

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, 2010**

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 Smaller reporting company

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, 2009 was \$222,149,268, based on the last sale price of such stock as quoted by The Nasdaq Stock Market on such date.

The number of shares of common stock outstanding as of May 1, 2010 was 3,741,638.

Documents Incorporated by Reference

Proxy Statement for Annual Meeting of Shareholders
to be held July 19, 2010

Part of Form 10-K

Part III

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PART I

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 \$33,542,228 and a value of \$431,648,323, representing 90.3% of the value of our consolidated investment portfolio at March 31, 2010. For a narrative description of the 12 largest investments, see "Twelve Largest Investments - March 31, 2010" 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 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 Accounting Standard Codification ("ASC") Topic 820, *Fair Value Measurements and Disclosures* ("ASC 820") 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 leader 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.

Our Board of Directors is ultimately and solely responsible for determining the fair value of portfolio investments on an annual basis. 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, 2010, the Board of Directors asked Duff & Phelps to perform the limited procedures on eight investments comprising approximately 81.3% of the total investments at fair value as of March 31, 2010. 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 making them 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 a 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, a 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 a SBIC in a portfolio company). Although prior regulations prohibited a SBIC from controlling a small business concern except in limited circumstances, regulations adopted by the SBA in 2002 now allow a 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 a 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 a 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 a SBIC, whether through ownership, contractual arrangements or otherwise.

A 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, 2010, 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 may also use the site 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 public may read and copy materials that we file with the SEC at the SEC's Public Reference Room at 100F Street, NE, Washington, DC 20549. Information on the operation of the Public Reference Room may be obtained by calling the SEC at 1-800-SEC-0330. The SEC also maintains a website that contains the reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC at <http://www.sec.gov>. The charters adopted by the committees of our board of directors are also available on our website.

Employees

As of March 31, 2010, 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. 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

Investing in our common stock involves a number of significant risks. In addition to other information contained in this annual report on Form 10-K, investors should consider the following information before making an investment in our common stock. 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.

The current state of the economy and financial markets increase the likelihood of adverse effects on our financial position and results of operations. Continued economic adversity could impair our portfolio companies' financial position and operating results and affect the industries in which we invest, which could, in turn, harm our operating results.

The broader economic fundamentals of the U.S. economy remain at depressed levels. Unemployment levels remain elevated and consumer fundamentals remain depressed, which has led to significant reductions in spending by both consumers and businesses. In the event that the U.S. economy remains depressed, it is likely that the financial results of small to mid-size companies, like those in which we invest, could experience deterioration or limited growth from current levels, which could ultimately lead to difficulty in meeting their debt service requirements and increase in defaults. In addition, the end markets for certain of our portfolio companies' products and services have experienced negative economic trends. We are seeing reduced operating results at several of the portfolio companies due to the general economic difficulties. We expect the trend of reduced operating results to continue in 2010. Consequently, we can provide no assurance that the performance of certain of our portfolio companies will not be negatively impacted by these economic and other conditions, which could also have a negative impact on our future results.

Our investment portfolio is and will continue to be recorded at fair value, with our Board of Directors having final responsibility for overseeing, reviewing and approving, in good faith, our estimate of fair value and, as a result, there is and will continue to be uncertainty as to the value of our portfolio investments.

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. Typically, there is not a public market for the securities of the privately held companies in which we have invested and generally will continue to invest. As a result, we value these securities quarterly at fair value based on inputs from management and our investment team, along with the oversight, review and approval of our Board of Directors.

The determination of fair value and consequently, the amount of unrealized gains and losses in our portfolio, are to a certain degree, subjective and dependent on a valuation process approved by our Board of Directors. Certain factors that may be considered in determining fair value of our investments include external events, such as private mergers, sales and acquisitions involving comparable companies. 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. Due to this uncertainty, our fair value determinations may cause our net asset value on a given date to be materially understated or overstate the value that we may ultimately realize on one or more of our investments. As a result, investors purchasing our common stock based on an overstated net asset value would pay a higher price than the value of our investments might warrant. Conversely, investors selling shares during a period in which the net asset value understates the value of our investments will receive a lower price for their shares than the value of our investments might warrant.

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

Our ability to achieve our investment objective of maximizing our portfolio's total return by generating income from our debt investments and capital appreciation from our equity and equity-related investments, depends on our ability to effectively manage and deploy capital, which depends, in turn, on our investment team's ability to identify, evaluate and monitor, and our ability to finance and invest in, companies that meet our investment criteria.

Accomplishing our investment objective on a cost-effective basis is largely a function of our investment team's handling of the investment process, its ability to provide competent, attentive and effective services and our access to investments offering acceptable terms. In addition to monitoring the performance of our existing investments, members of our investment team are called upon, from time to time, to provide managerial assistance to some of our portfolio companies. These demands on their time may distract them and slow the rate of investment.

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. The results of our operations will depend on many factors, including the availability of opportunities for investment, readily accessible short and long-term funding alternatives in the financial markets and economic conditions. Furthermore, if we cannot successfully operate our business or implement our investment policies and strategies as described herein, it could negatively impact our ability to pay dividends.

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.

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 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, technical and marketing resources, and some are subject to different and frequently less stringent regulations. 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. A significant increase in the number and/or size of our competitors in our target market could force us to accept less attractive investment terms. Furthermore, many of our competitors are not subject to the regulatory restrictions that the 1940 Act imposes on us as a BDC.

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.

The competitive environment for qualified personnel may require us to take certain measures to ensure that we are able to attract and retain experienced personnel. Such measures may include increasing the attractiveness of our overall compensation packages, altering the structure of our compensation packages through the use of additional forms of compensation, or other steps. The inability to attract and retain experienced personnel would have a material adverse effect on our business.

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.

We may not continue to qualify as a RIC under Subchapter M of the Code.

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. To maintain RIC tax treatment under the Code, we must meet the following annual distribution, income source and asset diversification requirements:

- The annual distribution requirement for a RIC will be satisfied if we distribute to our stockholders on an annual basis at least 90% of our net ordinary income and realized short-term capital gains in excess of realized net long-term capital losses, if any. Depending on the level of taxable income earned in a tax year, we may choose to carry forward taxable income in excess of current year distributions into the next year and pay a 4% excise tax on such income. Any such carryover taxable income must be distributed through a dividend declared prior to filing the final tax return related to the year which generated such taxable income.
- The source of income requirement will be satisfied if we obtain 90% of our income for each year from distributions, interest, gains from the sale of stock or securities or similar sources.
- The asset diversification requirement will be satisfied if we meet certain asset diversification requirements at the end of each quarter of our taxable year. To satisfy this requirement, at least 50% of the value of our assets must consist of cash, cash equivalents, U.S Government securities, securities of other RIC's, and other acceptable securities; no more than 25% of the value of our assets can be invested in the securities, other than U.S Government securities or securities of other RIC's, of two or more issuers that are controlled, as determined under applicable Code rules, by us and that are engaged in the same or similar or related trades or businesses or of certain "qualified publicly traded partnerships."

Failure to meet these requirements may result in our having to dispose of certain investments quickly in order to prevent the loss of RIC status. If we fail to maintain RIC tax treatment for any reason and are subject to corporate income tax, the resulting corporate taxes could substantially reduce our net assets, the amount of income available for distribution and the amount of our distributions. In addition, 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, our shareholders would lose the tax credit realized when we, as a RIC, decide to retain the net realized capital gain and make deemed distributions of net realized capital gains, and pay taxes on behalf of our shareholders at the end of the tax year. 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.

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.

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.

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.

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 5,400 square feet of office space pursuant to a lease agreement expiring in April 2013. We believe that our offices are adequate to meet our current and expected future needs.

Item 3. Legal Proceedings

We may, from time to time, be involved in litigation arising out of our operations in the normal course of business or otherwise. Furthermore, third parties may try to seek to impose liability on us in connection with the activities of our portfolio companies. We have no current pending legal proceedings to which we are party or to which any of our property is subject.

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, 2010.

PART II

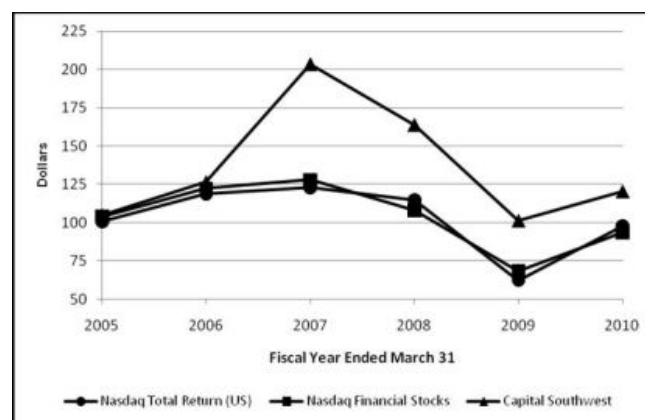
Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

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

Information set forth under the captions "Selected Consolidated Financial Data" in Exhibit 13.1 of this Form 10-K is herein incorporated by reference.

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

Information set forth under the captions "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Exhibit 13.1 of this Form 10-K is herein incorporated by reference.

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 \$14,570,160 at March 31, 2010, equivalent to 3.0% 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

Information set forth under the captions "Exhibits and Financial Statement Schedules " in Item 15 of this Form 10-K is herein incorporated by reference.

Selected Quarterly Financial Data (Unaudited)

The following presents a summary of the unaudited quarterly consolidated financial information for the years ended March 31, 2010 and 2009.

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total
(In thousands, except per share amounts)					
2010					
Net investment income	\$ 444	\$ 362	\$ 1,915	\$ (630)	\$ 2,091
Net realized gain (loss) on investments	-	1,846	(1,021)	-	825
Net increase in unrealized appreciation of investments	10,249	27,013	3,158	30,204	70,624
Net increase in net assets from operations	10,694	29,221	4,051	29,575	73,541
Net increase in net assets from operations per share	2.86	7.81	1.08	7.90	19.65
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total
(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)

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

None.

Item 9A. Controls and Procedures**(a) Evaluation of Disclosure Controls and Procedures**

As of the end of the period covered by this annual report on Form 10-K, our Chairman of the Board and President, and Chief Financial Officer conducted an evaluation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934). Based upon this evaluation, our Chairman of the Board and President, and Chief Financial Officer concluded that our disclosure controls and procedures were effective to allow timely decisions regarding disclosure of any material information relating to us that is required to be disclosed by us in the reports we file or submit under the Securities Exchange Act of 1934.

(b) 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 2010 Annual Report and is incorporated herein by reference.

(c) Attestation report of the registered public accounting firm

Our independent registered public accounting firm, Grant Thornton LLP, has issued an attestation report on the effectiveness of our internal control over financial reporting as of March 31, 2010, which is set forth in our 2010 Annual Report and is incorporated herein by reference.

(d) Changes in internal control over financial reporting

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

Item 9B. Other Information

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

The information required by this Item 10 will be contained in the definitive proxy statement relating to our 2010 annual meeting of shareholders under the headings of "Election of Directors," "Corporate Governance," "Executive Officers" and "Section 16(a) Beneficial Ownership Reporting Compliance" to be filed with the Securities and Exchange Commission on or before June 19, 2010, and is incorporated herein by reference.

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: Tracy L. Morris, Corporate Secretary, at our principal executive office.

Item 11. Executive Compensation

The information required by this Item 11 will be contained in the definitive proxy statement relating to our 2010 annual meeting of shareholders under the headings of "Compensation of Executive Officers," "Compensation of Directors," "Compensation Discussion and Analysis" and "Compensation Committee Report" to be filed with the Securities and Exchange Commission on or before June 19, 2010, and is incorporated herein by reference.

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

The information in the sections of our 2010 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, 2010 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)	166,650	\$103.65	81,250
Equity compensation plans not approved by security holders (2)	0	0	0
Total	166,650	\$103.65	81,250

(i) Includes the 1999 Stock Option Plan and the 2009 Stock Incentive Plan. For a description of both plans, please refer to Footnote 5 contained in our consolidated financial statements.

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

Other information required by this Item 12 will be contained in the definitive proxy statement relating to our 2010 annual meeting of shareholders under the heading of "Security Ownership of Certain Beneficial Owners and Management" to be filed with the Securities and Exchange Commission on or before June 19, 2010, and is incorporated herein by reference.

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

The information required by this Item 13 will be contained in the definitive proxy statement relating to our 2010 annual meeting of shareholders under the headings of "Certain Relationships and Related Transactions" and "Corporate Governance" to be filed with the Securities and Exchange Commission on or before June 19, 2010, and is incorporated herein by reference.

Item 14. Principal Accountant Fees and Services

The information required by this Item 14 will be contained in the definitive proxy statement relating to our 2010 annual meeting of shareholders under the heading of "Ratification and Appointment of Independent Registered Public Accounting Firm for the Year ended March 31, 2011" to be filed with the Securities and Exchange Commission on or before June 19, 2010, and is incorporated herein 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) Consolidated Schedule of Investments – March 31, 2010 and 2009
Consolidated Statements of Assets and Liabilities - March 31, 2010 and 2009
Consolidated Statements of Operations - Years Ended March 31, 2010, 2009 and 2008
Consolidated Statements of Changes in Net Assets - Years Ended March 31, 2010, 2009 and 2008
Consolidated Statements of Cash Flows - Years Ended March 31, 2010, 2009 and 2008
- (B) Notes to Consolidated Financial Statements
- (C) Notes to Consolidated Schedule of Investments
- (D) Schedule of Investments in and Advances to Affiliates
- (E) Selected Per Share Data and Ratios
- (F) Management's Report on Internal Control over Financial Reporting
- (G) Reports of Independent Registered Public Accounting Firm
- (H) 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 28, 2010

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 28, 2010
<u>/s/ Donald W. Burton</u> Donald W. Burton	Director	May 28, 2010
<u>/s/ Graeme W. Henderson</u> Graeme W. Henderson	Director	May 28, 2010
<u>/s/ Samuel B. Ligon</u> Samuel B. Ligon	Director	May 28, 2010
<u>/s/ Gary L. Martin</u> Gary L. Martin	Director	May 28, 2010
<u>/s/ John H. Wilson</u> John H. Wilson	Director	May 28, 2010
<u>/s/ Tracy L. Morris</u> Tracy L. Morris	Chief Financial Officer (chief financial/accounting officer)	May 28, 2010

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 (filed as Exhibit 10.3 to form 10-K for the fiscal year ended March 31, 2009).
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).
10.12*	Amendment Two to Retirement Plan for Employees of Capital Southwest Corporation and its Affiliates as amended and restated effective April 1, 2006.

- 10.13* Amendment Three to Retirement Plan for Employees of Capital Southwest Corporation and its Affiliates as amended and restated effective April 1, 2006.
- 10.14* Amendment Four to Retirement Plan for Employees of Capital Southwest Corporation and its Affiliates as amended and restated effective April 1, 2006.
- 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.

AMENDMENT TWO TO
RETIREMENT PLAN FOR EMPLOYEES OF
CAPITAL SOUTHWEST CORPORATION AND ITS AFFILIATES

As Amended and Restated Effective April 1, 2006

WHEREAS, effective as of April 1, 2006, the Retirement Plan for Employees of Capital Southwest Corporation and Its Affiliates (the "Plan") was amended and restated in its entirety;

WHEREAS, by the terms of Section 6.4 of the Plan, the Plan may be amended;

WHEREAS, certain technical amendments to the Plan relating to regulations issued under section 415 of the Internal Revenue Code (the "Code") were previously submitted to the Board of Directors of Capital Southwest Corporation but, prior to approval of such changes, it was deemed appropriate and still timely to incorporate updated provisions in order to comply with law changes under the Pension Protection Act of 2006 and determined that such changes be made within the required amendment period;

WHEREAS, it is necessary that certain technical amendments be made to the Plan in order to comply with final regulations issued under section 415 of the Internal Revenue Code and to reflect law changes under the Pension Protection Act of 2006;

NOW, THEREFORE, the Plan is hereby amended, effective as of the dates specified below, as follows:

1. Effective as of January 1, 2008, Section 1.1(B)(2) of the Plan is amended to read in its entirety as follows:

"(2) Any provisions of Subsection (1) above to the contrary notwithstanding, if payment is in a form of distribution which is subject to Section 417(e)(3) of the Internal Revenue Code, which shall include lump-sum distributions and other forms of distribution that provide payments in the form of a decreasing annuity or that provide payments that may be for a period less than the life of the recipient, (an "IRC Section 417(e)(3) form of distribution") the amount of any such IRC Section 417(e)(3) form of distribution to a Participant shall be equal to the actuarial equivalent of the Participant's "accrued benefit" (within the meaning of Section 411(a)(7) of the Internal Revenue Code and regulations issued with respect thereto) commencing at his Normal Retirement Age or the date of termination of his service, whichever is later, determined using:

(a) the "Applicable Mortality Table" which means:

- (i) for any Annuity Starting Date that is after December 31, 2002 and prior to January 1, 2008, the mortality table prescribed in Revenue Ruling 2001-62 (based upon a fixed blend of 50% of the unloaded male mortality rates and 50% of the unloaded female mortality rates underlying the mortality rates in the 1994 Group Annuity Reserving Table, projected to 2002); and
- (ii) for any Annuity Starting Date that is on or after January 1, 2008, the mortality table as defined in Code Section 417(e)(3)(B), modified as appropriate by the Secretary of the Treasury, specified for the Plan Year during which the Annuity Starting Date occurs.

(b) the "Applicable Interest Rate" which means:

- (i) for any Annuity Starting Date that is after December 31, 2002, and prior to January 1, 2008, the annual rate of interest on 30-year Treasury securities for the second full calendar month immediately preceding the first day of the Plan Year during which the Annuity Starting Date occurs; and
- (ii) for any Annuity Starting Date that is on or after January 1, 2008, the adjusted first, second, and third segment rates applied under rules similar to the minimum funding rules of Code Section 430(h)(2)(C) for the second full calendar month immediately preceding the first day of the Plan Year during which the Annuity Starting Date occurs.

(c) For purposes of Subparagraph (b) above, the adjusted first, second, and third segment rates are the first, second, and third segment rates which would be determined under Code Section 430(h)(2)(C) if —

(i) Code Section 430(h)(2)(D) were applied by substituting the average yields for the month described in clause (ii) of such section for the average yields for the 24-month period described in such section;

(ii) Code Section 430(h)(2)(G)(i)(II) were applied by substituting "section 417(e)(3)(A)(ii)(II)" for "section 412(b)(5)(B)(ii)(II)"; and

(iii) the applicable percentage under Code Section 430(h)(2)(G) were determined in accordance with the following table:

<u>For Plan Year</u>	<u>Applicable Percentage</u>
2008	20%
2009	40%
2010	60%
2011	80%

The amount of any such IRC Section 417(e)(3) form of distribution that is payable to a Beneficiary whose Annuity Starting Date is prior to the Annuity Starting Date of the Participant shall be equal to the actuarial equivalent, determined using the mortality and interest assumptions specified in the preceding sentence, of the benefit payable to such Beneficiary as a monthly income payable for life commencing at the Annuity Starting Date of the Beneficiary."

2. Effective for limitation years beginning on or after July 1, 2007, Section 4.1(A) of the Plan is amended to read in its entirety as follows:

"(A) Limitations Imposed by Section 415 of the Internal Revenue Code:

(1) The limitations of this Section 4.1(A) shall apply on and after January 1, 2008, except as otherwise provided herein.

(2) The Annual Benefit otherwise payable to a Participant under the Plan at any time shall not exceed the Maximum Permissible Benefit. If the benefit the Participant would otherwise accrue in a Limitation Year would produce an Annual Benefit in excess of the Maximum Permissible Benefit, the benefit shall be limited (or the rate of accrual reduced) to a benefit that does not exceed the Maximum Permissible Benefit.

(3) If the Participant is, or has ever been, a participant in another qualified defined benefit plan (without regard to whether the plan has been terminated) maintained by the employer or a predecessor employer, the sum of the Participant's Annual Benefits from all such plans may not exceed the Maximum Permissible Benefit. Where the Participant's employer-provided benefits under all such defined benefit plans (determined as of the same age) would exceed the Maximum Permissible Benefit applicable at that age, the maximum monthly retirement income applicable to all such defined benefit plans of the employer shall be determined and allocated on a pro rata basis in proportion to the actuarially equivalent amount of retirement income otherwise accrued under each such defined benefit plan so that the Maximum Permissible Benefit is not exceeded.

(4) The application of the provisions of this section shall not cause the Maximum Permissible Benefit for any Participant to be less than the Participant's accrued benefit under all the defined benefit plans of the employer or a predecessor employer as of the end of the last Limitation Year beginning before July 1, 2007 under provisions of the plans that were both adopted and in effect before April 5, 2007. The preceding sentence applies only if the provisions of such defined benefit plans that were both adopted and in effect before April 5, 2007 satisfied the applicable requirements of statutory provisions, regulations, and other published guidance relating to Section 415 of the Internal Revenue Code in effect as of the end of the last Limitation Year beginning before July 1, 2007, as described in Section 1.415(a)-1(g)(4) of the Treasury regulations.

(5) The limitations of this Section 4.1(A) shall be determined and applied taking into account the rules in Section 4.1(A)(7).

(6) Definitions.

(a) "Annual Benefit" shall mean a benefit that is payable annually in the form of a straight life annuity. Except as provided below, where a benefit is payable in a form other than a straight life annuity, the benefit shall be adjusted to an actuarially equivalent straight life annuity that begins at the same time as such other form of benefit and is payable on the first day of each month, before applying the limitations of this Section 4.1(A). For a Participant who has or will have distributions commencing at more than one annuity starting date, the Annual Benefit shall be determined as of each such annuity starting date (and shall satisfy the limitations of this Section 4.1(A) as of each such date), actuarially adjusting for past and future distributions of benefits commencing at the other annuity starting dates. For this purpose, the determination of whether a new starting date has occurred shall be made without regard to Section 1.401(a)-20, Q&A 10(d), and with regard to Section 1.415(b)-1(b)(1)(iii) (B) and (C) of the Treasury regulations.

No actuarial adjustment to the benefit shall be made for (1) survivor benefits payable to a surviving spouse under a qualified joint and survivor annuity to the extent such benefits would not be payable if the Participant's benefit were paid in another form; (2) benefits that are not directly related to retirement benefits (such as a qualified disability benefit, preretirement incidental death benefits, and postretirement medical benefits); or (3) the inclusion in the form of benefit of an automatic benefit increase feature, provided the form of benefit is not subject to Section 417(e)(3) of the Internal Revenue Code and would otherwise satisfy the limitations of this Section 4.1(A), and the Plan provides that the amount payable under the form of benefit in any Limitation Year shall not exceed the limits of this Section 4.1(A) applicable at the annuity starting date, as increased in subsequent years pursuant to Section 415(d) of the Internal Revenue Code. For this purpose, an automatic benefit increase feature is included in a form of benefit if the form of benefit provides for automatic, periodic increases to the benefits paid in that form.

The determination of the Annual Benefit shall take into account Social Security supplements described in Section 411(a)(9) of the Internal Revenue Code and benefits transferred from another defined benefit plan, other than transfers of distributable benefits pursuant to Section 1.411(d)-4, Q&A-3(c), of the Treasury regulations, but shall disregard benefits attributable to employee contributions or rollover contributions.

Effective for distributions in Plan Years beginning after December 31, 2003, the determination of actuarial equivalence of forms of benefit other than a straight life annuity shall be made in accordance with Section 4.1(A)(6)(a)(i) or (ii) below.

- (i) Benefit Forms Not Subject to Section 417(e)(3) of the Internal Revenue Code: The straight life annuity that is actuarially equivalent to the Participant's form of benefit shall be determined under this subsection (i) if the form of the Participant's benefit is either (1) a nondecreasing annuity (other than a straight life annuity) payable for a period of not less than the life of the Participant (or, in the case of a qualified pre-retirement survivor annuity, the life of the surviving spouse), or (2) an annuity that decreases during the life of the Participant merely because of (a) the death of the survivor annuitant (but only if the reduction is not below 50% of the benefit payable before the death of the survivor annuitant), or (b) the cessation or reduction of Social Security supplements or qualified disability payments (as defined in Section 401(a)(11) of the Internal Revenue Code).
- (A) Limitation Years beginning before July 1, 2007. For Limitation Years beginning before July 1, 2007, the actuarially equivalent straight life annuity is equal to the annual amount of the straight life annuity commencing at the same annuity starting date that has the same actuarial present value as the Participant's form of benefit computed using whichever of the following produces the greater annual amount: (I) the interest rate specified in Section 1.1(B)(1)(b) of the Plan and the mortality table (or other tabular factor) specified in Section 1.1(B)(1)(a) of the Plan for adjusting benefits in the same form; and (II) a 5 percent interest rate assumption and the applicable mortality table prescribed in Revenue Ruling 2001-62 for that annuity starting date.

- (B) Limitation Years beginning on or after July 1, 2007. For Limitation Years beginning on or after July 1, 2007, the actuarially equivalent straight life annuity is equal to the greater of (I) the annual amount of the straight life annuity (if any) payable to the Participant under the Plan commencing at the same annuity starting date as the Participant's form of benefit; and (II) the annual amount of the straight life annuity commencing at the same annuity starting date that has the same actuarial present value as the Participant's form of benefit, computed using a 5 percent interest rate assumption and the Applicable Mortality Table defined in Section 1.1(B)(2)(a) of the Plan for that annuity starting date.
- (ii) Benefit Forms Subject to Section 417(e)(3) of the Internal Revenue Code: The straight life annuity that is actuarially equivalent to the Participant's form of benefit shall be determined under this subsection (ii) if the form of the Participant's benefit is other than a benefit form described in subsection (i) above. In this case, the actuarially equivalent straight life annuity shall be determined as follows:
- (A) Annuity Starting Date in Plan Years Beginning After 2005. If the annuity starting date of the Participant's form of benefit is in a Plan Year beginning after 2005, the actuarially equivalent straight life annuity is equal to the greatest of (I) the annual amount of the straight life annuity commencing at the same annuity starting date that has the same actuarial present value as the Participant's form of benefit, computed using the interest rate specified in Section 1.1(B)(1)(b) of the Plan and the mortality table (or other tabular factor) specified in Section 1.1(B)(1)(a) of the Plan for adjusting benefits in the same form; (II) the annual amount of the straight life annuity commencing at the same annuity starting date that has the same actuarial present value as the Participant's form of benefit, computed using a 5.5 percent interest rate assumption and the Applicable Mortality Table defined in Section 1.1(B)(2)(a) of the Plan for that annuity starting date; and (III) the annual amount of the straight life annuity commencing at the same annuity starting date that has the same actuarial present value as the Participant's form of benefit, computed using the Applicable Interest Rate defined in Section 1.1(B)(2)(b) of the Plan and the Applicable Mortality Table defined in Section 1.1(B)(2)(a) of the Plan for that annuity starting date, divided by 1.05.

(B) Annuity Starting Date in Plan Years Beginning in 2004 or 2005. If the annuity starting date of the Participant's form of benefit is in a Plan Year beginning in 2004 or 2005, the actuarially equivalent straight life annuity is equal to the annual amount of the straight life annuity commencing at the same annuity starting date that has the same actuarial present value as the Participant's form of benefit, computed using whichever of the following produces the greater annual amount: (I) the interest rate specified in Section 1.1(B)(1)(b) of the Plan and the mortality table (or other tabular factor) specified in Section 1.1(B)(1)(a) of the Plan for adjusting benefits in the same form; and (II) a 5.5 percent interest rate assumption and the applicable mortality table prescribed in Revenue Ruling 2001-62.

If the annuity starting date of the Participant's benefit is on or after the first day of the first Plan Year beginning in 2004 and before December 31, 2004, the application of this subsection (ii) shall not cause the amount payable under the Participant's form of benefit to be less than the benefit calculated under the Plan, taking into account the limitations of this Section 4.1(A), except that the actuarially equivalent straight life annuity is equal to the annual amount of the straight life annuity commencing at the same annuity starting date that has the same actuarial present value as the Participant's form of benefit, computed using whichever of the following produces the greatest annual amount:

- (i) the interest rate specified in Section 1.1(B)(1)(b) of the Plan and the mortality table (or other tabular factor) specified in Section 1.1(B)(1)(a) of the Plan for adjusting benefits in the same form;
- (ii) the Applicable Interest Rate defined in Section 1.1(B)(2)(b) of the Plan and the applicable mortality table prescribed in Revenue Ruling 2001-62; or
- (iii) the Applicable Interest Rate defined in Section 1.1(B)(2)(b) of the Plan (as in effect on the last day of the last Plan Year beginning before January 1, 2004, under provisions of the Plan then adopted and in effect) and the applicable mortality table prescribed in Revenue Ruling 2001-62.

(b) "IRC 415 Compensation" shall mean wages, salaries, and fees for professional services and other amounts received (without regard to whether or not an amount is paid in cash) for personal services actually rendered in the course of employment with the Employer maintaining the Plan to the extent that the amounts are includible in gross income (including, but not limited to, commissions paid salespersons, compensation for services on the basis of a percentage of profits, commissions on insurance premiums, tips, bonuses, fringe benefits, and reimbursements, or other expense allowances under a nonaccountable plan [as described in Section 1.62-2(c) of the Treasury regulations]), and excluding the following:

- (i) Employer contributions (other than elective contributions described in Sections 402(e)(3), 408(k)(6), 408(p)(2)(A)(i), or 457(b) of the Internal Revenue Code) to a plan of deferred compensation (including a simplified employee pension described in Section 408(k) or a simple retirement account described in Section 408(p) of the Internal Revenue Code, and whether or not qualified) to the extent such contributions are not includible in the Employee's gross income for the taxable year in which contributed, and any distributions (whether or not includible in gross income when distributed) from a plan of deferred compensation (whether or not qualified), other than, amounts received during the year by an Employee pursuant to a nonqualified unfunded deferred compensation plan to the extent includible in gross income;
- (ii) amounts realized from the exercise of a nonstatutory stock option (that is, an option other than a statutory stock option as defined in Section 1.421-1(b) of the Treasury regulations), or when restricted stock (or property) held by the Employee either becomes freely transferable or is no longer subject to a substantial risk of forfeiture;
- (iii) amounts realized from the sale, exchange or other disposition of stock acquired under a statutory stock option;
- (iv) other amounts that receive special tax benefits, such as premiums for group-term life insurance (but only to the extent that the premiums are not includible in the gross income of the Employee and are not salary reduction amounts that are described in Section 125 of the Internal Revenue Code); and
- (v) other items of remuneration that are similar to any of the items listed in (i) through (iv).

For any self-employed individual, IRC 415 Compensation shall mean earned income.

Except as provided herein, for Limitation Years beginning after December 31, 1991, IRC 415 Compensation for a Limitation Year is the IRC 415 Compensation actually paid or made available during such Limitation Year. IRC 415 Compensation for a Limitation Year shall include amounts earned but not paid during the Limitation Year solely because of the timing of pay periods and pay dates, provided the amounts are paid during the first few weeks of the next Limitation Year, the amounts are included on a uniform and consistent basis with respect to all similarly situated employees, and no compensation is included in more than one Limitation Year.

For Limitation Years beginning on or after July 1, 2007, IRC 415 Compensation for a Limitation Year shall also include compensation paid by the later of 2 ½ months after an Employee's severance from employment with the employer maintaining the Plan or the end of the Limitation Year that includes the date of the Employee's severance from employment with the employer maintaining the Plan, if:

- (i) the payment is regular compensation for services during the Employee's regular working hours, or compensation for services outside the Employee's regular working hours (such as overtime or shift differential), commissions, bonuses, or other similar payments, and, absent a severance from employment, the payments would have been paid to the Employee while the Employee continued in employment with the Employer;
- (ii) the payment is for unused accrued bona fide sick, vacation or other leave that the Employee would have been able to use if employment had continued; or
- (iii) the payment is received by the Employee pursuant to a nonqualified unfunded deferred compensation plan and would have been paid at the same time if employment had continued, but only to the extent includible in gross income.

Any payments not described above shall not be considered IRC 415 Compensation if paid after severance from employment, even if they are paid by the later of 2½ months after the date of severance from employment or the end of the Limitation Year that includes the date of severance from employment, except, (1) payments to an individual who does not currently perform services for the employer by reason of qualified military service (within the meaning of Section 414(u)(1) of the Internal Revenue Code) to the extent these payments do not exceed the amounts the individual would have received if the individual had continued to perform services for the employer rather than entering qualified military service, or (2) compensation paid to a Participant who is permanently and totally disabled, as defined in Section 22(e)(3) of the Internal Revenue Code, provided that salary continuation applies to all Participants who are permanently and totally disabled for a fixed or determinable period, or the Participant was not a Highly Compensated Employee immediately before becoming disabled.

Back pay, within the meaning of Section 1.415(c)-2(g)(8) of the Treasury regulations, shall be treated as IRC 415 Compensation for the Limitation Year to which the back pay relates to the extent the back pay represents wages and compensation that would otherwise be included under this definition.

For Limitation Years beginning after December 31, 1997, IRC 415 Compensation paid or made available during such Limitation Year shall include amounts that would otherwise be included in IRC 415 Compensation but for an election under Section 125(a), 402(e)(3), 402(h)(1)(B), 402(k), or 457(b) of the Internal Revenue Code.

For Limitation Years beginning after December 31, 2000, IRC 415 Compensation shall also include any elective amounts that are not includible in the gross income of the Employee by reason of Section 132(f)(4) of the Internal Revenue Code.

For Limitation Years beginning after December 31, 2001, IRC 415 Compensation shall also include deemed Section 125 compensation. Deemed Section 125 compensation is an amount that is excludable under Section 106 of the Internal Revenue Code that is not available to a participant in cash in lieu of group health coverage under a Section 125 arrangement solely because the Participant is unable to certify that he or she has other health coverage. Amounts are deemed Section 125 compensation only if the employer does not request or otherwise collect information regarding the Participant's other health coverage as part of the enrollment process for the health plan.

IRC 415 Compensation shall not include amounts paid as compensation to a nonresident alien, as defined in Section 7701(b)(1)(B) of the Internal Revenue Code, who is not a Participant in the Plan to the extent the compensation is excludable from gross income and is not effectively connected with the conduct of a trade or business within the United States.

(c) "Defined Benefit Compensation Limitation" shall mean 100 percent of a Participant's High Three-Year Average Compensation, payable in the form of a straight life annuity.

In the case of a Participant who has had a severance from employment with the employer, the Defined Benefit Compensation Limitation applicable to the Participant in any Limitation Year beginning after the date of severance shall be automatically adjusted by multiplying the limitation applicable to the Participant in the prior Limitation Year by the annual adjustment factor under Section 415(d) of the Internal Revenue Code; provided, however, if the Employer maintains a plan for the purpose of restoring benefits that certain Participants may not receive under the Plan due to the limitations on contributions and benefits imposed by Section 415 of the Internal Revenue Code and/or due to the limitations imposed on compensation under Section 401(a)(17) of said Code, and if the Participant or his Beneficiary receives or has received a benefit or benefits under such restoration plan and a portion of such benefit or benefits would be duplicated by the cost-of-living adjustment provided under this paragraph, then such cost-of-living adjustment that would represent a duplication of benefits shall not apply to the Participant or Beneficiary unless the value of the benefit payable from the restoration plan that would cause such duplication of benefits under the Plan is returned to the Employer by the Participant or Beneficiary within 60 days of the effective date of such cost-of-living adjustment or the date that such cost-of-living adjustment is announced by the Internal Revenue Service, whichever date is later; and provided further, however, that such 60-day period may be extended by the Committee if, in its opinion, reasonable cause exists for such an extension. The adjusted compensation limit shall apply to Limitation Years ending with or within the calendar year of the date of the adjustment, but a Participant's benefits shall not reflect the adjusted limit prior to January 1 of that calendar year.

In the case of a Participant who is rehired after a severance from employment, the Defined Benefit Compensation Limitation is the greater of 100 percent of the Participant's High Three-Year Average Compensation, as determined prior to the severance from employment, as adjusted pursuant to the preceding paragraph, if applicable; or 100 percent of the Participant's High Three-Year Average Compensation, as determined after the severance from employment under subsection (g) below.

(d) "Defined Benefit Dollar Limitation" shall mean, effective for Limitation Years ending after December 31, 2001, \$160,000, automatically adjusted under Section 415(d) of the Internal Revenue Code effective January 1 of each year, and payable in the form of a straight life annuity. The new limitation shall apply to Limitation Years ending with or within the calendar year of the date of the adjustment, but a Participant's benefits shall not reflect the adjusted limit prior to January 1 of that calendar year. The automatic annual adjustment of the Defined Benefit Dollar Limitation shall apply to Participants who have had a separation from employment.

(e) "employer" shall mean the employer that adopts this Plan, and all members of a controlled group of corporations, as defined in Section 414(b) of the Internal Revenue Code, as modified by Section 415(h), all commonly controlled trades or businesses (as defined in Section 414(c) of the Internal Revenue Code, as modified, except in the case of a brother-sister group of trades or businesses under common control, by Section 415(h)), or affiliated service groups (as defined in Section 414(m)) of which the adopting employer is a part, and any other entity required to be aggregated with the employer pursuant to Section 414(o) of the Internal Revenue Code.

(f) "Formerly Affiliated Plan of the Employer" shall mean a plan that, immediately prior to the cessation of affiliation, was actually maintained by the employer and, immediately after the cessation of affiliation, is not actually maintained by the employer. For this purpose, cessation of affiliation means the event that causes an entity to no longer be considered the employer, such as the sale of a member of the controlled group of corporations, as defined in Section 414(b) of the Internal Revenue Code, as modified by Section 415(h), to an unrelated corporation, or that causes a plan to not actually be maintained by the employer, such as transfer of plan sponsorship outside a controlled group.

(g) "High Three-Year Average Compensation" shall mean the average compensation for the three consecutive years of service (or, if the Participant has less than three consecutive years of service, the Participant's longest consecutive period of service, including fractions of years, but not less than one year) with the employer that produces the highest average. A year of service with the employer is the 12-consecutive month period that begins on January 1 of each calendar year. In the case of a Participant who is rehired by the employer after a severance from employment, the Participant's high three-year average compensation shall be calculated by excluding all years for which the Participant performs no services for and receives no compensation from the employer (the break period) and by treating the years immediately preceding and following the break period as consecutive. A Participant's compensation for a year of service shall not include compensation in excess of the limitation under Section 401(a)(17) of the Internal Revenue Code that is in effect for the calendar year in which such year of service begins.

(h) "Limitation Year" shall mean the calendar year unless a different 12-month period has been elected by the employer in accordance with regulations or rulings issued by the Internal Revenue Service. All qualified plans maintained by the employer must use the same Limitation Year. If the Limitation Year is amended to a different 12-consecutive month period, the new Limitation Year must begin on a date within the Limitation Year in which the amendment is made.

(i) "Maximum Permissible Benefit" shall mean the lesser of the Defined Benefit Dollar Limitation or the Defined Benefit Compensation Limitation (both adjusted where required as provided below).

- (i) Adjustment for Less Than 10 Years of Participation or Service: If the Participant has less than 10 Years of Participation in the Plan, the Defined Benefit Dollar Limitation shall be multiplied by a fraction, the numerator of which is the number of Years (or part thereof, but not less than one year) of Participation in the Plan, and the denominator of which is 10. In the case of a Participant who has less than 10 Years of Service with the employer, the Defined Benefit Compensation Limitation shall be multiplied by a fraction, the numerator of which is the number of Years (or part thereof, but not less than 1 year) of Service with the employer, and the denominator of which is 10.
- (ii) Adjustment of Defined Benefit Dollar Limitation for Benefit Commencement Before Age 62 or after Age 65: Effective for benefits commencing in Limitation Years ending after December 31, 2001, the Defined Benefit Dollar Limitation shall be adjusted if the annuity starting date of the Participant's benefit is before age 62 or after age 65. If the annuity starting date is before age 62, the Defined Benefit Dollar Limitation shall be adjusted under subsection (A) below, as modified by subsection (C) below in this subsection (ii). If the annuity starting date is after age 65, the Defined Benefit Dollar Limitation shall be adjusted under subsection (B) below, as modified by subsection (C) below in this subsection (ii).

(A) Adjustment of Defined Benefit Dollar Limitation for Benefit Commencement Before Age 62:

I. Limitation Years Beginning Before July 1, 2007. If the annuity starting date for the Participant's benefit is prior to age 62 and occurs in a Limitation Year beginning before July 1, 2007, the Defined Benefit Dollar Limitation for the Participant's annuity starting date is the annual amount of a benefit payable in the form of a straight life annuity commencing at the Participant's annuity starting date that is the actuarial equivalent of the Defined Benefit Dollar Limitation (adjusted for Years of Participation less than 10, if required) with actuarial equivalence computed using whichever of the following produces the smaller annual amount: (a) the interest rate specified in Section 1.1(B)(1)(b) of the Plan and the mortality table (or other tabular factor) specified in Section 1.1(B)(1)(a) of the Plan; or (b) a 5-percent interest rate assumption and the applicable mortality table as prescribed in Revenue Ruling 2001-62.

II. Limitation Years Beginning on or After July 1, 2007.

(a) Plan Does Not Have Immediately Commencing Straight Life Annuity Payable at Both Age 62 and the Age of Benefit Commencement. If the annuity starting date for the Participant's benefit is prior to age 62 and occurs in a Limitation Year beginning on or after July 1, 2007, and the Plan does not have an immediately commencing straight life annuity payable at both age 62 and the age of benefit commencement, the Defined Benefit Dollar Limitation for the Participant's annuity starting date is the annual amount of a benefit payable in the form of a straight life annuity commencing at the Participant's annuity starting date that is the actuarial equivalent of the Defined Benefit Dollar Limitation (adjusted for Years of Participation less than 10, if required) with actuarial equivalence computed using a 5 percent interest rate assumption and the Applicable Mortality Table defined in Section 1.1(B)(2)(a) of the Plan for that annuity starting date (and expressing the Participant's age based on completed calendar months as of the annuity starting date).

(b) Plan Has Immediately Commencing Straight Life Annuity Payable at Both Age 62 and the Age of Benefit Commencement. If the annuity starting date for the Participant's benefit is prior to age 62 and occurs in a Limitation Year beginning on or after July 1, 2007, and the Plan has an immediately commencing straight life annuity payable at both age 62 and the age of benefit commencement, the Defined Benefit Dollar Limitation for the Participant's annuity starting date is the lesser of the limitation determined under subsection (a) immediately above and the Defined Benefit Dollar Limitation (adjusted for Years of Participation less than 10, if required) multiplied by the ratio of the annual amount of the immediately commencing straight life annuity under the Plan at the Participant's annuity starting date to the annual amount of the immediately commencing straight life annuity under the Plan at age 62, both determined without applying the limitations of this Section 4.1(A).

(B) Adjustment of Defined Benefit Dollar Limitation for Benefit Commencement After Age 65:

I. Limitation Years Beginning Before July 1, 2007. If the annuity starting date for the Participant's benefit is after age 65 and occurs in a Limitation Year beginning before July 1, 2007, the Defined Benefit Dollar Limitation for the Participant's annuity starting date is the annual amount of a benefit payable in the form of a straight life annuity commencing at the Participant's annuity starting date that is the actuarial equivalent of the Defined Benefit Dollar Limitation (adjusted for Years of Participation less than 10, if required) with actuarial equivalence computed using whichever of the following produces the smaller annual amount: (1) the interest rate specified in Section 1.1(B)(1)(b) of the Plan and the mortality table (or other tabular factor) specified in Section 1.1(B)(1)(a) of the Plan; or (2) a 5-percent interest rate assumption and the applicable mortality table as prescribed in Revenue Ruling 2001-62.

II. Limitation Years Beginning After July 1, 2007.

(a) Plan Does Not Have Immediately Commencing Straight Life Annuity Payable at Both Age 65 and the Age of Benefit Commencement. If the annuity starting date for the Participant's benefit is after age 65 and occurs in a Limitation Year beginning on or after July 1, 2007, and the Plan does not have an immediately commencing straight life annuity payable at both age 65 and the age of benefit commencement, the Defined Benefit Dollar Limitation at the Participant's annuity starting date is the annual amount of a benefit payable in the form of a straight life annuity commencing at the Participant's annuity starting date that is the actuarial equivalent of the Defined Benefit Dollar Limitation (adjusted for Years of Participation less than 10, if required), with actuarial equivalence computed using a 5 percent interest rate assumption and the Applicable Mortality Table defined in Section 1.1(B)(2)(a) of the Plan for that annuity starting date (and expressing the participant's age based on completed calendar months as of the annuity starting date).

(b) Plan Has Immediately Commencing Straight Life Annuity Payable at Both Age 65 and the Age of Benefit Commencement. If the annuity starting date for the Participant's benefit is after age 65 and occurs in a Limitation Year beginning on or after July 1, 2007, and the Plan has an immediately commencing straight life annuity payable at both age 65 and the age of benefit commencement, the Defined Benefit Dollar Limitation at the Participant's annuity starting date is the lesser of the limitation determined under subsection (a) immediately above and the Defined Benefit Dollar Limitation (adjusted for Years of Participation less than 10, if required) multiplied by the ratio of the annual amount of the adjusted immediately commencing straight life annuity under the Plan at the Participant's annuity starting date to the annual amount of the adjusted immediately commencing straight life annuity under the Plan at age 65, both determined without applying the limitations of this Section 4.1(A). For this purpose, the adjusted immediately commencing straight life annuity under the Plan at the Participant's annuity starting date is the annual amount of such annuity payable to the Participant, computed disregarding the Participant's accruals after age 65 but including actuarial adjustments even if those actuarial adjustments are used to offset accruals; and the adjusted immediately commencing straight life annuity under the Plan at age 65 is the annual amount of such annuity that would be payable under the Plan to a hypothetical participant who is age 65 and has the same accrued benefit as the Participant.

- (C) Notwithstanding the other requirements of this subsection (ii), no adjustment shall be made to the Defined Benefit Dollar Limitation to reflect the probability of a Participant's death between the annuity starting date and age 62, or between age 65 and the annuity starting date, as applicable, if benefits are not forfeited upon the death of the Participant prior to the annuity starting date. To the extent benefits are forfeited upon death before the annuity starting date, such an adjustment shall be made. For this purpose, no forfeiture shall be treated as occurring upon the Participant's death if the Plan does not charge Participants for providing a qualified preretirement survivor annuity, as defined in Section 417(c) of the Internal Revenue Code, upon the Participant's death.

(iii) Minimum Benefit Permitted: Notwithstanding anything else in this section to the contrary, the benefit otherwise accrued or payable to a Participant under this Plan shall be deemed not to exceed the Maximum Permissible Benefit if:

- (A) the retirement benefits payable for a Limitation Year under any form of benefit with respect to such Participant under this Plan and under all other defined benefit plans (without regard to whether a Plan has been terminated) ever maintained by the employer do not exceed \$10,000 multiplied by a fraction, the numerator of which is the Participant's number of Years (or part thereof, but not less than one year) of Service (not to exceed 10) with the employer, and the denominator of which is 10; and
- (B) the employer (or a predecessor employer) has not at any time maintained a defined contribution plan in which the Participant participated (for this purpose, mandatory employee contributions under a defined benefit plan, individual medical accounts under Section 401(h) of the Internal Revenue Code, and accounts for postretirement medical benefits established under Section 419A(d)(1) of the Internal Revenue Code are not considered a separate defined contribution plan).

(j) "Predecessor Employer" shall mean, if the employer maintains a plan that provides a benefit which the Participant accrued while performing services for a former employer, the former employer with respect to the Participant in the plan. A former entity that antedates the employer is also a predecessor employer with respect to a participant if, under the facts and circumstances, the employer constitutes a continuation of all or a portion of the trade or business of the former entity.

(k) "Severance from Employment" shall mean the Employee ceases to be an employee of the employer maintaining the Plan. An Employee does not have a severance from employment if, in connection with a change of employment, the Employee's new employer maintains the Plan with respect to the Employee.

(l) "Year of Participation." The Participant shall be credited with a Year of Participation (computed to fractional parts of a year) for each accrual computation period for which the following conditions are met: (1) the Participant is credited with at least the number of hours of service (or period of service if the elapsed time method is used) for benefit accrual purposes, required under the terms of the Plan in order to accrue a benefit for the accrual computation period, and (2) the Participant is included as a participant under the eligibility provisions of the Plan for at least one day of the accrual computation period. If these two conditions are met, the portion of a Year of Participation credited to the Participant shall equal the amount of benefit accrued service credited to the Participant for such accrual computation period. A Participant who is permanently and totally disabled within the meaning of Section 415(c)(3)(C)(i) of the Internal Revenue Code for an accrual computation period shall receive a Year of Participation with respect to that period. In addition, for a Participant to receive a Year of Participation (or part thereof) for an accrual computation period, the Plan must be established no later than the last day of such accrual computation period. In no event shall more than one Year of Participation be credited for any 12-month period.

(m) "Year of Service." For purposes of Section 4.1(A)(6)(g), the Participant shall be credited with a Year of Service (computed to fractional parts of a year) for each accrual computation period for which the Participant is credited with at least the number of hours of service (or period of service if the elapsed time method is used) for benefit accrual purposes, required under the terms of the Plan in order to accrue a benefit for the accrual computation period, taking into account only service with the employer or a predecessor employer.

(7) Other Rules.

(a) Benefits Under Terminated Plans. If a defined benefit plan maintained by the employer has terminated with sufficient assets for the payment of benefit liabilities of all plan participants and a Participant in the Plan has not yet commenced benefits under the Plan, the benefits provided pursuant to the annuities purchased to provide the Participant's benefits under the terminated plan at each possible annuity starting date shall be taken into account in applying the limitations of this Section 4.1(A). If there are not sufficient assets for the payment of all participants' benefit liabilities, the benefits taken into account shall be the benefits that are actually provided to the Participant under the terminated plan.

(b) Benefits Transferred From the Plan. If a participant's benefits under a defined benefit plan maintained by the employer are transferred to another defined benefit plan maintained by the employer and the transfer is not a transfer of distributable benefits pursuant to Section 1.411(d)-4, Q&A-3(c), of the Treasury regulations, the transferred benefits are not treated as being provided under the transferor plan (but are taken into account as benefits provided under the transferee plan). If a participant's benefits under a defined benefit plan maintained by the employer are transferred to another defined benefit plan that is not maintained by the employer and the transfer is not a transfer of distributable benefits pursuant to Section 1.411(d)-4, Q&A-3(c), of the Treasury regulations, the transferred benefits are treated by the employer's plan as if such benefits were provided under annuities purchased to provide benefits under a plan maintained by the employer that terminated immediately prior to the transfer with sufficient assets to pay all participants' benefit liabilities under the plan. If a participant's benefits under a defined benefit plan maintained by the employer are transferred to another defined benefit plan in a transfer of distributable benefits pursuant to Section 1.411(d)-4, Q&A-3(c), of the Treasury regulations, the amount transferred is treated as a benefit paid from the transferor plan.

(c) Formerly Affiliated Plans of the Employer. A Formerly Affiliated Plan of the Employer shall be treated as a plan maintained by the employer, but the Formerly Affiliated Plan of the Employer shall be treated as if it had terminated immediately prior to the cessation of affiliation with sufficient assets to pay participants' benefit liabilities under the plan and had purchased annuities to provide benefits.

(d) Plans of a Predecessor Employer. If the employer maintains a defined benefit plan that provides benefits accrued by a Participant while performing services for a predecessor employer, the Participant's benefits under a plan maintained by the predecessor employer shall be treated as provided under a plan maintained by the employer. However, for this purpose, the plan of the predecessor employer shall be treated as if it had terminated immediately prior to the event giving rise to the predecessor employer relationship with sufficient assets to pay participants' benefit liabilities under the plan, and had purchased annuities to provide benefits; the employer and the predecessor employer shall be treated as if they were a single employer immediately prior to such event and as unrelated employers immediately after the event; and if the event giving rise to the predecessor relationship is a benefit transfer, the transferred benefits shall be excluded in determining the benefits provided under the plan of the predecessor employer.

(e) Special Rules. The limitations of this Section 4.1(A) shall be determined and applied taking into account the rules in Section 1.415(f)-1(d), (e) and (h) of the Treasury regulations.

(f) Aggregation with Multiemployer Plans.

(i) If the employer maintains a multiemployer plan, as defined in Section 414(f) of the Internal Revenue Code, and the multiemployer plan so provides, only the benefits under the multiemployer plan that are provided by the employer shall be treated as benefits provided under a plan maintained by the employer for purposes of this Section 4.1(A).

(ii) Effective for Limitation Years ending after December 31, 2001, a multiemployer plan shall be disregarded for purposes of applying the compensation limitation of Sections 4.1(A)(6)(c) and 4.1(A)(6)(i)(i) to a plan which is not a multiemployer plan."

3. Effective for limitation years beginning on or after July 1, 2007, Section 4.1(J)(6) of the Plan is amended to read in its entirety as follows:

"(6) Section 415 compliance: Except in the case where payment of the Participant's retirement income (other than a form of payment that is subject to Section 417(e) of the Internal Revenue Code, including lump-sum distributions and other forms of distribution that provide payments in the form of a decreasing annuity or for a period less than the life of the recipient) commences no more than 12 months after the retroactive Annuity Starting Date, payment of the Participant's retirement income, including any interest adjustments, shall satisfy the requirements of Section 415 of the Internal Revenue Code if the date retirement income payments actually commence is substituted for the retroactive Annuity Starting Date for all purposes, including for purposes of determining the interest rate and the mortality table described in Section 4.1(A)(6)(a)(ii)(A) hereof."

IN WITNESS WHEREOF, CAPITAL SOUTHWEST CORPORATION has caused this instrument to be executed by its duly authorized officer on this ____ day of _____, 2009.

CAPITAL SOUTHWEST CORPORATION

By

Title:

AMENDMENT THREE TO
RETIREMENT PLAN FOR EMPLOYEES OF
CAPITAL SOUTHWEST CORPORATION AND ITS AFFILIATES
As Amended and Restated Effective April 1, 2006

WHEREAS, effective as of April 1, 2006, the Retirement Plan for Employees of Capital Southwest Corporation and Its Affiliates (the "Plan") was amended and restated in its entirety;

WHEREAS, by the terms of Section 6.4 of the Plan, the Plan may be amended; and

WHEREAS, the Board of Directors of Capital Southwest Corporation has approved that an amendment be made to the Plan in order to enhance the benefit formula for Participants effective April 1, 2009;

NOW, THEREFORE, the Plan is hereby amended, effective as of April 1, 2009, as follows:

1. Section 1.1 (A)(1) of the Plan is amended to add the following paragraph at the end thereof:

"Effective April 1, 2009, the Accrued Deferred Monthly Retirement Income Commencing at Normal Retirement Date which a Participant has accrued as of a given date on or after April 1, 2009, shall be equal to the sum of:

- (a) 1.20% of his Final Average Monthly Compensation at such given date multiplied by his number of years of Credited Service at such given date that are not in excess of 40 years;

plus

- (b) 0.65% of that portion, if any, of his Final Average Monthly Compensation at such given date that is in excess of the Monthly Covered Compensation that applies to him at such given date multiplied by his number of years of Credited Service at such given date that are not in excess of 35 years."

2. The third and fourth paragraphs of Section 2.1(B) of the Plan shall be amended to read in their entirety as follows:

"Effective as of April 1, 2007, the monthly retirement income payable in the manner described in Section 2.1(C) to a Participant who retires on and after April 1, 2007, but prior to April 1, 2009, and on or after his Normal Retirement Date shall be an amount equal to the sum of:

(3) 1.20% of his Final Average Monthly Compensation multiplied by his number of years of Credited Service that are not in excess of 35 years;

plus

(4) 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 35 years.

Notwithstanding the foregoing provisions of this Section 2.1(B), the monthly retirement income of a Participant who retires on or after April 1, 2007, and on or after his Normal Retirement Date shall not be less than the monthly retirement income which the Participant has accrued as of March 31, 2007, based upon the Participant's Credited Service, Final Average Monthly Compensation and Monthly Covered Compensation determined as of March 31, 2007, under the provisions of the Plan and Supplements then in effect, adjusted on an actuarially equivalent basis, if applicable, to his Annuity Starting Date in accordance with the provisions of this Section 2.1(B)."

3. Section 2.1(B) of the Plan is amended to add the following as the penultimate paragraph thereof:

"Effective as of April 1, 2009, the monthly retirement income payable to a Participant who retires on and after April 1, 2009, and on or after his Normal Retirement Date shall be an amount equal to the sum of:

(5) 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;

plus

(6) 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 35 years."

IN WITNESS WHEREOF, CAPITAL SOUTHWEST CORPORATION has caused this instrument to be executed by its duly authorized officer on this ____ day of _____, 20__.

CAPITAL SOUTHWEST CORPORATION

By

Title:

AMENDMENT FOUR TO
RETIREMENT PLAN FOR EMPLOYEES OF
CAPITAL SOUTHWEST CORPORATION AND ITS AFFILIATES
As Amended and Restated Effective April 1, 2006

WHEREAS, effective as of April 1, 2006, the Retirement Plan for Employees of Capital Southwest Corporation and Its Affiliates (the "Plan") was amended and restated in its entirety;

WHEREAS, by the terms of Section 6.4 of the Plan, the Plan may be amended; and

WHEREAS, it is necessary that certain technical amendments be made to the Plan in order to comply with final regulations issued under section 415 of the Internal Revenue Code, to reflect law changes under the Pension Protection Act of 2006, and to comply with the provisions of the Heroes Earnings Assistance and Relief Tax Act;

NOW, THEREFORE, the Plan is hereby amended, effective as of the dates specified below, as follows:

1. Effective as of January 1, 2007, the third paragraph of Section 1.3 of the Plan shall be amended to delete "(1)" from the beginning of clause (1), to treat clause (1) as a continuation of the third paragraph without interruption, to delete the word "or" after clause (1), to substitute a period for the semicolon after clause (1), and to delete clause (2).

2. Effective as of the dates set forth below, Section 1.3 of the Plan shall be amended to add the following at the end thereof:

"Notwithstanding any provisions of the Plan to the contrary, the following special provisions, which are intended to comply with the provisions of the Heroes Earnings Assistance and Relief Tax Act (the 'HEART Act'), shall apply to an Employee of the Employer who is on an approved leave of absence due to qualified military service as defined in Code Section 414(u):

(A) Differential Wage Payments. Notwithstanding any provision of this Plan to the contrary, beginning January 1, 2009, any Participant who receives differential wage payments as defined in section 3401(h)(2) of the Code that are paid by the Employer during a period of qualified military service shall, for purposes of this Plan, be considered as an Employee of the Employer, the wage differential payment shall be treated as Compensation, and the Plan shall not be treated as failing to meet the requirements of any provisions described in section 414(u)(1)(C) of the Code by reason of any contribution to the Plan or benefit that is based on the differential wage payment; provided, however, this exception applies only if all Employees of the Employer performing service in the uniformed services described in section 3401(h)(2)(A) of the Code are entitled to receive differential wage payments on reasonably equivalent terms and, if eligible to participate in the Plan or any other retirement plan of the Employer, to make contributions based on the differential wage payments on reasonably equivalent terms; provided, however, this provision shall not result in double credit for Compensation when taking the first paragraph (B) above of this Section 1.3 into account.

(B) Survivor Benefits. For purposes of any benefit payable to a Participant's surviving spouse or Beneficiary as a result of the Participant's death on or after January 1, 2007 while such Participant was performing qualified military service (as defined in section 414(u) of the Code), (other than benefits that may have accrued during the period of qualified military service) the surviving spouse or Beneficiary, as the case may be, of the deceased Participant shall be entitled to any death benefit provided under the Plan as if the Participant had returned to employment with the Employer and then incurred a termination of employment with the Employer on account of his or her death.

3. Effective as of April 1, 2008, Section 3.1 of the Plan is amended to add the following sentence at the end of Option 1 thereof:

"If the Participant is married and he elects 75% as the specified percentage, this option is referred to herein as the 'Qualified Optional Survivor Annuity.'"

4. Effective for Limitation Years beginning on or after July 1, 2007, all references in Section 4.1(A) of the Plan to "the applicable mortality table prescribed in Revenue Ruling 2001-62" or to "the applicable mortality table for that annuity starting date as prescribed in Revenue Ruling 2001-62" shall be amended to read "the Applicable Mortality Table," and Section 4.1(A)(5) of the Plan shall be amended by adding the following sentence at the end thereof:

"As used in this Section 4.1(A), the 'Applicable Mortality Table' shall mean: (i) for any annuity starting date that is on or after December 31, 2002 and prior to January 1, 2008, the mortality table prescribed in Revenue Ruling 2001-62; and (ii) for any annuity starting date that is on or after January 1, 2008, the mortality table as defined in Code Section 417(e)(3)(B), modified from time to time by the Secretary of the Treasury."

5. Effective for Plan Years beginning after December 31, 2006, Section 4.1(C) of the Plan is amended to delete the word "and" after subsection (5), to renumber subsection (6) as (7), and to add a new subsection (6) which shall read in its entirety as follows:

"(6) the right to defer distribution and the financial effect of deferring distribution, including the tax consequences of failing to defer commencement of benefits or any material affect on other non-retirement benefits; and"

6. For distributions after December 31, 2001, Section 4.1(I)(1) of the Plan is amended to delete the word "and" after subsection (a), to substitute a semicolon for the period after subsection (b), adding the word "and" thereafter, and to add a new subsection (c) which shall read in its entirety as follows:

"(c) any hardship distribution (if such hardship distribution should ever be permitted under the Plan)."

7. Effective as of January 1, 2008, the following phrase shall be inserted in the first sentence of Section 4.1(I)(2) of the Plan after the words "Section 457(b) of said Code" and before the comma which follows such words:

"(as long as it separately accounts for such rollover amounts), (for distributions made after December 31, 2007) a Roth IRA described under Section 408A of the Code"

8. Effective for Plan Years beginning after December 31, 2009, the following new subsection (5) shall be added to Section 4.1(I) of the Plan:

"(5) Direct Rollover Distributions by Nonspouse Beneficiaries. Effective for Plan Years beginning after December 31, 2009, a designated Beneficiary (as defined by Code section 401(a)(9)(E)) who is not the surviving spouse of an employee or former employee may elect to rollover his or her entire interest in the Plan; provided, however, such direct rollover must be made to an individual retirement account or annuity described in Section 408(a) or 408(b) or 408A ('IRA') that is established on behalf of such designated Beneficiary and that will be treated as an inherited IRA within the meaning of Code section 408(d)(3)(C) pursuant to the provisions of Code section 402(c)(11). The determination of any required minimum distribution under Code section 401(a)(9) that is ineligible for rollover shall be made in accordance with Notice 2007-7, Q&A 17 and 18, 2007-5, I.R.B. 395."

9. Effective as of April 1, 2008, all references in Section 4.1(J)(6) of the Plan to "Section 4.1(A)(2)" shall be amended to read "Section 4.1(A)(6)(a)(ii)(A)."

10. Effective as of April 1, 2008, Section 4.1(J)(7) of the Plan is amended to read in its entirety as follows:

"(7) Section 417(e) compliance: If the retirement income received by the Participant is in a form of payment that would have been subject to Section 417(e) of the Internal Revenue Code if payment had commenced as of the retroactive Annuity Starting Date, then the amount of payment as of the actual commencement date shall be no less than the amount of payment produced by applying the applicable interest rate and the applicable mortality table (described in Section 1.1(B)(2) hereof), determined as of the date payment actually commences, to the annuity form that was used to determine the amount of retirement income as of the Participant's retroactive Annuity Starting Date."

11. Effective for Plan Years beginning after December 31, 2007, Section 4 of the Plan is amended to add at the end thereof a new Section 4.9 which shall read as follows:

"4.9. FUNDING-BASED LIMITATIONS.

Notwithstanding any provision of the Plan to the contrary, effective for Plan Years beginning after December 31, 2007, the Plan shall apply the following funding-based limitations. Such limitations shall be based on the Plan's adjusted funding target attainment percentage as certified by the Plan's enrolled actuary except to the extent the presumptions under section 430(h) of the Code shall apply.

(A) Shutdown and Other Unpredictable Contingent Events.

(1) In General. If a Participant is entitled to an unpredictable contingent event benefit payable with respect to any event occurring during any Plan Year, the Plan shall provide that such benefit may not be provided if the adjusted funding target attainment percentage (as defined in section 430(d)(2) of the Code) for such Plan Year:

- (a) is less than 60 percent, or
- (b) would be less than 60 percent taking into account such occurrence.

(2) Exemption. The limitation in (1) above shall cease to apply with respect to any Plan Year, effective as of the first day of the Plan Year, upon payment by the Employer of a contribution (in addition to any minimum required contribution under section 430 of the Code) equal to:

- (a) in the case of paragraph (1)(a), the amount of the increase in the funding target of the Plan (under section 430 of the Code) for the Plan Year attributable to the occurrence referred to in paragraph (1), and

(b) in the case of paragraph (1)(b), the amount sufficient to result in an adjusted funding target attainment percentage of 60 percent.

(3) Unpredictable Contingent Event Benefit. For purposes of this subsection, the term 'unpredictable contingent event benefit' means any benefit payable solely by reason of:

- (a) a plant shutdown (or similar event, as determined by the Secretary), or
- (b) an event other than the attainment of any age, performance of any service, receipt or derivation of any compensation, or occurrence of death or disability.

(B) Limitations On Plan Amendments Increasing Liability For Benefits.

(1) In General. No amendment which has the effect of increasing liabilities of the Plan by reason of increases in benefits, establishment of new benefits, changing the rate of benefit accrual, or changing the rate at which benefits become nonforfeitable may take effect during any Plan Year if the adjusted funding target attainment percentage for such Plan Year is:

- (a) less than 80 percent, or
- (b) would be less than 80 percent taking into account such amendment.

(2) Exemption. Paragraph (1) above shall cease to apply with respect to any Plan Year, effective as of the first day of the Plan Year (or if later, the effective date of the amendment), upon payment by the Employer of a contribution (in addition to any minimum required contribution under section 430 of the Code) equal to:

- (a) in the case of paragraph (1)(a), the amount of the increase in the funding target of the Plan (under section 430 of the Code) for the Plan Year attributable to the amendment, and
- (b) in the case of paragraph (1)(b), the amount sufficient to result in an adjusted funding target attainment percentage of 80 percent, taking into account such amendment.

(3) Exception For Certain Benefit Increases. Paragraph (1) above shall not apply to any amendment which provides for an increase in benefits under a formula which is not based on a Participant's Compensation, but only if the rate of such increase is not in excess of the contemporaneous rate of increase in average wages of Participants covered by the amendment.

(C) Limitations On Accelerated Benefit Distributions.

(1) Funding Percentage Less Than Sixty Percent (60%). In any case in which the Plan's adjusted funding target attainment percentage for a Plan Year is less than 60 percent, the Plan may not pay any prohibited payment after the valuation date for the Plan Year.

(2) Bankruptcy. During any period in which the Plan sponsor is a debtor in a case under title 11, United States Code, or similar Federal or State law, the Plan may not pay any prohibited payment. The preceding sentence shall not apply on or after the date on which the enrolled actuary of the Plan certifies that the adjusted funding target attainment percentage of the Plan is not less than 100 percent.

(3) Limited Payment If Percentage At Least Sixty Percent (60%) But Less Than Eighty Percent (80%).

(a) In General. In any case in which the Plan's adjusted funding target attainment percentage for a Plan Year is 60 percent or greater but less than 80 percent, the Plan may not pay any prohibited payment after the valuation date for the Plan Year to the extent the amount of the payment exceeds the lesser of:

- (i) fifty percent (50%) of the amount of the payment which could be made without regard to this section, or
- (ii) the present value (determined under guidance prescribed by the Pension Benefit Guaranty Corporation, using the interest and mortality assumptions under section 417(e) of the Code) of the maximum guarantee with respect to the Participant under section 4022 of the Employee Retirement Income Security Act of 1974.

(b) One-Time Application.

- (i) In General. Only one prohibited payment meeting the requirements of subparagraph (a) may be made with respect to any Participant during any period of consecutive Plan Years to which the limitations under either paragraph (1) or (2) above or this paragraph (3) applies.

- (ii) Treatment of Beneficiaries. For purposes of this subparagraph, a Participant and any beneficiary on his behalf (including an alternate payee, as defined in section 414(p)(8) of the Code) shall be treated as one Participant. If the accrued benefit of a Participant is allocated to such an alternate payee and one or more other persons, the amount under subparagraph (a) shall be allocated among such persons in the same manner as the accrued benefit is allocated unless the qualified domestic relations order (as defined in section 414(p)(1)(A) of the Code) provides otherwise.

(4) Exception. This subsection (C) shall not apply to any Plan for any Plan Year if the terms of such Plan (as in effect for the period beginning on September 1, 2005, and ending with such Plan Year) provide for no benefit accruals with respect to any Participant during such period.

- (5) Prohibited Payment. For purpose of this subsection, the term 'prohibited payment' means:

- (a) any payment, in excess of the monthly amount paid under a single life annuity (plus any social security supplements described in the last sentence of section 411(a)(9) of the Code), to a Participant or beneficiary whose annuity starting date (as defined in section 417(f)(2) of the Code) occurs during any period a limitation under paragraph (1) or (2) is in effect,
- (b) any payment for the purchase of an irrevocable commitment from an insurer to pay benefits, and
- (c) any other payment specified by Income Tax Regulations issued by the Secretary of the Treasury.

The term 'prohibited payment' shall not include the payment of a benefit which under section 411(a)(11) of the Code may be immediately distributed without the consent of the Participant. In the case of a beneficiary that is not an individual, the amount that is a prohibited payment is determined by substituting for the amount in paragraph (5)(a) above the monthly amount payable in installments over 240 months that is actuarially equivalent to the benefit payable to the beneficiary.

(6) Bifurcation If Option Unavailable. If an optional form of payment is unavailable due to the limitation under this Section 4.9(C) then the Participant shall have the option to elect to:

- (a) defer both the election of form of payment and the commencement of any payment of benefits (subject to the usual qualification requirements applicable to the timing of benefit payments under the Plan, including but not limited to, those under sections 411(a)(11) and 401(a)(9) of the Code),
- (b) commence payment of the entire portion of the benefit in any optional form of payment under the Plan that is not a prohibited payment, or
- (c) for purposes of the limitation under Section 4.9(C)(3) bifurcate the payment and receive the restricted portion of the benefit under any form of payment available under the Plan in a form that is not a prohibited payment and the unrestricted portion of the benefit in the form of payment which is prohibited.

(D) Limitation On Benefit Accruals For Plans With Severe Funding Shortfalls.

- (1) In General. In any case in which the Plan's adjusted funding target attainment percentage for a Plan Year is less than 60 percent, benefit accruals under the Plan shall cease as of the valuation date for the Plan Year.

Effective for a Plan Year beginning during the period beginning on October 1, 2008 and ending on September 30, 2009, this subparagraph (1) shall be applied by substituting the adjusted funding target attainment percentage for the preceding Plan Year for such percentage for such Plan Year but only if the adjusted funding target attainment percentage for the preceding Plan Year is greater.

- (2) Exemption. Paragraph (1) above shall cease to apply with respect to any Plan Year, effective as of the first day of the Plan Year, upon payment by the Plan Sponsor of a contribution (in addition to any minimum required contribution under section 430 of the Code) equal to the amount sufficient to result in an adjusted funding target attainment percentage of 60 percent.

(E) Contributions To Avoid Benefit Limitations. In addition to the contributions made under subparagraphs (A)(2), (B)(2) and (D)(2), to the extent permitted under section 436(f) of the Code, contributions may be made or security may be provided to avoid the limitations described in this Section 4.9.

- (F) Treatment of Plan as of Close of Prohibited or Cessation Period. The following provisions apply for purposes of applying this Section 4.9.
- (1) Operation of the Plan after Period. Payments and accruals will resume effective as of the day following the close of the period for which any required limitation of payment or accrual of benefits under this Section 4.9 applies. In addition, accruals for the period during which the limitations under this Section 4.9 applied shall be restored effective as of the day following the close of the period for which any required limitation applied. Participants whose payment of benefits were restricted shall have the opportunity to make a new election.
 - (2) Treatment of Affected Benefits. Nothing in this subsection shall be construed as affecting the Plan's treatment of benefits which would have been paid or accrued except as provided under this Section 4.9.
- (G) Definitions. The following words shall have the following meanings for purposes of this Section 4.9.
- (1) Funding Target Attainment Percentage. The term 'funding target attainment percentage' has the same meaning given such term by section 430(d)(2) of the Code.
 - (2) Adjusted Funding Target Attainment Percentage. The term 'adjusted funding target attainment percentage' means the funding target attainment percentage which is determined under paragraph (1) by increasing each of the amounts under subparagraphs (A) and (B) of section 430(d)(2) of the Code by the aggregate amount of purchases of annuities for employees other than highly compensated employees (as defined in section 414(q) of the Code) which were made by the Plan during the preceding two Plan Years.
 - (3) Application To Plans Which Are Fully Funded Without Regard To Reductions For Funding Balances.
 - (a) In General. In the case of a Plan for any Plan Year, if the funding target attainment percentage is 100 percent or more (determined without regard to the reduction in the value of assets under section 430(f)(4) of the Code), the funding target attainment percentage for purposes of Plan Sections 4.9(G)(1) and (2) shall be determined without regard to such reduction.

- (b) Transition Rule. Subparagraph (a) shall be applied to Plan Years beginning after 2007 and before 2011 by substituting for '100 percent' the applicable percentage determined in accordance with the following table:

	<u>Plan Year</u>	<u>Applicable Percentage</u>
2008	2008	92%
2009	2009	94%
2010	2010	96%

- (c) Limitation. Subparagraph (b) shall not apply with respect to any Plan Year beginning after 2008 unless the funding target attainment percentage (determined without regard to the reduction in the value of assets under section 430(f)(4) of the Code) of the Plan for each preceding Plan Year after 2007 was not less than the applicable percentage with respect to such preceding Plan Year determined under subparagraph (b).

- (4) Special Rule For 2008. For purposes of this section, in the case of Plan Years beginning in 2008, the funding target attainment percentage and the adjusted funding target attainment percentage for the preceding Plan Year may be determined using such methods of estimation as the Secretary may provide. To the extent the Plan's enrolled actuary has not certified timely the adjusted funding target attainment percentage using such methods, the benefit restrictions described in Sections 4.9(A) and (B) shall be applicable as of January 1, 2008 and the benefit restrictions described in Sections 4.9(C) and (D) shall be applicable as of April 1, 2008.

(H) This Section 4.9 is intended to comply with Section 436 of the Code and the regulations and guidance issued thereunder, and shall, to the extent practicable, be construed in accordance therewith and, effective January 1, 2010 shall be interpreted in a manner that is consistent with Treasury Regulation section 1.436-1, the terms of which are incorporated herein by reference."

12. Section 5.9 of the Plan is amended to read in its entirety as follows:

"5.9 - WRITTEN COMMUNICATIONS REQUIRED

Any notice, request, instruction, or other communication to be given or made hereunder shall be in writing and may be delivered to the addressee personally, may be delivered to the addressee by electronic delivery provided within the rules under the Code and ERISA as applicable, may be delivered to the addressee by a commercial delivery service at the last address for notice shown on the Committee's records, or may be deposited in the United States mail fully postpaid and properly addressed to such addressee at the last address for notice shown on the Committee's records."

13. Effective as of August 12, 2005, Section 6.4 of the Plan is amended to add the following new paragraph (D) immediately following paragraph (C) therein:

"(D) No amendment to the Plan (including a change in the actuarial basis for determining optional or early retirement benefits) shall be effective to the extent that it has the effect of decreasing a Participant's accrued benefit. For purposes of this paragraph, a Plan amendment that has the effect of (i) eliminating or reducing an early retirement benefit or a retirement-type subsidy, or (ii) eliminating an optional form of benefit, with respect to benefits attributable to service before the amendment shall be treated as reducing accrued benefits. In the case of a retirement-type subsidy, the preceding sentence shall apply only with respect to a Participant who satisfies (either before or after the amendment) the preamendment conditions for the subsidy. Notwithstanding the preceding sentences, a Participant's accrued benefit, early retirement benefit, retirement-type subsidy, or optional form of benefit may be reduced to the extent permitted under Code section 412(c)(8) (for Plan years beginning on or before December 31, 2007) or Code section 412(d)(2) (for plan years beginning after December 31, 2007), or to the extent permitted under sections 1.411(d)-3 and 1.411(d)-4 of the regulations."

IN WITNESS WHEREOF, CAPITAL SOUTHWEST CORPORATION has caused this instrument to be executed by its duly authorized officer on this ____ day of _____, 20__.

CAPITAL SOUTHWEST CORPORATION

By

Title:

Twelve Largest Investments – March 31, 2010

Exhibit 13.1

The RectorSeal Corporation	\$120,200,000
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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 this page).

During the year ended March 31, 2010, RectorSeal earned \$9,571,000 on revenues of \$102,075,000, compared with earnings of \$10,170,000 on revenues of \$112,762,000 in the previous year. RectorSeal's earnings do not reflect its 20% equity in The Whitmore Manufacturing Company.

At March 31, 2010, Capital Southwest owned 100% of RectorSeal's common stock having a cost of \$52,600 and a value of \$120,200,000.

Lifemark Group	\$71,000,000
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Lifemark Group, Hayward, California, owns and operates cemeteries, 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. 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, 2010, Lifemark reported earnings of \$716,000 on revenues of \$25,298,000, compared with earnings of \$635,000 on revenues of \$28,193,000 in the previous year.

At March 31, 2010, 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	\$67,431,375
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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, 2009, Encore reported net income of \$3,636,000 (\$0.16 per share) on net sales of \$649,613,000, compared with net income of \$39,771,000 (\$1.70 per share) on net sales of \$1,081,132,000 in the previous year. The March 31, 2010 closing Nasdaq bid price of Encore's common stock was \$20.80 per share.

At March 31, 2010, 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 \$67,431,375 (\$16.50 per share), representing a fully-diluted equity interest of 17.3%.

The Whitmore Manufacturing Company	\$47,500,000
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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, 2010, Whitmore reported net income of \$3,661,000 on net sales of \$26,777,000, compared with net income of \$3,209,000 on net sales of \$28,163,000 in the previous year. The company is owned 80% by Capital Southwest and 20% by Capital Southwest's subsidiary, The RectorSeal Corporation (described on this page).

At March 31, 2010, the direct investment in 80% of Whitmore by Capital Southwest was valued at \$47,500,000 and had a cost of \$1,600,000.

Alamo Group Inc.	\$42,454,500
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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 18 manufacturing facilities and serves governmental, industrial and agricultural markets in North America, Europe, and Australia.

For the year ended December 31, 2009, Alamo reported net income of \$17,091,000 (\$1.65 per share) on net sales of \$446,487,000, compared with net income of \$10,999,000 (\$1.11 per share) on net sales of \$557,135,000 in the previous year. The March 31, 2010 closing NYSE market price of Alamo's common stock was \$19.99 per share.

At March 31, 2010, the \$2,190,937 investment in Alamo by Capital Southwest and its subsidiary was valued at \$42,454,500 (\$15.00 per share), consisting of 2,830,300 restricted shares of common stock, representing a fully-diluted equity interest of 22.0%.

Heelys, Inc.	\$19,845,870
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Heelys, Inc., Carrollton, Texas, designs, markets and distributes branded footwear, equipment and accessories. The company imports its products from 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, 2009, Heelys reported net loss of \$5,125,000 (-\$0.19 per share) on net sales of \$43,777,000, compared with net loss of \$5,924,000 (-\$0.22 per share) on net sales of \$70,741,000 in the previous year. The March 31, 2010 closing Nasdaq bid price of Heely's common stock was \$2.37 per share.

At March 31, 2010, the \$102,490 investment in Heelys by Capital Southwest's subsidiary was valued at \$19,845,870 (\$2.13 per share), consisting of 9,317,310 restricted shares of common stock, representing a fully-diluted equity interest of 31.1%.

Media Recovery, Inc.	\$13,400,000
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Media Recovery, Inc. (MRI), Dallas, Texas, is the holding company of DataSpan, ShockWatch and Damage Prevention Company. DataSpan provides datacenter supplies and services to corporate customers through a direct sales force. ShockWatch manufactures and distributes 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, 2009, Media Recovery reported net loss of \$2,626,000 on net sales of \$110,311,000, compared with net income of \$4,354,000 on net sales of \$132,864,000 in the previous year.

At March 31, 2010, the \$5,415,000 investment in Media Recovery by Capital Southwest and its subsidiary was valued at \$13,400,000, 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 97.5%.

All Components, Inc.	\$12,276,650
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All Components, Inc., Pflugerville, Texas, distributes and produces memory and other electronic components for personal computer manufacturers, retailers, value-added resellers and other corporate customers. Through its sales and distribution center near Austin, Texas and its distribution center in Miami, Florida, the company serves over 2,000 customers throughout the United States and Latin America.

During the year ended August 31, 2009, All Components reported net income of \$1,863,000 on net sales of \$186,188,000, compared with net income of \$1,167,000 on net sales of \$200,673,000 in the previous year.

At March 31, 2010, the \$6,150,000 investment in All Components by Capital Southwest and its subsidiary was valued at \$12,276,650 consisting of an 8.25% Subordinated Note valued at \$6,454,925 and 150,000 shares of Series A Convertible Preferred Stock valued at \$5,821,725, representing a 80.4% fully-diluted equity interest.

Hologic, Inc.	\$11,726,155
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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 26, 2009, Hologic reported net loss of \$2,176,237,000 (-\$8.48 per share) on net sales of \$1,637,134,000 compared with net loss of \$385,617,000 (-\$1.57 per share) on net sales of \$1,674,499,000 in the previous year. The March 31, 2010 closing Nasdaq bid price of Hologic's common stock was \$18.53 per share.

At March 31, 2010, Capital Southwest and its subsidiary owned 632,820 unrestricted shares of common stock, having a cost of \$220,000 and a market value of \$11,726,155 (\$18.53 per share).

Texas Capital Bancshares, Inc.	\$9,288,774
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Texas Capital Bancshares, Inc. of Dallas, Texas, formed in 1998, has total assets of approximately \$5.7 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, 2009, Texas Capital reported net income of \$18,769,000 (\$0.55 per share), compared with net income of \$24,266,000 (\$0.87 per share) in the previous year. The March 31, 2010 closing Nasdaq bid price of Texas Capital's common stock was \$18.97 per share.

At March 31, 2010, Capital Southwest owned 489,656 unrestricted shares of common stock, having a cost of \$3,550,006 and a market value of \$9,288,774 (\$18.97 per share).

Extreme International, Inc.	\$8,525,000
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Extreme International, Inc., Sugar Land, Texas, owns Bill Young Productions, Texas Video and Post, and Extreme Communications and Vanilla Gorilla which produce radio and television commercials and corporate communications videos.

During the year ended September 30, 2009, Extreme reported net income of \$1,205,000 on net sales of \$11,272,000, compared with net income of \$1,435,000 on net sales of \$11,545,000 in the previous year.

At March 31, 2010, 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 \$8,525,000, representing a fully-diluted equity interest of 53.6%.

Balco, Inc.	\$8,000,000
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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, 2009, Balco reported net income of \$952,000 on net sales of \$14,651,000, compared with net income of \$841,000 on net sales of \$13,675,000 in the previous year.

At March 31, 2010, the \$624,920 investment in Balco by Capital Southwest was valued at \$8,000,000 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%.

Consolidated Schedule of Investments – March 31, 2010

Company	Equity (a)	Investment (b)	Cost	Value (c)
¥ALAMO GROUP INC. Seguin, Texas Tractor-mounted mowing and mobile excavation equipment for governmental, industrial and agricultural markets; street-sweeping equipment for municipalities.	22.0%	2,830,300 shares common stock (acquired 4-1-73 thru 5-25-07)	\$ 2,190,937	\$ 42,454,500
ALL COMPONENTS, INC. Pflugerville, Texas Electronics contract manufacturing; distribution and production of memory and other components for computer manufacturers, retailers and value-added resellers.	80.4%	8.25% subordinated note, \$6,000,000 principal 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 –	6,454,925 5,821,725 –
ATLANTIC CAPITAL BANCSHARES, INC. Atlanta, Georgia Holding company of Atlantic Capital Bank, a full service commercial bank.	1.9%	300,000 shares common stock (acquired 4-10-07)	3,000,000	3,150,000
¥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	8,000,000
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.	22.4%	10% convertible promissory note, due 2013 (acquired 2-23-10) 1,631,516 shares Series C-1 Convertible Preferred Stock, convertible into 1,631,516 shares of common stock at \$2.15 per share (acquired 7-10-09) 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) Warrants to purchase 636,151 shares of Series A-1 Convertible Preferred Stock at \$1.72 per share expiring 2017 and 2019 (acquired 7-2-07 and 6-9-09) Warrant to purchase 90,698 shares of Series D or D-1 Convertible Preferred Stock at \$1.72 per share expiring 2017 (acquired 2-23-10)	650,000 2,863,347 4,000,000 – – –	1,300,000 2,857,759 2 – – –
			<u>7,513,347</u>	<u>4,157,761</u>

†Publicly-owned company; ¥ Control investment

‡Unrestricted securities as defined in Note (b)

Consolidated Schedule of Investments – March 31, 2010

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, \$6,200,000 principal due 2013 (acquired 7-14-08 thru 3-23-10) 1,128,649 shares Series A Convertible Preferred Stock, convertible into 1,128,649 shares of common stock at \$1.00 per share (acquired 7-14-08 and 11-19-08)	\$ 6,000,300 <u>1,128,649</u> 7,128,949	\$ 3,815,235 <u>1,128,649</u> 4,943,884
†ENCORE WIRE CORPORATION McKinney, Texas Electric wire and cable for residential, commercial and industrial construction use.	17.3%	4,086,750 shares common stock (acquired 7-16-92 thru 10-7-98)	5,800,000	67,431,375
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 157,437.72 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 <u>375,000</u> 3,325,875	600,000 7,236,000 <u>689,000</u> 8,525,000
¥ 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	19,845,870
†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	11,726,155
iMEMORIES, INC. Scottsdale, AZ Enables online video and photo sharing and DVD creation for home movies recorded in analog and new digital format.	26.2%	17,391,304 shares Series B Convertible Preferred Stock, convertible into 17,391,304 shares of common stock at \$0.23 per share (acquired 7-10-09)	4,000,000	4,000,000
KBI BIOPHARMA, INC. Durham, NC Provides fully-integrated, outsourced drug development and bio-manufacturing services.	14.8%	7,142,857 shares Series B-2 Convertible Preferred Stock, convertible into 7,142,857 shares of common stock at \$0.70 per share (acquired 9-08-09)	5,000,000	5,000,000

†Publicly-owned company; ¥ Control investment

‡Unrestricted securities as defined in Note (b)

Consolidated Schedule of Investments – March 31, 2010

Company	Equity (a)	Investment (b)	Cost	Value (c)
¥ 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
¥ MEDIA RECOVERY, INC. Dallas, Texas Computer datacenter and office automation supplies and accessories; impact, tilt monitoring and temperature sensing devices to detect mishandled shipments; dunnage for protecting shipments.	97.5%	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>	2,200,000 11,200,000 <u>13,400,000</u>
PALLETONE, INC. Bartow, Florida Manufacturer of wooden pallets and pressure-treated lumber.	8.4%	12.3% senior subordinated notes, \$2,000,000 principal 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>	2,000,000 2 <u>–</u> <u>2,000,002</u>
¥ PALM HARBOR HOMES, INC. Dallas, Texas Integrated manufacturing, retailing, financing and insuring of manufactured housing and modular homes.	30.5%	7,855,121 shares common stock (acquired 1-3-85 thru 7-31-95) Warrant to purchase 286,625 shares of common stock at \$3.14 per share, expiring 2019 (acquired 4-24-09)	10,931,955 <u>–</u> <u>10,931,955</u>	6,833,955 <u>–</u> <u>6,833,955</u>
¥ THE RECTORSEAL CORPORATION Houston, Texas Specialty chemicals for plumbing, HVAC, electrical, construction, industrial, oil field and automotive applications; smoke containment systems for building fires; also owns 20% of The Whitmore Manufacturing Company.	100.0%	27,907 shares common stock (acquired 1-5-73 and 3-31-73)	52,600	120,200,000
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	9,288,774

†Publicly-owned company; ¥ Control investment

‡Unrestricted securities as defined in Note (b)

Consolidated Schedule of Investments – March 31, 2010

Company	Equity (a)	Investment (b)	Cost	Value (c)
TRAX HOLDINGS, INC. Scottsdale, Arizona Provides a comprehensive set of solutions to improve the transportation validation, accounting, payment and information management process.	31.1%	1,061,279 shares Series A Convertible Preferred Stock, convertible into 1,061,279 common stock at \$4.71 per share (acquired 12-8-08 and 2-17-09)	\$5,000,000	\$5,687,669
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 11-1-07)	4,559,000 281,523 <u>4,840,523</u>	2 2 <u>4</u>
WELLOGIX, INC. Houston, Texas Developer and supporter of software used by the oil and gas industry.	19.6%	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	47,500,000
MISCELLANEOUS	–	Ballast Point Ventures II, L.P. – 2.6% limited partnership interest (acquired 8-4-08 thru 11-3-09)	675,000	675,000
	–	BankCap Partners Fund I, L.P. – 6.0% limited partnership interest (acquired 7-14-06 thru 6-18-09)	5,513,837	5,179,842
	–	CapitalSouth Partners Fund III, L.P. – 2.0% limited partnership interest (acquired 1-22-08 and 2-12-09)	831,256	831,256
	–	Diamond State Ventures, L.P. – 1.8% limited partnership interest (acquired 10-12-99 thru 8-26-05)	76,000	186,852
	–	¥ Discovery Alliance, LLC – 90.0% limited liability company (acquired 9-12-08 thru 3-12-10)	750,000	750,000
	–	Essex Capital Corporation – 10% unsecured promissory note due 8-19-11 (acquired 8-16-09)	–	1,000,000
	–	First Capital Group of Texas III, L.P. – 3.0% limited partnership interest (acquired 12-26-00 thru 8-12-05)	778,895	451,208
	100.0%	¥ Humac Company – 1,041,000 shares common stock (acquired 1-31-75 and 12-31-75)	–	163,000
	–	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. – 1.6% limited partnership interest (acquired 4-20-01 thru 1-24-05)	1,064,042	607,044
TOTAL INVESTMENTS			\$100,022,994	\$477,943,057

†Publicly-owned company; ¥ Control investment

‡Unrestricted securities as defined in Note (b)

Consolidated Schedule 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 —	3,000,000 1 —
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) Warrants to purchase 431,982 shares of Series A-1 Convertible Preferred Stock at \$1.72 per share expiring 2017 (acquired 7-2-07 and 6-9-09)	2,363,347 4,000,000 — —	1,000,000 2 — —
			<u>6,363,347</u>	<u>1,000,002</u>

‡Publicly-owned company; †Control investment

‡Unrestricted securities as defined in Note (b)

Consolidated Schedule of Investments – March 31, 2009

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 of common stock at \$1.00 per share (acquired 7-14-08 and 11-19-08)	\$ 4,263,000 1,128,649 <u>5,391,649</u>	\$ 4,263,000 1,128,649 <u>5,391,649</u>
‡ 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 <u>2,329,963</u> <u>3,329,944</u>	999,981 <u>2,868,000</u> <u>3,867,981</u>
‡ 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 157,437.72 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 <u>3,325,875</u>	463,850 5,602,376 533,774 <u>6,600,000</u>
‡ HEELYS, INC. Carrollton, Texas Heelys stealth skate shoes, equipment and apparel sold through sporting goods chains, department stores and footwear retailers.	31.1%	9,317,310 shares common stock (acquired 5-26-00)	102,490	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; † Control investment

‡Unrestricted securities as defined in Note (b)

Consolidated Schedule of Investments – March 31, 2009

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 mishandled 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>–</u> <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.	100.0%	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 12-8-08 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 11-1-07)	4,559,000 281,523 <u>4,840,523</u>	2 2 <u>4</u>

†Publicly-owned company; ¥ Control investment

‡Unrestricted securities as defined in Note (b)

Consolidated Schedule of Investments – March 31, 2009

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 3-1-09)	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; ¥ Control investment

‡Unrestricted securities as defined in Note (b)

Notes to Consolidated Schedule of Investments

(a) Equity

The percentages in the “Equity” column express the potential equity interests held by Capital Southwest Corporation and Capital Southwest Venture Corporation (together, the “Company”) in each issuer. Each percentage represents the amount of the issuer’s common stock the Company owns or can acquire as a percentage of the issuer’s total outstanding common stock, plus stock reserved for all warrants, convertible securities and employee stock options. The symbol “<1%” indicates that the Company holds a potential equity interest of less than 1%.

(b) Investments

Unrestricted securities (indicated by ‡) are freely marketable securities having readily available market quotations. All other securities are **restricted securities** which are subject to one or more restrictions on resale and are not freely marketable. At March 31, 2010, restricted securities represented approximately 95.6% of the value of the consolidated investment portfolio.

Our investments are carried at fair value in accordance with the Investment Company Act of 1940 (the “1940 Act”) and FASB Accounting Standards Codification™ (ASC) Topic 820, Fair Value Measurements and Disclosures. In accordance with the 1940 Act, unrestricted minority-owned publicly traded securities, for which the market quotations are readily available, are valued at the closing sale price for the NYSE listed securities and the lower of the closing bid price or the last sale price for NASDAQ securities on the valuation date; and restricted publicly traded securities and other privately held securities are valued as determined in good faith by our Board of Directors.

We adopted FASB ASC Topic 820 on April 1, 2008 (see footnote 1 in “Notes to Consolidated Financial Statements,” page 25). ASC Topic 820 provides a framework for measuring the fair value of assets and liabilities along with guidance regarding a fair value hierarchy, which prioritizes information used to measure fair value and the effect of fair value measurements on earnings and provides for enhanced disclosures determined by the level within the hierarchy of information used for valuation.

ASC Topic 820 applies whenever other standards require (or permit) assets or liabilities to be measured at fair value but does not expand the use of fair value in any new circumstances. ASC Topic 820 defines fair value in terms of the price that would be received upon the sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (the “exit price”) and excludes transaction costs. Under ASC Topic 820, the fair value measurement also assumes that the transaction to sell an asset occurs in the principal market for the asset or, in the absence of a principal market, the most advantageous market for the asset. The principal market is the market in which the reporting entity would sell or transfer the asset with the greatest volume and level of activity for the asset. In determining the principal market for an asset or liability under ASC, it is assumed that the reporting entity has access to the market as of the measurement date. Our Board of Directors retained Duff & Phelps to provide limited scope third party valuation services on eight investments comprising 81.3% of our net asset value at March 31, 2010. Please refer to our Form 10-K for full disclosure of Duff & Phelps’ services.

(c) Value

Debt Securities are generally valued on the basis of the price the security would command in order to provide a yield-to-maturity equivalent to the present yield of comparable debt instruments of similar quality. Issuers whose debt securities are judged to be of poor quality and doubtful collectability may instead be valued by assigning major percentage discounts commensurate with the quality of such debt securities. Debt securities may also be valued based on the resulting value from the sale of the business at the estimated fair market value.

Partnership Interests, Preferred Equity and Common Equity including unrestricted marketable securities, which are valued at the closing sale price for the NYSE listed securities and the lower of the closing bid price or the last sale price for NASDAQ securities on the valuation date, and restricted marketable securities for which there is a public market, are valued at the closing sale price for the NYSE listed securities and the lower of the closing bid price or the last sale price for NASDAQ securities on the valuation date, adjusted in good faith by our Board of Directors if they deem a discount or premium would be likely or obtainable upon a sale or transfer of our interest. For those without a principal market, the Board of Directors considers the financial condition and operating results of the issuer; the long-term potential of the business of the issuer; the market for and recent sales prices of the issuer's securities; the values of similar securities issued by companies in similar businesses; the proportion of the issuer's securities owned by the Company; protective put analysis based on the Black-Scholes option pricing model; 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. Investments, in certain entities that calculate net asset value per share (or its equivalent) and for which fair market value is not readily determinable, are valued using the net asset value per share (or its equivalent, such as member units or ownership interest in partners' capital to which a proportionate share of net assets is attributed) of the investment.

Equity Warrants are valued on the basis of accepted formulas derived from empirical studies which define the market value of a warrant in relation to the market price of its common stock. These formulas measure the "option value" of a warrant as well as its "exercise value" (the amount, if any, by which the value of the stock exceeds the exercise price of the warrant). In applying such formulas, the market price of the stock is usually discounted to reflect the fact that the stock is restricted and the calculated value of the warrant itself may be discounted (if deemed appropriate) to reflect its restrictive nature. Generally, the option value is excluded if the formula indicates (i) the warrant expires within six months, (ii) the market price of the stock (discounted) is less than one-half of the exercise price of the warrant, or (iii) the market price of the stock (discounted) is more than two times the amount of the exercise price of the warrant.

(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, 2010 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.	\$ 300,000
BankCap Partners Fund I, L.P.	1,747,156
Cinatra Clean Technologies, Inc..	1,737,300
CMI Holding Company, Inc.	1,150,000
Discovery Alliance, LLC	300,000
iMemories, Inc.	4,000,000
KBI Biopharma, Inc.	5,000,000
Palm Harbor Homes, Inc.	3,000,000
	<u>\$17,234,456</u>

Dispositions

	Cost	Amount Received
Dennis Tool Company	\$3,329,944	\$4,763,416
Diamond State Ventures	35,000	35,000
Essex Capital Corporation	-	206,522
First Capital Group of Texas	185,709	185,709
	<u>\$3,550,653</u>	<u>\$5,190,647</u>

Repayments Received	<u>\$3,000,000</u>
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Capital Southwest Corporation and Subsidiaries
Consolidated Statements of Assets and Liabilities

	March 31	
Assets	2010	2009
Investments at market or fair value		
Companies more than 25% owned (Cost: 2010 – \$26,178,302, 2009 - \$29,208,246)	\$330,147,325	\$286,488,248
Companies 5% to 25% owned (Cost: 2010 – \$21,562,243, 2009 - \$20,412,243)	73,589,142	66,388,010
Companies less than 5% owned (Cost: 2010 – \$52,282,449, 2009 - \$39,718,702)	74,206,590	43,758,765
Total investments (Cost: 2010 – \$100,022,994, 2009 – \$89,339,191)	477,943,057	396,635,023
Cash and cash equivalents	4,093,508	14,721,730
Receivables		
Dividends and interest	1,012,782	498,506
Affiliates	864,943	16,706
Pension assets	7,068,957	5,468,861
Other assets	191,338	202,313
Total assets	\$491,174,585	\$417,543,139
	March 31	
Liabilities	2010	2009
Other liabilities	\$ 1,070,540	\$ 253,294
Pension liability	1,082,941	934,427
Deferred income taxes	2,095,518	1,092,427
Total liabilities	4,248,999	2,280,148
Net Assets		
Common stock, \$1 par value: authorized, 5,000,000 shares; issued, 4,326,516 shares at March 31, 2010 and March 31, 2009	4,326,516	4,326,516
Additional capital	126,554,546	124,571,029
Undistributed net investment income	2,061,109	2,963,640
Undistributed net realized gain on Investments	-	42,622
Unrealized appreciation of investments	377,920,063	307,295,832
Treasury stock – at cost 584,878 shares at March 31, 2010 and March 31, 2009	(23,936,648)	(23,936,648)
Total net assets	486,925,586	415,262,991
Total liabilities and net assets	\$491,174,585	\$417,543,139
Net assets value per share (on the 3,741,638 shares outstanding)	\$ 130.14	\$ 110.98

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		
	2010	2009	2008
Investment income (see note 9):			
Interest	\$ 1,044,867	\$ 1,375,215	\$ 2,255,550
Dividends	3,788,680	11,533,878	3,656,833
Management and directors' fees	1,275,759	1,076,039	882,300
	<u>6,109,306</u>	<u>13,985,132</u>	<u>6,794,683</u>
Operating expenses:			
Salaries	2,839,070	2,294,187	1,619,008
Net pension benefit	(369,108)	(253,229)	(327,345)
Stock option expense	675,210	503,645	263,664
Professional fees	551,112	689,425	798,172
Other operating expenses	207,224	431,473	614,824
	<u>3,903,508</u>	<u>3,665,501</u>	<u>2,968,323</u>
Income before income taxes	2,205,798	10,319,631	3,826,360
Income tax expense	115,017	136,176	111,160
Net investment income	<u>\$ 2,090,781</u>	<u>\$ 10,183,455</u>	<u>\$ 3,715,200</u>
Proceeds from disposition of investments	\$ 5,190,647	\$ 20,697,647	\$ 1,433,891
Cost of investments sold	3,550,653	4,718,381	1,193,867
Net realized gain on investments before income taxes	1,639,994	15,979,266	240,024
Income tax expense	814,503	5,222,964	-
Net realized gain on investments	<u>825,491</u>	<u>10,756,302</u>	<u>240,024</u>
Net increase (decrease) in unrealized appreciation of investments	<u>70,624,231</u>	<u>(159,247,203)</u>	<u>\$(142,969,698)</u>
Net realized and unrealized gain (loss) on investments	<u>\$71,449,722</u>	<u>\$(148,490,901)</u>	<u>\$(142,729,674)</u>
Increase (decrease) in net assets from operations	<u>\$73,540,503</u>	<u>\$(138,307,446)</u>	<u>\$(139,014,474)</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		
	2010	2009	2008
Operations:			
Net investment income	\$ 2,090,781	\$ 10,183,455	\$ 3,715,200
Net realized gain on investments	825,491	10,756,302	240,024
Net increase (decrease) in unrealized appreciation of investments	70,624,231	(159,247,203)	(142,969,698)
Increase (decrease) in net assets from operations	73,540,503	(138,307,446)	(139,014,474)
Distributions from:			
Undistributed net investment income	(2,993,310)	(12,256,745)	(2,333,291)
Net realized gains deemed distribution to shareholders	(868,114)	(8,646,560)	-
Capital share transactions:			
Allocated increase in share value for deemed distribution	868,114	8,646,560	-
Exercise of employee stock options	-	-	231,390
Change in pension plan funded status, net of tax	440,192	(1,473,329)	(1,178,764)
Stock option expense	675,210	503,645	263,664
Treasury stock	-	(16,903,346)	-
Increase (decrease) in net assets	71,662,595	(168,437,221)	(142,031,475)
Net assets, beginning of year	415,262,991	583,700,212	725,731,689
Net assets, end of year	\$486,925,586	\$ 415,262,991	\$ 583,700,214

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		
	2010	2009	2008
Cash flows from operating activities			
Increase (decrease) in net assets from operations	\$ 73,540,503	\$(138,307,446)	\$(139,014,474)
Adjustments to reconcile increase (decrease) in net assets from operations to net cash provided by (used in) operating activities:			
Proceeds from disposition of investments	5,190,647	20,697,647	1,433,891
Proceeds from repayment of debt securities	3,000,000	-	-
Purchases of securities	(17,234,456)	(13,030,107)	(10,733,536)
Maturities of securities	-	-	154,500
Depreciation and amortization	33,130	40,478	32,756
Net pension benefit	(369,108)	(253,229)	(327,345)
Net realized (gain) loss on investments before income taxes	(825,491)	(10,756,302)	(240,024)
Net (increase) decrease in unrealized appreciation of investments	(70,624,231)	159,247,203	142,969,698
Stock option expense	675,210	503,645	263,664
Increase in dividend and interest receivable	(514,278)	(364,160)	190,275
(Increase) decrease in receivables from affiliates	(617,026)	5,270	(8,705)
Increase in other assets	(22,155)	(33,358)	(80,195)
Increase (decrease) in other liabilities	817,246	7,620	(33,281)
Decrease in accrued pension cost	-	(68,934)	(135,768)
Increase in deferred income taxes	129,600	88,700	114,000
Net cash provided by (used in) operating activities	<u>(6,820,409)</u>	<u>17,777,027</u>	<u>(5,414,544)</u>
Cash flows from financing activities			
Distributions from undistributed net investment income	(2,993,310)	(12,256,745)	(2,333,291)
Proceeds from exercise of employee stock options	-	-	231,390
Purchase of treasury stock	-	(16,903,346)	-
Payment of federal income tax for deemed capital gains distribution	(814,503)	(5,222,964)	-
Net cash used in financing activities	<u>(3,807,813)</u>	<u>(34,383,055)</u>	<u>(2,101,901)</u>
Net (decrease) in cash and cash equivalents	(10,628,222)	(16,606,028)	(7,516,445)
Cash and cash equivalents at beginning of year	14,721,730	31,327,758	38,844,203
Cash and cash equivalents at end of year	<u>\$ 4,093,508</u>	<u>\$ 14,721,730</u>	<u>\$ 31,327,758</u>
Supplemental disclosure of cash flow information:			
Cash paid during the year for: Interest	\$ -	\$ -	\$ -
Income taxes	\$ -	\$ 3,756	\$ -

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

ORGANIZATION AND BASIS OF PRESENTATION

Organization

Capital Southwest Corporation (“CSC” or the “Company”) 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 subject to the provisions of 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 costs required for its day-to-day operations.

Our portfolio is a composite of companies in which we have majority interests, as well as a number of developing companies and marketable securities of established publicly-owned 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. When appropriate, CSMC receives a monthly fixed fee for their management services provided by the portfolio companies.

Basis of Presentation

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for investment companies. Under the investment company rules and regulations pursuant to Article 6 of Regulation S-X and the Audit and Accounting Guide for Investment Companies issued by the American Institute of Certified Public Accountants (the “AICPA Guide”), we are precluded from consolidating any entity other than another investment company. An exception to this general principle in the AICPA Guide occurs if the investment company has an investment in an operating company that provides services to the investment company. Therefore, our consolidated financial statements include our management company, CSMC.

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

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. Significant Accounting Policies

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

Fair Value Measurements. The Company adopted FASB ASC Topic 820 "Fair Value Measurements" on April 1, 2008. ASC Topic 820 (1) creates a single definition of fair value, (2) establishes a framework for measuring fair value, and (3) expands disclosure requirements about items measured at fair value. The 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 our notes to the financial statements. Additionally, Topic 820 does not eliminate practicability exceptions that exist in accounting pronouncements amended by this Statement when measuring fair value.

Prior to ASC Topic 820, 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). FASB Topic 820 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. Due to the inherent uncertainty in the valuation process, the Company's estimate of fair value may differ materially from the values that would have been used had a ready market for the securities existed. In addition, changes in the market environment, portfolio company performance and other events may occur over the lives of the investments may cause the gains or losses ultimately realized on these investments to be materially different than the valuations currently assigned. We determine the fair value of each individual investment and record changes in fair value as unrealized appreciation or depreciation.

Pursuant to our internal valuation process, each portfolio company is valued once a quarter. In addition to our internal valuation process, our Board of Directors retains a nationally recognized firm to provide limited scope third party valuation services on certain portfolio investments. Our Board of Directors retained Duff & Phelps to provide limited scope third party valuation services on eight investments comprising 81.3% of our net asset value at March 31, 2010. Please refer to our Form 10-K for full disclosure of Duff & Phelps' services.

We believe our investments at March 31, 2010 and 2009 approximate fair value as of those dates based on the market in which we operate and other conditions in existence at those reporting periods.

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

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.

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.

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

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

The Company accounts for interest and penalties as part of operating expenses. There were no interest or penalties incurred during the years ended March 31, 2010, 2009 and 2008.

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. At March 31, 2010, the Company has two stock-based incentive compensation plans. These plans encourage and enable the officers, employees, non-employee directors, and other key persons of the Company to acquire an interest in the Company. We account for our share-based compensation using the fair value method, as prescribed by ASC 718, *Compensation – Stock Compensation*. Accordingly, we recognize 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. See "Note 5, Stock-Based Compensation" for further discussion.

Defined Pension Benefits and Other Postretirement Plans. We record annual amounts relating to defined benefit pension plans based on calculations, which include various actuarial assumptions such as discount rates and assumed rates of return depending on the pension plan. Material changes in pension costs may occur in the future due to changes in the discount rate, changes in the expected long-term rate of return, changes in levels of contributions to the plans and other factors. The funded status is the difference between the fair value of plan assets and the benefit obligation. We recognize changes in the funded status of postretirement defined benefit plans in the Consolidated Statements of Assets and Liabilities in the year in which the changes occur and 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, 2010 and March 31, 2009, the Company's money market account balances exceeded the Federal Deposit Insurance Corporation's limits by \$3.1 million and \$13.8 million, respectively.

Recent Accounting Pronouncements

ASC No. 715-20-50-Pension Plan and Postretirement Benefit Plan Disclosure. In December 2008, the FASB issued ASC No. 715-20-50, "Compensation—Retirement Benefits" ("ASC 715-20-50"). ASC 715-20-50 requires enhanced disclosures about our plan assets for the defined benefit pension and other postretirement benefit plans. The enhanced disclosures required by this ASC are intended to provide users of financial statements with a greater understanding of: (1) how investment allocation decisions are made, including the factors that are pertinent to an understanding of investment policies and strategies; (2) the major categories of plan assets; (3) the inputs and valuation techniques used to measure the fair value of plan assets; (4) the effect of fair value measurements using significant unobservable inputs (level 3) on changes in plan assets for the period; and (5) significant concentrations of risk within plan assets. This ASC became effective for us for our fiscal year ended March 31, 2010 and resulted in certain disclosures in Note 7.

ASC No. 855-10-Subsequent Events. In May 2009, the FASB issued ASC No. 855-10, "Subsequent Events" ("ASC 855-10"), which sets forth general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or available to be issued. ASC 855-10 became effective in the first quarter of fiscal March 31, 2010 and did not have a material impact on our consolidated financial statements. Additionally, in February 2010, the FASB issued Accounting Standards Update ("ASU") No. 2010-09, "Amendments to Certain Recognition and Disclosure Requirements" ("ASU 2010-09"), which became effective upon issuance and amended the guidance on subsequent events to remove the requirement for SEC filers to disclose the date through which an entity has evaluated subsequent events. We have evaluated certain events and transactions occurring after March 31, 2010 and, as disclosed in Note 10, we had one event that met the definition of a subsequent event for the period ended March 31, 2010.

Accounting Standard Codification. The Financial Accounting Standards Board's ("FASB") Accounting Standards Codification™ ("ASC") became effective on July 1, 2009. At that date, the ASC became FASB's officially recognized source of authoritative U.S. generally accepted accounting principles ("GAAP") applicable to all public and non-public non-governmental entities, superseding existing FASB, American Institute of Certified Public Accountants ("AICPA"), Emerging Issues Task Force ("EITF") and related literature. Rules and interpretive releases of the SEC under the authority of federal securities laws are also sources of authoritative GAAP for SEC registrants. All other accounting literature is considered non-authoritative. The switch to ASC affects the way companies refer to U.S. GAAP in financial statements and accounting policies. Citing particular content in the ASC involves specifying the unique numeric path to the content through the Topic, Subtopic, Section and Paragraph structure.

ASU No. 2009-05- Fair Value Measurements and Disclosures (Topic 820): Measuring Liabilities at Fair Value. In August 2009, the FASB issued Accounting Standards Update (“ASU”) No. 2009-05, “*Measuring Liabilities at Fair Value*” (“ASU 2009-05”), which amends ASC 820-10. ASU 2009-05 provides clarification in circumstances when a quoted price in an active market for an identical liability is not available. In such instances, a reporting entity is required to measure fair value utilizing a valuation technique that uses (1) the quoted price of the identical liability when traded as an asset; (2) quoted prices for similar liabilities when traded as assets; or (3) another valuation technique that is consistent with the existing principles of ASC Topic 820, such as an income or market approach. ASU 2009-05 also clarifies that when estimating the fair value of a liability, a reporting entity is not required to include a separate input or adjustment to other inputs relating to the existence of a restriction that prevents the transfer of the liability. Additionally, ASU 2009-5 clarifies that both a quoted price in an active market for an identical liability at the measurement date and the quoted price for an identical liability when traded as an asset in an active market when no adjustment to the quoted price of the asset are required are Level 1 fair value measurements. This ASU became effective for us for our fiscal year ended March 31, 2010 and did not have a material impact on our consolidated financial statements.

ASU No. 2009-12—Fair Value Measurements and Disclosures (Topic 820): Investments in Certain Entities That Calculate Net Asset per Share (or Its Equivalent). In September 2009, the FASB issued ASU No. 2009-12 “*Investments in Certain Entities That Calculate Net Asset Per Share (or Its Equivalent)*,” which provides further guidance for measuring the fair value of investments in certain entities that calculate net asset value per share or its equivalent; provided the investment does not have a readily determined fair value and the net asset value is calculated in a manner that is consistent with ASC Topic 946-Financial Services-Investment Companies, as of the reporting entities’ measurement date, including the measurement of all or substantially all of the underlying investments of the investee in accordance with Topic 820. In such instances, a reporting entity is permitted to estimate the fair value of an investment using the net asset value per share. This ASU became effective for us for our fiscal year ended March 31, 2010 and did not have a material impact on our consolidated financial statements.

ASU No. 2010-06, Fair Value Measurements and Disclosures (Topic 820): Improving Disclosures about Fair Value Measurements. In January 2010, the FASB issued ASU No. 2010-06 “*Improving Disclosures about Fair Value Measurements*,” which provides more robust disclosures about (1) the different classes of assets and liabilities measured at fair value, (2) the valuation techniques and inputs used, (3) the activity in Level 3 fair value measurements, and (4) the transfers between Levels 1, 2, and 3. ASU 2010-06 is effective for annual and interim periods beginning after December 15, 2009, except for the requirement to provide the Level 3 activity on a gross basis, which is effective for annual periods beginning after December 15, 2010 and for interim periods within those fiscal years. The Company will adopt ASU 2010-06 in the first quarter of 2010, except for the requirement to provide the Level 3 activity on a gross basis, which will be adopted after December 15, 2010. The Company does not expect the adoption of these disclosures to have a material impact on our consolidated financial position or results of operations.

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 ASC Topic 820 “*Fair Value Measurements and Disclosures*.” 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. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical investments (Level 1) and lowest priority to unobservable inputs (Level 3). 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:* Investments whose values are based on 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 securities traded on the NASDAQ on the valuation date.
- *Level 2:* Investments whose values are based on data 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, 2010.
- *Level 3:* Investments whose values are based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement. These inputs reflect management's own assumptions about the assumptions a market participant would use in pricing the investment. We use Level 3 inputs for measuring the fair value of substantially all of our investments. See "Notes to Consolidated Schedule of Investments" (c) on page 17 for the investment policy used to determine the fair value of these investments.

As required by ASC 820, when the inputs used to measure a fair value fall within different levels of the hierarchy, the level within the fair value measurement is categorized is based on the lowest level input that is significant to the fair value measurement in its entirety. For example, a level 3 fair value measurement may include inputs that are observable (Levels 1 and 2) and unobservable (3). We conduct reviews of fair value hierarchy on a quarterly basis. Changes in the observability of valuation inputs may result in a reclassification of certain assets.

The following fair value hierarchy tables set forth our investment portfolio by level as of March 31, 2010 and 2009 (in millions):

Asset Category	Fair Value Measurements at 3/31/2010 Using			
	Total	Quoted Prices in Active Markets for Identical Assets	Significant Other Observable Inputs	Significant Unobservable Inputs
		Level 1	Level 2	Level 3
Debt	\$ 14.6	\$ -	\$-	\$ 14.6
Partnership Interests	8.6	-	-	8.6
Preferred Equity	35.3	-	-	35.3
Common Equity	419.4	21.0	-	398.4
Total Investments	\$477.9	\$21.0	\$-	\$456.9

Asset Category	Fair Value Measurements at 3/31/2009 Using			
	Total	Quoted Prices in Active Markets for Identical Assets	Significant Other Observable Inputs	Significant Unobservable Inputs
		Level 1	Level 2	Level 3
Debt	\$ 8.3	\$-	\$-	\$ 8.3
Partnership Interests	6.8	-	-	6.8
Preferred Equity	16.4	-	-	16.4
Common Equity	365.2	13.8	-	351.4
Total Investments	\$396.7	\$13.8	\$-	\$382.9

The following tables set forth a summary of changes in the fair value of investment assets and liabilities measured using Level 3 inputs during the years ended March 31, 2010 (in millions):

<u>Asset Category</u>	Fair Value 3/31/09	Net Unrealized Appreciation (Depreciation)	Net New Investments (Divestitures)	Conversion of Security from Debt to Equity	Fair Value 3/31/10
Debt	\$ 8.3	\$ 4.9	\$ 2.7	\$(1.3)	\$ 14.6
Partnership Interests	6.8	(0.2)	2.1	-	8.6
Preferred Equity	16.4	9.4	8.2	1.3	35.3
Common Equity	351.4	49.3	(2.3)	-	398.4
Total Investments	<u>\$382.9</u>	<u>\$63.4</u>	<u>\$10.7</u>	<u>\$ -</u>	<u>\$456.9</u>

<u>Asset Category</u>	Fair Value 3/31/08	Net Unrealized Appreciation (Depreciation)	Net New Investments (Divestitures)	Conversion of Security from Debt to Equity	Fair Value 3/31/09
Debt	\$ 9.0	\$ (5.0)	\$ 4.3	\$-	\$ 8.3
Partnership Interests	5.3	(0.9)	2.3	-	6.8
Preferred Equity	21.8	(11.5)	6.1	-	16.4
Common Equity	458.3	(107.2)	0.3	-	351.4
Equity Warrants	0.4	(0.4)	-	-	-
Total Investments	<u>\$494.8</u>	<u>\$(124.9)</u>	<u>\$13.0</u>	<u>\$-</u>	<u>\$382.9</u>

The amount of total gains for the years ended March 31, 2010 and 2009 included in change in net assets attributable to the change in net unrealized appreciation (depreciation) relating to assets (level 3) still held at reporting date was \$63,933,254 and \$(124,976,775), respectively.

3. Income Taxes

We operate to qualify as a RIC under Subchapter M of the IRC. 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 a calendar tax year end of December 31.

We have distributed or intend to distribute sufficient dividends to eliminate taxable income for our completed tax 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, 2009 and 2008, we declared and paid ordinary dividends in the amount of \$2,993,310 and \$12,256,745, 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, 2009 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, 2009.

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. For the tax year ended December 31, 2009, we have estimated net long-term capital gains of \$2,327,150 for tax purposes and \$1,682,616 for book purposes, which we elected to retain and treat as deemed distributions to our shareholders. Likewise, for the tax year ended December 31, 2008, we had 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. As a result of our election to retain long-term capital gains, we incurred federal taxes on behalf of our shareholders in the amount of \$814,503 and \$5,222,964 for the tax years ended December 31, 2009 and 2008, respectively. As of December 31, 2009, we did not have any undistributed long-term capital gains since they are being treated as a “deemed distribution.”

For the tax years ended December 31, 2009 and 2008, 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.

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.”

The following table sets forth a summary of our net realized gains on transactions by category:

Net Realized Gains On Transaction In <u>Investment Securities of</u>	For the Tax Year Ended December 31,	
	2009	2008
Unaffiliated issuers	\$ 206,522	\$15,936,644
Affiliated issuers	1,433,472	-
Investments other than securities	-	-
Net realized gain on investments before taxes	\$1,639,994	\$15,936,644
Income tax expense	814,503	5,222,964
Net realized gain on investments	\$825,491	\$10,713,680
Net realized gains (for tax purposes)	\$2,327,150	\$14,922,751

As a result of our election to retain long-term capital gains, we incurred federal taxes on behalf of our shareholders in the amounts listed in the table above. As of March 31, 2010, we did not have undistributed long-term capital gains (losses) since they are being treated as a “deemed distribution,” while we reported undistributed long-term capital gains of \$42,622 as of March 31, 2009.

5. Employee Stock Option Plan

On July 20, 2009, shareholders approved our 2009 Stock Incentive Plan (the “2009 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 up to ten years from the date of grant, and are generally exercisable on or after the first anniversary of the date of grant in five annual installments. Options to purchase 38,750 shares at a price of \$76.74 (market price at the time of the grant) were granted on October 19, 2009. Additionally, options to purchase 20,000 shares at a price of \$95.79 (market price at time of the grant) were granted on March 22, 2010. All 58,750 shares remain outstanding, thus leaving 81,250 options available for grant under the plan.

The Company previously granted stock options under our 1999 Stock Option Plan (the "1999 Plan"), as approved by shareholders on July 19, 1999. The 1999 Plan expired on April 19, 2009. Options previously granted under the 1999 Plan and outstanding on July 20, 2009 continue to be governed by the provisions of the 1999 Plan. All options granted under the 1999 Plan were granted at or above market price, generally expire up to ten years from the date of grant, and are generally exercisable on or after the first anniversary of the date of grant in five to ten annual installments.

We recognize compensation cost over the straight-line method for all share-based payments granted and for all awards granted to employees prior to April 1, 2006 that remain unvested. The fair value of the 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, 2010, 2009 and 2008, we recognized compensation expense of \$675,210, \$503,645, and \$263,664 respectively.

As of March 31, 2010, the total remaining unrecognized compensation cost related to non-vested stock options was \$3,332,391, which will be amortized over the weighted-average service period of approximately 4.1 years.

The following table summarizes the 2009 Plan and the 1999 Plan price per option at grant date using the Black-Scholes Pricing Model:

Date of Issuance	Weighted Average Fair Value	Expected Dividend Yield	Black-Scholes Pricing Model Assumptions		Expected Life (in years)
			Risk-Free Interest Rate	Expected Volatility	
March 22, 2010	\$32.56	0.84%	2.43%	37.8%	5
October 19, 2009	\$25.36	1.04%	2.36%	37.6%	5
1999 Plan					
July 30, 2008	\$29.93	0.62%	3.36%	20.2%	5
July 21, 2008	\$27.35	0.67%	3.41%	20.2%	5
July 16, 2007	\$41.78	0.39%	4.95%	19.9%	5
July 17, 2006	\$33.05	0.61%	5.04%	21.2%	7
May 15, 2006	\$31.28	0.64%	5.08%	21.1%	7

The following summarizes activity in the stock option plans for the years ended March 31, 2010, 2009 and 2008:

	Number of shares	Weighted Average Exercise Price
2009 Plan		
Balance at March 31, 2009	-	\$ -
Granted	58,750	83.23
Exercised	-	-
Canceled	-	-
Balance at March 31, 2010	58,750	\$ 83.23
1999 Plan		
Balance at March 31, 2008	70,400	\$110.00
Granted	37,500	123.72
Exercised	-	-
Canceled	-	-
Balance at March 31, 2009	107,900	\$114.78
Granted	-	-
Exercised	-	-
Canceled	-	-
Balance at March 31, 2010	107,900	\$114.78
Combined Balance at March 31, 2010	166,650	\$103.65

	Weighted Average Aggregate Intrinsic <u>Remaining Contractual Term</u>	<u>Value</u>
March 31, 2010		
Outstanding	4.1 years	\$4,889,443
Exercisable	3.4 years	\$1,158,499

At March 31, 2010, the range of exercise prices and weighted-average remaining contractual life of outstanding options was \$65.00 to \$152.98 and 4.1 years, respectively. There were no options exercised during the years ended March 31, 2010 and March 31, 2009. The total intrinsic value of options exercised during the years ended March 31, 2008 was \$75,129. The exercise prices ranged from \$65.00 to \$93.49 per share for the each of the years ended March 31, 2008. New shares were issued for \$231,390 cash received from option exercises for the years ended March 31, 2008.

At March 31, 2010, 2009 and 2008, the number of options exercisable was 38,960, 21,445 and 9,930, respectively and the weighted-average exercise price of those options was \$107.94, \$97.00 and \$79.01, respectively.

6. 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, 2010, the Company made contributions to the ESOP, which were charged against net investment income, of \$144,436 in 2010, \$0 in 2009 and \$94,210 in 2008.

7. 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, 2010.

Additionally, CSC 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 tables set forth the qualified plan's net pension benefit, benefit obligation, fair value of plan assets, and amounts recognized in CSC's consolidated statements of assets and liabilities at March 31, 2010, 2009 and 2008; as well as amounts recognized in CSC's consolidated statements of assets and liabilities at March 31, 2010 and 2009:

	<u>2010</u>	<u>Years Ended March 31</u> <u>2009</u>	<u>2008</u>
Net pension benefit			
Service cost-benefits earned during the year	\$ 116,746	\$ 67,340	\$ 67,514
Interest cost on projected benefit obligation	191,936	290,310	222,895
Expected return on assets	(735,366)	(732,837)	(673,366)
Net amortization	9,006	3,725	3,725
Net pension benefit from qualified plan	<u>\$ (417,678)</u>	<u>\$ (371,462)</u>	<u>\$ (379,232)</u>
Change in benefit obligation			
Benefit obligation at beginning of year	\$2,914,813	\$3,699,285	\$3,965,100
Service cost	116,746	67,340	67,514
Interest cost	191,936	290,310	222,895
Actuarial gain (loss)	295,379	(916,874)	(160,840)
Benefits paid	(68,131)	(259,810)	(395,384)
Plan change	-	34,262	-
Benefit obligation at end of year	<u>\$3,450,443</u>	<u>\$2,914,513</u>	<u>\$3,699,285</u>

Change in plan assets	<u>Years Ended March 31</u>		
	<u>2010</u>	<u>2009</u>	<u>2008</u>
Fair value of plan assets at beginning of year	\$ 8,383,373	\$11,120,337	\$12,973,292
Actual return on plan assets	2,204,158	(2,477,154)	(1,457,571)
Benefits paid	(68,131)	(259,810)	(395,384)
Fair value of plan assets at end of year	<u>\$10,519,400</u>	<u>\$ 8,383,373</u>	<u>\$11,120,337</u>

Funded status and amounts recognized in our consolidated statements of assets and liabilities

	<u>Years Ended March 31</u>	
	<u>2010</u>	<u>2009</u>
Actuarial present value of benefit obligations:		
Accumulated benefit obligation	<u>\$(3,076,629)</u>	<u>\$(2,630,743)</u>
Projected benefit obligation for service rendered to date	\$ (3,450,443)	\$ (2,914,513)
Plan assets at fair value*	<u>10,519,400</u>	<u>8,383,373</u>
Funded status	7,068,957	5,468,860
Unrecognized net (gain) loss from past experience different from that assumed and effects of changes in assumptions	1,328,748	2,502,161
Unrecognized prior service costs	150,710	159,716
Additional asset, FAS 158	(1,479,458)	(2,661,877)
Prepaid pension cost included in pension assets	<u>\$ 7,068,957</u>	<u>\$ 5,468,860</u>

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

The following tables set forth the retirement restoration plan's net pension benefit and benefit obligation amounts at March 31, 2010, 2009 and 2008; as well as amounts recognized in CSC's consolidated statements of assets and liabilities at March 31, 2010, 2009:

Net pension benefit	<u>Years Ended March 31</u>		
	<u>2010</u>	<u>2009</u>	<u>2008</u>
Service cost-benefits earned during the year	\$ 26,847	\$ 10,986	\$ 10,483
Interest cost on projected benefit obligation	60,334	104,777	57,588
Net amortization	(38,605)	2,470	(16,186)
Net pension benefit from qualified plan	<u>\$48,576</u>	<u>\$118,233</u>	<u>\$ 51,885</u>

Change in benefit obligation	<u>Years Ended March 31</u>		
	<u>2010</u>	<u>2009</u>	<u>2008</u>
Benefit obligation at beginning of year	\$ 934,427	\$942,122	\$1,178,891
Service cost	26,847	10,986	10,483
Interest cost	60,334	104,777	57,588
Actuarial gain (loss)	61,332	(74,613)	(169,072)
Benefits paid	-	(68,934)	(135,768)
Plan change	-	20,089	-
Benefit obligation at end of year	<u>\$1,082,941</u>	<u>\$934,427</u>	<u>\$ 942,122</u>

Amounts recognized in our consolidated statements of assets and liabilities	<u>March 31</u>	
	<u>2010</u>	<u>2009</u>
Projected benefit obligation	\$(1,082,941)	\$ (934,427)
Unrecognized net (gain) loss from past experience different from that assumed and effects of changes in assumptions	\$ (347,741)	\$(431,432)
Unrecognized prior service costs	(171,034)	(187,280)
Additional asset, FAS 158	518,775	618,712
Prepaid pension cost included in pension liabilities	<u>\$(1,082,941)</u>	<u>\$ (934,427)</u>

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

	<u>Years Ended March 31</u>		
	<u>2010</u>	<u>2009</u>	<u>2008</u>
Discount rate	6.00%	6.5%	6.25%
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		
	2010	2009	2008
Discount rate	6.5%	6.25%	6.0%
Expected return on plan assets	6.5%	6.5%	6.5%
Rate of compensation increases	5.0%	5.0%	5.0%

Following are the expected benefit payments for the next five years and in the aggregate for the years 2016-2020:

(In Thousands)	Years Ended March 31				
	2011	2012	2013	2014	2015
Qualified Plan	\$60	\$207	\$199	\$191	\$184
Restoration Plan	\$18	\$ 93	\$ 89	\$ 85	\$ 82

We use the "Citigroup Pension Liability Index" to determine the discount rate. 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.

Plan Assets

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 is managed by the committee, invested mostly in equity securities, including CSC stock. The plan assets are invested using a total return approach whereby a mix of equity securities, debt securities and other investments are used to preserve asset values, diversify risk and achieve our targeted investment return benchmark. Investment performance and asset allocation are measured and monitored on an ongoing basis.

Plan assets are managed in a balanced portfolio comprised of two major components: an equity portion and a fixed income portion. The expected role of Plan equity investments is to maximize the long-term real growth of Fund assets, while the role of fixed income investments is to generate current income, provide for more stable periodic returns and provide some protection against prolonged decline in the market value of Fund equity investments.

The current target allocations for plan assets are 60-80% equity, 15-40% for fixed income, and 0-15% for cash and cash equivalents. Equity investments include U.S. and foreign equities, as well as publicly traded and non-publicly traded mutual funds. Fixed income securities include long-duration government obligations, government agency obligations and corporate obligations.

CSC's pension plan asset allocations are as follows:

Asset Category	Percentage of plan assets at March 31	
	2010	2009
Equity securities	74.2%	67.7%
Fixed income securities	16.5%	19.2%
Cash and cash equivalents	9.3%	13.1%
	<u>100.0%</u>	<u>100.0%</u>

The following fair value hierarchy table sets forth our pension plan investment portfolio by level as of March 31, 2010 (in millions):

Asset Category	Total	Fair Value Measurements at Reporting Date Using		
		Quoted Prices in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3
Equity securities (a)	\$ 7.8	\$6.4	\$1.4	\$-
Fixed income securities (b)	1.7	-	1.7	-
Cash and cash equivalents	1.0	1.0	-	-
Total	<u>\$10.5</u>	<u>\$7.4</u>	<u>\$3.1</u>	<u>\$-</u>

There were no plan assets valued using significant unobservable inputs (level 3) as of March 31, 2010.

(a) This category includes investment in equity securities of large, medium and small companies and equity investments in foreign companies. Mutual funds included in this category are valued using the net asset value per unit as of the valuation date. These investments include shares of our common stock. At March 31, 2010 and 2009, Capital Southwest Corporation common stock represented 21.9% and 22.7%, respectively, of the plan assets.

(b) This category includes investments in investment grade fixed income instruments, primarily U.S. government obligations.

8. Commitments

CSC has agreed, subject to certain conditions, to invest up to \$5,518,463 in seven portfolio companies.

The Company leases office space under an operating lease which requires base annual rentals of approximately \$101,000 through April, 2013. For the three years ended March 31, total rental expense charged to investment income was \$92,075 in 2010, \$84,117 in 2009 and \$80,569 in 2008.

9. Sources of Income

Income was derived from the following sources:

Years Ended March 31	Investment Income			Realized Gain (Loss) on Investments Before Income Taxes
	Interest	Dividends	Other Income	
<u>2010</u>				
Companies more than 25% owned	\$ 14,473	\$3,359,942	\$1,055,900	\$1,433,472
Companies 5% to 25% owned	1,500	326,940	13,000	-
Companies less than 5% owned	1,009,276	101,798	206,522	206,522
Other sources, including temporary investments	19,618	-	337	-
	<u>\$1,044,867</u>	<u>\$3,788,680</u>	<u>\$1,275,759</u>	<u>\$1,639,994</u>

Years Ended March 31	Investment Income			Realized Gain (Loss) on Investments Before Income Taxes
	Interest	Dividends	Other Income	
<u>2009</u>				
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	743,937	260,357	9	15,979,266
Other sources, including temporary investments	381,861	-	337	-
	<u>\$1,375,215</u>	<u>\$11,533,878</u>	<u>\$1,076,039</u>	<u>\$15,979,266</u>

Years Ended March 31	Investment Income			Realized Gain (Loss) on Investments Before Income Taxes
	Interest	Dividends	Other Income	
<u>2008</u>				
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>

10. Subsequent Events

On April 29, 2010 Capital Southwest Corporation, Lifemark Group, a wholly owned investment of the Company, NorthStar Memorial Group, LLC and NorthStar Cemetery Services of California, LLC, a wholly owned subsidiary of NorthStar ("Purchaser"), entered into a Stock Purchase Agreement, providing for the sale of all issued and outstanding shares of capital stock of Lifemark Group to Purchaser.

Consideration for the sale will be cash in the aggregate of \$84,750,000. Pursuant to terms of the Stock Purchase Agreement, the purchase price will be reduced by the amount of the Lifemark's outstanding indebtedness. The purchase price will also be subject to an adjustment based on certain estimated costs or expenses that have been or will be incurred by the Company or its subsidiary associated with, arising out of or relating to the distribution of certain assets. In addition, the purchase is subject to customary adjustments based on the amount of Seller's net assets at the time the sale is completed.

The Stock Purchase Agreement contains representations and warranties, covenants, indemnification provisions and closing conditions that are customary for transactions of this type, including covenants by the Seller related to the conduct of business between the signing of the Stock Purchase Agreement and completion of the sale. Completion of the transaction is subject to customary closing conditions for transactions of this type, including approval from the State of California.

Schedule of Investments in and Advances to Affiliates

Portfolio Company/Type of Investment (1)	Amount of Interest, Fees or Dividends Credited in Income (2)	Fair Value at March 31, 2009	Gross Additions (3)	Gross Reductions (4)	Fair Value at March 31, 2010
Control Investments					
THE RECTORSEAL CORPORATION 27,907 shares of common stock	\$ 2,477,870	\$ 107,200,000	\$ 13,000,000	\$ -	\$ 120,200,000
LIFEMARK GROUP 1,449,026 shares of common stock	500,000	71,000,000	-	-	71,000,000
THE WHITMORE MANUFACTURING COMPANY 80 shares of common stock	649,467	36,000,000	11,500,000	-	47,500,000
ALAMO GROUP INC. 2,830,300 shares of common stock	717,872	22,642,400	19,812,100	-	42,454,500
HEELYS, INC. 9,317,310 shares of common stock	-	13,975,965	5,869,905	-	19,845,870
MEDIA RECOVERY, INC 800,000 shares Series A Convertible Preferred Stock, convertible into 800,000 shares of common stock at \$1.00	-	2,500,000	-	(300,000)	2,200,000
4,000,002 shares common stock	-	12,300,000	-	(1,100,000)	11,200,000
PALM HARBOR HOMES, INC. 7,855,121 shares common stock	46,972	9,818,902	3,000,000	(5,984,947)	6,833,955
BALCO, INC. 445,000 shares common stock and 60,920 shares Class B non-voting common stock	-	6,600,000	1,400,000	-	8,000,000
DENNIS TOOL COMPANY 20,725 shares 5% Convertible Preferred Stock, convertible into 20,725 shares of common stock at \$48.25 per share	-	999,981	-	(999,981)	-
140,137 shares common stock	33,333	2,868,000	-	(2,868,000)	-
DISCOVERY ALLIANCE, LLC 90.0% limited liability company	-	450,000	300,000	-	750,000
HUMAC COMPANY 1,041,000 shares of common stock	4,800	133,000	30,000	-	163,000
Total Control Investments	\$ 4,430,314	\$ 286,488,248	\$ 54,912,005	\$ (11,252,928)	\$ 330,147,325
Affiliated Investments					
ENCORE WIRE CORPORATION 4,086,750 shares of common stock	\$ 339,940	\$ 65,388,000	\$ 2,043,375	\$ -	\$ 67,431,375

Schedule of Investments in and Advances to Affiliates

Portfolio Company/Type of Investment (1)	Amount of Interest, Fees or Dividends Credited in Income (2)	Fair Value at March 31, 2009	Gross Additions (3)	Gross Reductions (4)	Fair Value at March 31, 2010
Affiliated Investments (continued)					
CMI HOLDING COMPANY, INC.					
10% Convertible Promissory Note, due 2009	\$1,500	\$1,000,000	\$ -	\$(1,000,000)	\$ -
10% Convertible Promissory Note, due 2013	-	-	1,300,000	-	1,300,000
1,631,516 shares Series C-1 Convertible Preferred Stock, convertible into 1,631,516 shares of common stock at \$2.15 per share	-	2	2,857,759	-	2,857,761
2,327,658 shares Series C-1 Convertible Preferred Stock, convertible into 2,327,658 shares of common stock at \$1.72 per share	-	-	-	-	-
Warrants to purchase 109,012 shares of common stock at \$1.72 per share, expiring 2012	-	-	-	-	-
Warrants to purchase 636,151 shares of Series A-1 Convertible Preferred Stock at \$1.72 per share expiring 2017 and 2019	-	-	-	-	-
Warrants to purchase 90,698 shares of Series D or D-1 Convertible Preferred Stock at \$1.72 per share expiring 2017	-	-	-	-	-
PALLETONE, INC.					
12.3% Senior Subordinated Notes, \$2,000,000 due 2012	-	2	1,999,998	-	2,000,000
150,000 shares of common stock	-	2	-	-	2
Warrant to purchase 15,294 shares of common stock at \$1.00 per share, expiring 2011	-	-	-	-	-
BOXX TECHNOLOGIES, INC.					
3,125,354 shares Series B Convertible Preferred Stock, convertible into 3,125,354 shares of common stock at \$0.50 per share	-	2	-	-	2
WELLOGIX, INC.					
4,788,371 shares Series A-1 Convertible Preferred Stock, convertible into 4,788,371 shares of common stock at \$1.0441 per share	-	2	-	-	2
Total Affiliated Investments	\$ 341,440	\$ 66,388,010	\$ 8,201,132	\$ (1,000,000)	\$ 73,589,142
Total Control & Affiliated Investments	\$4,771,754	\$352,876,258	\$63,113,137	\$(12,252,928)	\$403,736,467

This schedule should be read in conjunction with the Company's Consolidated Financial Statements, including the Schedules of Investments and Notes to Consolidated Financial Statements.

(1) The principal amount and ownership detail as shown in the Consolidated Schedules of Investments.

(2) Represents the total amount of interest, fees and dividends, credited to income for the portion of the year an investment was included in the Control or Non-Control/Non-Affiliate categories, respectively.

(3) Gross additions include increases in the cost basis of investments resulting from new portfolio investments, follow-on investments and accrued PIK interest, and the exchange of one or more existing securities for one or more new securities. Gross additions also include net increases in unrealized appreciation or net decreases in unrealized depreciation as well as movement of an existing portfolio company into this category and out of a different category.

(4) Gross reductions included in decreases in the cost basis of investment resulting from principal payments or sales and exchanges of one or more existing securities for one or more new securities. Gross reductions also include net increases in unrealized depreciation or net decreases in unrealized appreciation as well as the movement of an existing portfolio company out of this category and into a different category.

Selected Per Share Data and Ratios

	Years Ended March				
	2010	2009	2008	2007	2006
Per Share Data					
Investment income	\$ 1.63	\$ 3.74	\$ 1.75	\$ 1.79	\$ 1.25
Operating expenses	(1.04)	(.98)	(.76)	(.57)	(.51)
Interest expense	-	-	-	(.12)	(.11)
Income taxes	(.03)	(.04)	(.03)	(.01)	(.01)
Net investment income	.56	2.72	.96	1.09	.62
Distributions from undistributed net investment income	(.80)	(3.28)	(.60)	(.60)	(.60)
Net realized gain (loss) net of tax	.22	2.87	.06	3.85	4.00
Net increase (decrease) in unrealized appreciation of investments	18.88	(42.56)	(36.76)	38.00	32.22
Treasury stock repurchase *					
Exercise of employee stock options **	-	-	(.09)	(.49)	(.04)
Stock option expense	.18	.13	.07	.04	-
Net change in pension plan funded status	.12	(.39)	(.30)	-	-
Treasury Stock	-	1.40	-	-	-
Adjustment to initially apply FASB No	-	-	-	.30	-
Increase (decrease) in net asset value	19.16	(39.11)	(36.66)	42.19	36.20
Net asset value					
Beginning of year	110.98	150.09	186.75	144.56	108.36
End of year	<u>\$130.14</u>	<u>\$110.98</u>	<u>\$150.09</u>	<u>\$186.75</u>	<u>\$144.56</u>
Ratios and Supplemental Data					
Ratio of operating expenses to average net assets	.87%	.71%	.46%	.36%	.42%
Ratio of net investment income to average net assets	.47%	1.96%	.58%	.68%	.51%
Portfolio turnover rate	1.16%	2.51%	.22%	.13%	2.36%
Net asset value total return	18.5%	(22.56)%	(19.27)%	29.85%	34.31%
Shares outstanding at end of period (000s omitted)	3,741	3,741	3,889	3,886	3,860

* 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. Internal control over financial reporting is defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934 as a process designed by, or under the supervision of the Company's principal executive and principal financial officers and effected by the Company's Board of Directors, management and other personnel 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 and include those policies and procedures that:

- pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Company;
- 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
- 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 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.

Management has assessed the effectiveness of our internal control over financial reporting as of March 31, 2010. In making this assessment, management used the criteria described in "Internal Control-Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on the results of this assessment, management (including our Chief Executive Officer and our Chief Financial Officer) has concluded that, as of March 31, 2010, the Company's internal control over financial reporting was effective.

The effectiveness of the Company's internal control over financial reporting has been audited by Grant Thornton LLP, the independent registered public accounting firm, as stated in their report which appears on the next page of this Annual Report on Form 10-K.

Date: May 28, 2010

/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, 2010, 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, 2010, 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 statements of assets and liabilities of the Company as of March 31, 2010 and 2009, including the schedule of investments as of March 31, 2010 and 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, 2010, and the selected per share data and ratios for each of the five years in the period ended March 31, 2010, and our report dated May 28, 2010 expressed an unqualified opinion and included explanatory paragraphs regarding the Company's adoption of ASC 820, "Fair Value Measurements and Disclosures."

/s/Grant Thornton, LLP
Dallas, Texas
May 28, 2010

Report of Independent Registered Public Accounting Firm

**Board of Directors and Shareholders
Capital Southwest Corporation**

We have audited the accompanying consolidated statements of assets and liabilities of Capital Southwest Corporation (a Texas Corporation) and subsidiaries (the "Company") as of March 31, 2010 and 2009, including the consolidated schedule of investments as of March 31, 2010 and 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, 2010, and the selected per share data and ratios for each of the five years in the period ended March 31, 2010. Our audits of the basic financial statements included the Schedule of Investments In and Advances to Affiliates. These financial statements, per share data and ratios and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements, per share data and ratios and financial statement schedule 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, 2010 and 2009, 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 financial position of Capital Southwest Corporation and subsidiaries as of March 31, 2010 and 2009, and the results of their operations, changes in their net assets, and their cash flows for each of the three years in the period ended March 31, 2010, and the selected per share data and ratios for each of the five years in the period ended March 31, 2010, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

As discussed in Note 2 to the accompanying consolidated financial statements, effective April 1, 2008, the Company adopted Accounting Standard Codification (ASC) 820, "Fair Value Measurements and Disclosures."

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, 2010, 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 28, 2010, expressed an unqualified opinion thereon.

/s/ Grant Thornton LLP
Dallas, Texas
May 28, 2010

**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 \$19,618 in 2010, \$381,498 in 2009 and \$1,421,048 in 2008. The Company also receives management fees primarily from its controlled affiliates which aggregated \$984,800 in 2010, \$984,800 in 2009 and \$784,800 in 2008. During the three years ended March 31, 2010, the Company recorded dividend income from the following sources:

	<u>Years Ended March 31</u>		
	<u>2010</u>	<u>2009</u>	<u>2008</u>
Alamo Group Inc.	\$ 679,272	\$ 679,272	\$ 678,732
Balco, Inc.	-	-	224,400
Dennis Tool Company	33,333	49,499	62,499
Encore Wire Corporation	326,940	326,940	326,940
Heelys, Inc.	-	9,317,310	-
Kimberly-Clark Corporation	-	89,529	167,481
Lifemark Group	-	-	571,333
PalletOne, Inc.	-	-	-
The RectorSeal Corporation	2,117,870	720,000	1,154,133
Sprint Nextel Corporation	-	-	6,750
TCI Holdings, Inc.	81,270	81,270	81,270
The Whitmore Manufacturing Company	529,467	180,000	288,533
Other	20,528	89,558	94,762
	<u>\$3,788,680</u>	<u>\$11,533,878</u>	<u>\$3,656,833</u>

Total operating expenses, increased by \$238,007 or 6.5% during the year ended March 31, 2010. While, total operating expenses, 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 \$1,639,994 (after income tax expense of \$814,503) during the year ended March 31, 2010, compared with a gain of \$10,756,302 (after income tax expense of \$5,222,964) during 2009 and a gain of \$240,024 during 2008. 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 an increase in unrealized appreciation of investments of \$70,624,231, in 2010 and a decrease of \$159,247,203, in 2009 and a decrease of \$142,969,698 in 2008. 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. & #160;

	Years Ended March 31		
	2010	2009	2008
Alamo Group Inc.	\$19,812,100	\$(22,642,400)	\$ (2,803,090)
All Components, Inc.	9,276,649	(9,600,000)	5,600,000
Encore Wire Corporation	2,043,375	14,303,625	(18,390,625)
Heelys, Inc.	5,869,905	(20,963,948)	(160,724,088)
The Whitmore Manufacturing Company	11,500,000	(2,000,000)	12,000,000
Lifemark Group	-	-	31,000,000
Media Recovery, Inc.	(1,400,000)	(22,700,000)	(7,500,000)
Palm Harbor Homes, Inc.	(2,984,947)	(21,601,583)	(39,275,516)
The RectorSeal Corporation	13,000,000	(37,000,000)	46,200,000

As shown in the table for the year ended March 31, 2010, we sustained significant increases in several of our largest investments. The largest increases in unrealized appreciation are attributable to Alamo Group, Inc., which increased \$19,812,100; Heelys, Inc., which increased \$5,869,905; Encore Wire Corporation, which increased \$2,043,375, all due to an increase in their respective stock prices; as well as All Components, Inc., which increased \$9,726,649 as a result of debt reduction on its senior credit facility. The \$13,000,000 increase in The RectorSeal Corporation was primarily attributable to the impact of increased valuations of companies operating within their respective sectors. The \$11,500,000 increase in The Whitmore Manufacturing Company was attributable to improved earnings. Offsetting these increases were Media Recovery, Inc., which decreased \$1,400,000 due to slowdowns in certain segments of their business; and Palm Harbor Homes, Inc., which decreased \$2,984,947, due to a reduction in their stock price.

A description of the investments listed above and other material components of the investment portfolio are included elsewhere in this report under the caption "Consolidated Schedule of Investments – March 31, 2010 and 2009."

Portfolio Investments

During the year ended March 31, 2010, the Company invested \$17,234,456 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 2009 and 2008 fiscal years, the Company invested a total of \$13,030,107 and \$10,733,536, respectively.

Financial Liquidity and Capital Resources

At March 31, 2010, the Company had cash and cash equivalents of approximately \$4.1 million. Pursuant to the Small Business Administration ("SBA") regulations, cash and cash equivalents of \$2.7 million held by CSVC may not be transferred or advanced to CSC without the consent of the SBA.

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 41 years. Retention of future gains is viewed as an important source of funds to sustain the Company's investment activity. Approximately \$21.0 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, 2010. For information on our capital commitments see Note 8 of the Consolidated Financial Statements.

Contractual Obligations	Payments Due By Period (\$ in Thousands)			
	Total	1 Year	2-3 Years	More Than 3 Years
Operating lease obligations	\$312	\$101	\$202	\$9
Total	\$312	\$101	\$202	\$9

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)

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Financial Position (as of March 31)										
Investments at cost	\$87,602	\$82,194	\$91,462	\$97,283	\$84,546	\$88,597	\$71,642	\$81,027	\$89,339	\$100,023
Unrealized appreciation	228,316	265,287	195,598	309,666	337,476	461,831	609,513	466,544	307,296	377,920
Investments at market or fair value	315,918	347,481	287,060	406,949	422,022	550,428	681,155	547,571	396,635	477,943
Total assets	322,668	357,183	298,490	423,979	434,384	569,368	729,507	586,685	417,543	491,175
Notes payable *	16,000	14,000	23,000	20,500	13,000	8,000	-	-	-	-
Net assets	303,436	339,891	272,211	400,157	417,947	558,036	725,732	583,700	415,263	486,926
Shares outstanding	3,815	3,829	3,829	3,857	3,857	3,860	3,886	3,889	3,741	3,741
Changes in Net Assets (years ended March 31)										
Net investment income	\$ 1,723	\$ 2,042	\$ 2,299	\$ 2,587	\$ 2,406	\$ 2,389	\$ 4,233	\$ 3,715	\$10,183	\$ 2,091
Net realized gain (loss) on investments	(5,126)	(762)	2,007	12,603	(10,112)	15,451	14,966	240	10,756	826
Net increase (decrease) in unrealized appreciation before distributions	(10,311)	36,971	(69,689)	114,068	27,810	124,355	147,682	(142,969)	(159,246)	70,624
Increase (decrease) in net assets from operations before distributions	(13,714)	38,251	(65,383)	129,258	20,104	142,195	166,881	(139,014)	(138,307)	73,541
Cash dividends paid	(2,289)	(2,295)	(2,297)	(2,309)	(2,314)	(2,314)	(2,323)	(2,333)	(12,257)	(2,993)
Employee stock options exercised	-	-	499	-	997	-	208	1,795	231	-
Stock option expense	-	-	-	-	-	-	169	263	503	675
Change in pension plan funded status	-	-	-	-	-	-	-	(1,178)	(1,473)	440
Treasury stock	-	-	-	-	-	-	-	-	(16,903)	-
Adjustment to initially apply FASB Statement No. 158 net of tax	-	-	-	-	-	-	1,173	-	-	-
Increase (decrease) in net assets	(16,003)	36,455	(67,680)	127,946	17,790	140,089	167,695	(142,031)	(168,437)	71,663
Per Share Data (as of March 31)										
Net assets	\$ 79.54	\$ 88.77	\$ 71.09	\$103.75	\$ 108.36	\$144.56	\$186.75	\$150.09	\$110.98	\$ 130.14
Closing market price	65.00	68.75	48.15	75.47	79.10	95.50	153.67	123.72	76.39	90.88
Cash dividends paid	.60	.60	.60	.60	.60	.60	.60	.60	3.26	.80

* 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, 2010. 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
March 31, 2010	\$96.04	\$78.51
December 31, 2009	79.95	71.72
September 30, 2009	82.90	69.60
June 30, 2009	84.21	67.60

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

Dividends

The payment dates and amounts of cash dividends per share since April 1, 2008 are as follows:

Payment Date	Cash Dividend
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
November 30, 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 19, 2010, at 10:00 a.m. in the North Dallas Bank Tower Meeting Room (second floor), 12900 Preston Road, Dallas, Texas 75230.

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 28, 2010, with respect to the consolidated financial statements, schedule 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, 2010. 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 28, 2010

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 28, 2010

By: 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 financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: May 28, 2010

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 28, 2010 (“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 28, 2010

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 28, 2010 (“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 28, 2010

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