sponsor a qualified employee stock ownership plan ("ESOP") in which certain employees participate. Contributions to the plan, which are invested in CSC stock, are made at the discretion of the Board of Directors. A participant's interest in contributions to the ESOP fully vests after five years of active service.

Effective April 1, 2007, the vesting period for the ESOP is three years. During the 3 years ended March 31, 2009, the Company made contributions to the ESOP, which were charged against net investment income, of \$0 in 2009, \$94,210 in 2008 and \$84,488 in 2007.

8. Retirement Plans

CSC sponsors a qualified defined benefit pension plan which covers its employees and employees of certain of its controlled affiliates. The following information about the plan represents amounts and information related to CSC's participation in the plan and is presented as though CSC sponsored a single-employer plan. Benefits are based on years of service and an average of the highest five consecutive years of compensation during the last 10 years of employment. The funding policy of the plan is to contribute annual amounts that are currently deductible for tax reporting purposes. No contribution was made to the plan during the three years ended March 31, 2009.

The following tables set forth the qualified plan's benefit obligations and fair value of plan assets at March 31, 2009, 2008 and 2007:

	Years Ended March 31		
	2009	2008	2007
Change in benefit obligation			
Benefit obligation at beginning of year	\$ 3,699,285	\$ 3,965,100	\$ 4,004,017
Service cost	67,340	67,514	103,342
Interest cost	290,310	222,895	230,711
Actuarial loss	(916,874)	(160,840)	68,854
Benefits paid	(259,810)	(395,384)	(386,982)
Plan change	34,262	--	(54,842)
Benefit obligation at end of year	<u>\$ 2,914,513</u>	<u>\$ 3,699,285</u>	<u>\$ 3,965,100</u>
Change in plan assets			
Fair value of plan assets at beginning of year	\$11,120,337	\$12,973,292	\$11,640,693
Actual return on plan assets	(2,477,154)	(1,457,571)	1,719,581
Benefits paid	(259,810)	(395,384)	(386,982)
Fair value of plan assets at end of year	<u>\$ 8,383,373</u>	<u>\$11,120,337</u>	<u>\$12,973,292</u>

The following table sets forth the qualified plan's funded status and amounts recognized in CSC's consolidated statements of financial condition:

	March 31	
	2009	2008
Actuarial present value of benefit obligations:		
Accumulated benefit obligation	<u>\$(2,630,743)</u>	<u>\$ (3,387,397)</u>
Projected benefit obligation for service rendered to date	<u>\$(2,914,513)</u>	<u>\$ (3,699,285)</u>
Plan assets at fair value*	<u>8,383,373</u>	<u>11,120,337</u>
Funded status	5,468,860	7,421,052
Unrecognized net (gain) loss from past experience different from that assumed and effects of changes in assumptions	2,502,161	209,044
Unrecognized prior service costs	159,716	129,179
Additional asset, FAS 158	(2,661,877)	(338,223)
Prepaid pension cost included in other assets	<u>\$ 5,468,860</u>	<u>\$ 7,421,052</u>

*Primarily equities and bonds including approximately 25,000 shares of CSC Common Stock.

Components of net pension benefit related to the qualified plan include the following:

	Years Ended March 31		
	2009	2008	2007
Service cost – benefits earned during the year	\$ 67,340	\$ 67,514	\$ 103,342
Interest cost on projected benefit obligation	290,310	222,895	230,711
Expected return on assets	(732,837)	(673,366)	(580,104)
Net amortization	3,725	3,725	27,487
Net pension benefit from qualified plan	<u>\$(371,462)</u>	<u>\$(379,232)</u>	<u>\$(218,564)</u>

CSC also sponsors an unfunded Retirement Restoration Plan, which is a nonqualified plan that provides for the payment, upon retirement, of the difference between the maximum annual payment permissible under the qualified retirement plan pursuant to Federal limitations and the amount which would otherwise have been payable under the qualified plan.

The following table sets forth the Retirement Restoration Plan's benefit obligations at March 31, 2009, 2008 and 2007:

	Years Ended March 31		
	2009	2008	2007
Change in benefit obligation			
Benefit obligation at beginning of year	\$ 942,122	\$ 1,178,891	\$1,280,542
Service cost	10,986	10,483	20,245
Interest cost	104,777	57,588	68,937
Actuarial (gain) loss	(74,613)	(169,072)	(36,529)
Benefits paid	(68,934)	(135,768)	(144,170)
Plan change	20,089	--	(10,134)
Benefit obligation at end of year	<u>\$ 934,427</u>	<u>\$ 942,122</u>	<u>\$ 1,178,891</u>

The following table sets forth the status of the Retirement Restoration Plan and the amounts recognized in the consolidated statements of financial condition:

	March 31	
	2009	2008
Projected benefit obligation	\$ (934,427)	\$ (942,122)
Unrecognized net loss from past experience different from that assumed and effects of changes in assumptions.	(431,432)	(112,552)
Unrecognized prior service costs	(187,280)	(217,958)
Additional asset, FAS 158	618,712	330,510
Accrued pension cost included in other liabilities	<u>\$ (934,427)</u>	<u>\$ (942,122)</u>

Components of net pension expense related to the unfunded Retirement Restoration Plan include the following:

	Years Ended March 31		
	2009	2008	2007
Service cost – benefits earned during the year	\$ 10,986	\$ 10,483	\$ 20,245
Interest cost on projected benefit obligation	104,777	57,588	68,937
Net amortization	2,470	(16,186)	(15,563)
Net pension expense from retirement restoration plan	<u>\$ 118,233</u>	<u>\$ 51,885</u>	<u>\$ 73,619</u>

The following assumptions were used in estimating the actuarial present value of the projected benefit obligations:

	Years Ended March 31		
	2009	2008	2007
Discount rate	6.50%	6.25%	6.0%
Rate of compensation increases	5.0%	5.0%	5.0%

The following assumptions were used in estimating the net periodic (income)/expense:

	Years Ended March 31		
	2009	2008	2007
Discount rate	6.25%	6.0%	5.75%
Expected return on plan assets	6.5%	6.5%	6.0%
Rate of compensation increases	5.0%	5.0%	5.0%

The expected rate of return on assets assumption was determined based on the anticipated performance of the various asset classes in the plan's portfolio and the allocation of assets to each class. The anticipated asset class return is developed using historical and predicted asset return performance, considering the investments underlying each asset class and expected investment performance based on forecasts of inflation, interest rates and market indices for fixed income and equity securities.

CSC's pension plan asset allocations are as follows:

Asset Category	Percentage of plan assets at March 31	
	2009	2008
Equity securities	67.7%	75.0%
Debt securities	19.2%	13.8%
Other	13.1%	11.2%
	<u>100.0%</u>	<u>100.0%</u>

CSC's pension plan is administered by a board-appointed committee that has fiduciary responsibility for the plan's management. The trustee of the plan is JPMorgan Asset Management. Currently, approximately 18% of the assets are selected and managed by the trustee and the remainder of the assets are managed by the committee, invested mostly in equity securities, including CSC stock.

Following are the expected benefit payments for the next five years and in the aggregate for the years 2015-2019:

(In Thousands)	Years Ended March 31					
	2010	2011	2012	2013	2014	2015-2019
Qualified Plan	\$ 85	\$ 81	\$226	\$219	\$211	\$1,092
Restoration Plan	--	--	\$ 95	\$ 93	\$ 92	\$ 432

Incremental effect of applying FASB Statement No. 158 on individual line items in the Statement of Financial Condition:

	March 31, 2007		
	Before Application Of Statement 158	Adjustments	After application of Statement 158
Other assets	\$ 7,542,035	\$ 1,628,150	\$ 9,170,185
Other liabilities	1,635,468	(177,621)	1,457,847
Deferred income taxes	1,144,026	1,173,751	2,317,777
Additional capital	115,741,940	632,020	116,373,960
Net assets at market or fair value	\$ 724,557,938	\$ 1,173,751	\$ 725,731,689

9. Commitments

CSC has agreed, subject to certain conditions, to invest up to \$8,683,070 in six portfolio companies.

The Company leases office space under an operating lease which requires base annual rentals of approximately \$87,000 through February, 2013. For the three years ended March 31, total rental expense charged to investment income was \$84,117 in 2009, \$80,569 in 2008 and \$79,979 in 2007.

10. Sources of Income

Income was derived from the following sources:

Years Ended <u>March 31</u> 2009	Investment Income			Realized Gain (Loss) on Investments Before Income Taxes
	Interest	Dividends	Other Income	
Companies more than 25% owned	\$ –	\$10,946,581	\$ 1,055,000	\$ –
Companies 5% to 25% owned	249,417	326,940	20,750	–
Companies less than 5% owned	743,945	260,357	–	15,979,266
Other sources, including temporary investments	382,142	–	–	–
	<u>\$1,375,504</u>	<u>\$11,533,878</u>	<u>\$ 1,075,750</u>	<u>\$ 15,979,266</u>

Years Ended <u>March 31</u> 2008	Investment Income			Realized Gain (Loss) on Investments Before Income Taxes
	Interest	Dividends	Other Income	
Companies more than 25% owned	\$ –	\$2,979,631	\$ 839,800	\$ –
Companies 5% to 25% owned	364,762	326,940	42,500	–
Companies less than 5% owned	469,066	350,262	–	240,024
Other sources, including temporary investments	1,421,722	–	–	–
	<u>\$2,255,550</u>	<u>\$3,656,833</u>	<u>\$ 882,300</u>	<u>\$ 240,024</u>

Years Ended <u>March 31</u> 2007	Investment Income			Realized Gain (Loss) on Investments Before Income Taxes
	Interest	Dividends	Other Income	
Companies more than 25% owned	\$ –	\$3,449,558	\$ 659,500	\$ 31,070,149
Companies 5% to 25% owned	125,733	171,578	20,000	–
Companies less than 5% owned	938,761	333,739	29,400	(5,023,154)
Other sources, including temporary investments	1,244,166	–	–	–
	<u>\$2,308,660</u>	<u>\$3,954,875</u>	<u>\$ 708,900</u>	<u>\$ 26,046,995</u>

Selected Per Share Data and Ratios

	Years Ended March				
	2009	2008	2007	2006	2005
Per Share Data					
Investment income	\$ 3.74	\$ 1.75	\$ 1.79	\$ 1.25	\$ 1.26
Operating expenses	(.98)	(.76)	(.57)	(.51)	(.51)
Interest expense	--	--	(.12)	(.11)	(.11)
Income taxes	(.04)	(.03)	(.01)	(.01)	(.02)
Net investment income	2.72	.96	1.09	.62	.62
Distributions from undistributed net investment income	(3.28)	(.60)	(.60)	(.60)	(.60)
Net realized gain (loss) on investments	2.87	.06	3.85	4.00	(2.62)
Net increase (decrease) in unrealized appreciation of investments	(42.56)	(36.76)	38.00	32.22	7.21
Exercise of employee stock options*	--	(.09)	(.49)	(.04)	--
Stock option expense	.13	.07	.04	--	--
Net change in pension plan funded status	(.39)	(.30)	--	--	--
Treasury Stock	1.40	--	--	--	--
Adjustment to initially apply FASB No. 158, net of tax	--	--	.30	--	--
Increase (decrease) in net asset value	(39.11)	(36.66)	42.19	36.20	4.61
Net asset value					
Beginning of year	150.09	186.75	144.56	108.36	103.75
End of year	<u>\$ 110.98</u>	<u>\$ 150.09</u>	<u>\$ 186.75</u>	<u>\$ 144.56</u>	<u>\$ 108.36</u>
Ratios and Supplemental Data					
Ratio of operating expenses to average net assets	.71%	.46%	.36%	.42%	.49%
Ratio of net investment income to average net assets	1.96%	.58%	.68%	.51%	.60%
Portfolio turnover rate	2.51%	.22%	.13%	2.36%	.56%
Net asset value total return	(22.56)%	(19.27)%	29.85%	34.31%	5.25%
Shares outstanding at end of period (000s omitted)	3,741	3,889	3,886	3,860	3,857

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

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

Management's Report on Internal Control Over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934. CSC's internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States.

Because of its inherent limitations, internal controls over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

CSC has assessed the effectiveness of its internal control over financial reporting as of March 31, 2009. In making this assessment, it used the criteria described in "Internal Control-Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this assessment, management believes that, as of March 31, 2009, CSC's internal control over financial reporting was effective.

During the fiscal quarter ended March 31, 2008, CSC implemented the following control in order to remediate the material weakness we identified in our internal controls over accounting for taxes, which resulted in the restatement of our consolidated financial statements for the year ended March 31, 2007 and years represented in our Form 10-K for the year ended March 31, 2007.

On a quarterly basis CSC consults with a RIC compliance expert, on our current RIC status and the potential impact of proposed transactions and scenarios on CSC's future RIC compliance status. CSC has engaged KPMG, LLP to serve in this capacity.

There were no other changes to our internal controls over financial reporting that have materially affected, or are reasonably likely to materially affect our internal controls over financial reporting.

Grant Thornton LLP, the independent registered public accounting firm that audited our consolidated financial statements included in this annual report on Form 10-K for the year ended March 31, 2009, has issued an attestation report on our internal control over financial reporting as of March 31, 2009. That report appears on the next page.

Date: May 29, 2009

/s/ Gary L. Martin

Gary L. Martin
Chairman of the Board and President

/s/ Tracy L. Morris

Tracy L. Morris
Chief Financial Officer
(chief financial/accounting officer)

Report of Independent Registered Public Accounting Firm

Board of Directors and Shareholders

Capital Southwest Corporation

We have audited Capital Southwest Corporation (a Texas Corporation) and subsidiaries', (the "Company") internal control over financial reporting as of March 31, 2009, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of March 31, 2009, based on criteria established in *Internal Control—Integrated Framework* issued by COSO.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated statement of financial condition of the Company as of March 31, 2009 and 2008, including the portfolio of investments as of March 31, 2009, and the related consolidated statements of operations, changes in net assets and cash flows, for each of the three years in the period ended March 31, 2009, and the selected per share data and ratios for each of the five years in the period ended March 31, 2009, and our report dated May 29, 2009, expressed an unqualified opinion.

/s/Grant Thornton LLP
Dallas, Texas
May 29, 2009

Report of Independent Registered Public Accounting Firm

Board of Directors and Shareholders

Capital Southwest Corporation

We have audited the accompanying consolidated statements of financial condition of Capital Southwest Corporation (a Texas Corporation) and subsidiaries (the "Company") as of March 31, 2009 and 2008, including the portfolio of investments as of March 31, 2009, and the related consolidated statements of operations, changes in net assets, cash flows for each of the three years in the period ended March 31, 2009, and the selected per share data and ratios for each of the five years in the period ended March 31, 2009. These financial statements and per share data and ratios are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and per share data and ratios based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and selected per share data and ratios are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. Our procedures included verification by examination of securities held by the custodian as of March 31, 2009 and 2008, and confirmation of securities not held by the custodian. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements and the selected per share data and ratios referred to above present fairly, in all material respects, the consolidated financial position of Capital Southwest Corporation and subsidiaries as of March 31, 2009 and 2008, and the consolidated results of its operations, changes in its net assets, its cash flows for each of the three years in the period ended March 31, 2009, and the selected per share data and ratios for each of the five years in the period ended March 31, 2009, in conformity with accounting principles generally accepted in the United States of America.

As described in Note 2 to the consolidated financial statements, the Company adopted the provisions of Financial Accounting Standards Board (FASB) Statement of Financial Accounting Standards No. 157, *Fair Value Measurements*, ("SFAS 157"), effective April 1, 2008. As described in Note 8 to the consolidated financial statements, the Company also adopted the provisions of FASB Statement of Financial Accounting Standards No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans: An Amendment of FASB Statements No. 87, 88, 106, and 132(R)*, effective March 31, 2007.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Capital Southwest Corporation and subsidiaries' internal control over financial reporting as of March 31, 2009, based on criteria established in *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated May 29, 2009, expressed an unqualified opinion thereon.

/s/Grant Thornton LLP
Dallas, Texas
May 29, 2009

Management's Discussion and Analysis of Financial Condition and Results of Operations

Results of Operations

The composite measure of the Company's 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 the Company's income from interest, dividends and fees and its 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 based on the Company's tax year. The third element is the "Net increase in unrealized appreciation of investments," which is the net change in the market or fair value of the Company's investment portfolio, compared with stated cost. 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

The Company's principal objective is to achieve capital appreciation. Therefore, a significant portion of the investment portfolio is structured to maximize the potential return from equity participation and provides minimal current yield in the form of interest or dividends. The Company also earns interest income from the short-term investment of cash funds, and the annual amount of such income varies based upon the average level of funds invested during the year and fluctuations in short-term interest rates. During the three years ended March 31, the Company had interest income from temporary cash investments of \$381,498 in 2009, \$1,421,048 in 2008 and \$1,187,676 in 2007. The Company also receives management fees primarily from its controlled affiliates which aggregated \$984,800 in 2009, \$784,800 in 2008 and \$626,400 in 2007. During the three years ended March 31, 2009, the Company recorded dividend income from the following sources:

	Years Ended March 31		
	2009	2008	2007
Alamo Group Inc.	\$ 679,272	\$ 678,732	\$ 677,112
Balco, Inc.	--	224,400	--
Dennis Tool Company	49,999	62,499	62,499
Encore Wire Corporation	326,940	326,940	--
Heelys, Inc.	9,317,310	--	--
Kimberly-Clark Corporation	89,529	167,481	154,360
Lifemark Group	--	571,333	600,000
PalletOne, Inc.	--	--	89,842
The RectorSeal Corporation	720,000	1,154,133	1,869,947
Sprint Nextel Corporation	--	6,750	9,000
TCI Holdings, Inc.	81,270	81,270	81,270
The Whitmore Manufacturing Company..	180,000	288,533	240,000
Other	89,558	94,762	170,845
	<u>\$ 11,533,878</u>	<u>\$ 3,656,833</u>	<u>\$ 3,954,875</u>

Total operating expenses, excluding interest expense, increased by \$697,177 or 23.5% during the year ended March 31, 2009. Due to the nature of its business, the majority of the Company's operating expenses are related to employee and director compensation, office expenses, legal, professional and accounting fees and the net pension benefit.

Net Realized Gain (Loss) on Investments

Net realized gain on investments was \$10,756,303 (after income tax expense of \$5,222,963) during the year ended March 31, 2009, compared with a gain of \$240,024 during 2008 and a gain of \$14,966,296 (after income tax expense of \$11,080,699) during 2007. Management does not attempt to maintain a comparable level of realized gains from year to year, but instead attempts to maximize total investment portfolio appreciation. This strategy often dictates the long-term holding of portfolio securities in pursuit of increased values and increased unrealized appreciation, but may at opportune times dictate realizing gains or losses through the disposition of certain portfolio investments.

Net Increase/Decrease in Unrealized Appreciation of Investments

For the three years ended March 31, the Company recorded a decrease in unrealized appreciation of investments of \$159,247,203, in 2009 and a decrease of \$142,969,698, in 2008 and an increase of \$147,681,609 in 2007. As explained in the first paragraph of this discussion and analysis, the realization of gains or losses results in a corresponding decrease or increase in unrealized appreciation of investments. Set forth in the following table are the significant increases and decreases in unrealized appreciation excluding the effect of gains or losses realized during the year by portfolio company for securities held at the end of each year.

	Years Ended March 31		
	2009	2008	2007
Alamo Group Inc.	\$ (22,642,400)	\$ (2,803,090)	\$ 2,821,000
Encore Wire Corporation	14,303,625	(18,390,625)	(12,260,000)
Heelys, Inc.	(20,963,948)	(160,724,088)	170,040,908
The Whitmore Manufacturing Company	(2,000,000)	12,000,000	4,000,000
Lifemark Group	--	31,000,000	(2,000,000)
Media Recovery, Inc.	(22,700,000)	(7,500,000)	3,000,000
Palm Harbor Homes, Inc.	(21,601,583)	(39,275,516)	(27,493,000)
The RectorSeal Corporation	(37,000,000)	46,200,000	10,500,000

As shown in the table for the year ended March 31, 2009, we sustained major decreases in several of our largest investments. During the twelve months ended March 31, 2009, the value of our investments in The RectorSeal Corporation decreased by \$37,000,000 and Media Recovery, Inc. decreased by \$22,700,000, due to decreases in their respective sales resulting from slowdowns in segments of their businesses. Additionally, our investments in Alamo Group, Inc. decreased \$22,642,400, Palm Harbor Homes, Inc. decreased \$21,601,583, and Heelys, Inc. decreased \$20,963,948, due primarily to the decreases in their respective stock prices at March 31, 2009. Offsetting the aforementioned losses during the twelve months ended March 31, 2009, was a \$14,030,625 increase in the value of Encore Wire Corporation due primarily to an increase in their stock price at March 31, 2009.

A description of the investments listed above and other material components of the investment portfolio is included elsewhere in this report under the caption "Portfolio of Investments – March 31, 2009."

Portfolio Investments

During the year ended March 31, 2009, the Company invested \$13,030,107 in various portfolio securities listed elsewhere in this report under the caption "Portfolio Changes During the Year," which also lists dispositions of portfolio securities. During the 2008 and 2007 fiscal years, the Company invested a total of \$10,733,536 and \$803,269, respectively.

Financial Liquidity and Capital Resources

At March 31, 2009, the Company had cash and cash equivalents of approximately \$14.7 million. Pursuant to Small Business Administration (SBA) regulations, cash and cash equivalents of \$5.3 million held by CSVC may not be transferred or advanced to CSC without the consent of the SBA. Under current SBA regulations and subject to the SBA's approval of its credit application, CSVC would be entitled to borrow up to \$20.6 million.

With the exception of a capital gain distribution made in the form of a distribution of the stock of a portfolio company in the fiscal year ended March 31, 1996, the Company has elected to retain all gains realized during the past 40 years. Retention of future gains is viewed as an important source of funds to sustain the Company's investment activity. Approximately \$13.8 million of the Company's investment portfolio is represented by unrestricted publicly traded securities and represent a source of liquidity.

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

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

Contractual Obligations

As shown below, the Company had the following contractual obligations as of March 31, 2009. For further information see Note 9 of the Consolidated Financial Statements.

Contractual Obligations	Payments Due By Period (\$ in Thousands)			
	Total	1 Year	2-4 Years	More Than 4 Years
Operating lease obligations	\$ 340	\$ 87	\$ 253	--
Total	\$ 340	\$ 87	\$ 253	--

Critical Accounting Policies

Valuation of Investments

In accordance with the Investment Company Act of 1940, investments in unrestricted securities (freely marketable securities having readily available market quotations) are valued at market and investments in restricted securities (securities subject to one or more resale restrictions) are valued at fair value determined in good faith by the Company's Board of Directors. Under the valuation policy of the Company, unrestricted securities are valued at the closing sale price for NYSE listed securities and at the lower of the closing bid price or the last sale price for Nasdaq securities on the valuation date. Restricted securities, including securities of publicly-owned companies which are subject to restrictions on resale, are valued at fair value, which is considered to be the amount the Company may reasonably expect to receive if such securities were sold on the valuation date. Valuations as of any particular date, however, are not necessarily indicative of amounts which may ultimately be realized as a result of future sales or other dispositions of securities.

Among the factors considered by the Board of Directors in determining the fair value of restricted securities are the financial condition and operating results of the issuer, the long-term potential of the business of the issuer, the market for and recent sales prices of the issuer's securities, the values of similar securities issued by companies in similar businesses, the proportion of the issuer's securities owned by the Company, the nature and duration of resale restrictions and the nature of any rights enabling the Company to require the issuer to register restricted securities under applicable securities laws.

Impact of Inflation

The Company does not believe that its business is materially affected by inflation, other than the impact which inflation may have on the securities markets, the valuations of business enterprises and the relationship of such valuations to underlying earnings, all of which will influence the value of the Company's investments.

Risks

Pursuant to Section 64(b)(1) of the Investment Company Act of 1940, a business development company is required to describe the risk factors involved in an investment in the securities of such company due to the nature of the company's investment portfolio. Accordingly the Company states that:

The Company's objective is to achieve capital appreciation through investments in businesses believed to have favorable growth potential. Such businesses are often undercapitalized small companies which lack management depth and have not yet attained profitability. The Company's venture investments often include securities which do not yield interest or dividends and are subject to legal or contractual restrictions on resale, which restrictions adversely affect the liquidity and marketability of such securities.

Because of the speculative nature of the Company's investments and the lack of any market for the securities initially purchased by the Company, there is a significantly greater risk of loss than is the case with traditional investment securities. The high-risk, long-term nature of the Company's venture investment activities may prevent shareholders of the Company from achieving price appreciation and dividend distributions.

Selected Consolidated Financial Data
(all figures in thousands except per share data)

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Financial Position (as of March 31)										
Investments at cost	\$ 85,002	\$ 87,602	\$ 82,194	\$ 91,462	\$ 97,283	\$ 84,546	\$ 88,597	\$ 71,642	\$ 81,027	\$ 89,339
Unrealized appreciation	238,627	228,316	265,287	195,598	309,666	337,476	461,831	609,513	466,544	307,296
Investments at market or fair value	323,629	315,918	347,481	287,060	406,949	422,022	550,428	681,155	547,571	396,635
Total assets	392,586	322,668	357,183	298,490	423,979	434,384	569,368	729,507	586,685	417,543
Notes payable *	10,000	16,000	14,000	23,000	20,500	13,000	8,000	--	--	--
Net assets	319,438	303,436	339,891	272,211	400,157	417,947	558,036	725,732	583,700	415,263
Shares outstanding	3,815	3,815	3,829	3,829	3,857	3,857	3,860	3,886	3,889	3,741

Changes in Net Assets (years ended March 31)										
Net investment income	\$ 1,663	\$ 1,723	\$ 2,042	\$ 2,299	\$ 2,587	\$ 2,406	\$ 2,389	\$ 4,233	\$ 3,715	\$ 10,183
Net realized gain (loss) on investments	5,162	(5,126)	(762)	2,007	12,603	(10,112)	15,451	14,966	240	10,756
Net increase (decrease) in unrealized appreciation before distributions	(38,072)	(10,311)	36,971	(69,689)	114,068	27,810	124,355	147,682	(142,969)	(159,246)
Increase (decrease) in net assets from operations before distributions	(31,247)	(13,714)	38,251	(65,383)	129,257	20,104	142,195	166,881	(139,014)	138,307
Cash dividends paid	(2,289)	(2,289)	(2,295)	(2,297)	(2,309)	(2,314)	(2,314)	(2,323)	(2,333)	(12,257)
Employee stock options exercised	--	--	499	--	997	--	208	1,795	231	--
Stock option expense	--	--	--	--	--	--	--	169	263	503
Change in pension plan funded status	--	--	--	--	--	--	--	--	(1,178)	(1,473)
Treasury Stock										(16,903)
Adjustment to initially apply FASB Statement No. 158, net of tax	--	--	--	--	--	--	--	1,173	--	--
Increase (decrease) in net assets	(33,536)	(16,003)	36,455	(67,680)	127,946	17,790	140,089	167,695	(142,031)	(168,437)

Per Share Data (as of March 31)										
Net assets	\$ 83.73	\$ 79.54	\$ 88.77	\$ 71.09	\$ 103.75	\$ 108.36	\$ 144.56	\$ 186.75	\$ 150.09	\$ 110.98
Closing market price	54.75	65.00	68.75	48.15	75.47	79.10	95.50	153.67	123.72	76.39
Cash dividends paid	.60	.60	.60	.60	.60	.60	.60	.60	.60	3.26

* Excludes quarter-end borrowing which is repaid on the first business day after year end.

Shareholder Information

Stock Transfer Agent

American Stock Transfer & Trust Company, 59 Maiden Lane, New York, NY 10038 (telephone 800-937-5449) serves as transfer agent for the Company's common stock. Certificates to be transferred should be mailed directly to the transfer agent, preferably by registered mail.

Shareholders

The Company had approximately 700 record holders of its common stock at March 31, 2009. This total does not include an estimated 4,000 shareholders with shares held under beneficial ownership in nominee name or within clearinghouse positions of brokerage firms or banks.

Market Prices

The Company's common stock trades on The Nasdaq Global Market under the symbol CSWC. The following high and low selling prices for the shares during each quarter of the last two fiscal years were taken from quotations provided to the Company by Nasdaq:

Quarter Ended	High	Low
June 30, 2008	\$128.99	\$103.67
September 30, 2008	146.81	102.02
December 31, 2008	141.50	60.52
March 31, 2009	109.66	53.57

Quarter Ended	High	Low
June 30, 2007	\$190.33	\$144.50
September 30, 2007	162.13	110.00
December 31, 2007	130.00	105.16
March 31, 2008	127.49	100.00

Dividends

The payment dates and amounts of cash dividends per share since April 1, 2007 are as follows:

Payment Date	Cash Dividend
May 31, 2007	\$0.20
November 30, 2007	0.40
May 30, 2008	0.40
October 31, 2008	0.30
November 28, 2008	0.40
December 26, 2008	2.16
May 29, 2009	0.40

The amounts and timing of cash dividend payments have generally been dictated by requirements of the Internal Revenue Code regarding the distribution of taxable net investment income (ordinary income) of regulated investment companies. Instead of distributing realized long-term capital gains to shareholders, the Company has ordinarily elected to retain such gains to fund future investments.

Automatic Dividend Reinvestment and Optional Cash Contribution Plan

As a service to its shareholders, the Company offers an Automatic Dividend Reinvestment and Optional Cash Contribution Plan for shareholders of record who own a minimum of 25 shares. The Company pays all costs of administration of the Plan except brokerage transaction fees. Upon request, shareholders may obtain information on the Plan from the Company, 12900 Preston Road, Suite 700, Dallas, Texas 75230. Telephone (972) 233-8242. Questions and answers about the Plan are on the next page.

Annual Meeting

The Annual Meeting of Shareholders of Capital Southwest Corporation will be held on Monday, July 20, 2009, at 10:00 a.m. in the North Dallas Bank Tower Meeting Room (second floor), 12900 Preston Road, Dallas, Texas.

CAPITAL SOUTHWEST CORPORATION

List of Subsidiaries

<u>Name of Subsidiary</u>	<u>State of Incorporation</u>
All Components, Inc.	Nevada
Balco, Inc.	Delaware
Humac Company	Texas
Media Recovery, Inc.	Nevada
The RectorSeal Corporation	Delaware
Lifemark Group (formerly Skylawn Corporation)	Nevada
The Whitmore Manufacturing Company	Delaware

Consent of Independent Registered Public Accounting Firm

We have issued our reports dated May 29, 2009, with respect to the consolidated financial statements and internal control over financial reporting included in the Annual Report of Capital Southwest Corporation and subsidiaries on Form 10-K for the year ended March 31, 2009. We hereby consent to the incorporation by reference of said reports in the Registration Statement of Capital Southwest Corporation and subsidiaries on Form S-8 (File No. 33-43881).

/s/ GRANT THORNTON LLP

Dallas, Texas
May 29, 2009

CERTIFICATIONS

I, Gary L. Martin certify that:

1. I have reviewed this annual report on Form 10-K 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 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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) 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) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) 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
 - d) 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 the 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: May 29, 2009

By: /s/ Gary L. Martin
Gary L. Martin, Chairman of the Board and President

CERTIFICATIONS

I, Tracy L. Morris certify that:

1. I have reviewed this annual report on Form 10-K 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 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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) 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) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) 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
 - d) 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 the 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: May 29, 2009

By: /s/Tracy L. Morris
Tracy L. Morris, Chief Financial Officer

Certification of President**Pursuant to 18 U.S.C. Section, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**

I, Gary L. Martin, Chairman of the Board and President of Capital Southwest Corporation, certify that, to my knowledge:

1. The Form 10-K, filed with the Securities and Exchange Commission on May 29, 2009 ("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: May 29, 2009

By: /s/ Gary L. Martin

Gary L. Martin, Chairman of the Board and President

Certification of Chief Financial Officer**Pursuant to 18 U.S.C. Section, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**

I, Tracy L. Morris, Chief Financial Officer of Capital Southwest Corporation, certify that, to my knowledge:

1. The Form 10-K, filed with the Securities and Exchange Commission on May 29, 2009 (“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: May 29, 2009

By: /s/ Tracy L. Morris
Tracy L. Morris, Chief Financial Officer