

IMPORTANT NOTICE

The Depository Trust Company



#: 6184-10
Date: 02/08/10
To: All Participants
Category: Dividends
From: Donna Ruggiero, Tax Reporting Services
Attention: Managing Partner / Officer, Cashier, Dividend Mgr., Tax Mgr.
Subject: Capital Southwest Corporation
Notice To Shareholders of Undistributed Long
Term Capital Gains (Form # 2439)
CUSIP: 140501107

The following tax information for Undistributed Long Term Capital Gains (Form # 2439) has been received by DTCC.

| Security | Tax Year Ending | Rate |
|-------------------------------|-----------------|------------------------------------|
| Capital Southwest Corporation | 12/31/2009 | Line 1A \$0.622 Line 2 \$0.2177 |

As Undistributed Long Term Capital Gains Tax information is received, DTCC will publish additional notices.

If Participants have any questions concerning this notice please contact Ms. Donna Ruggiero of The Depository Trust and Clearing Company at (212) 855-4619.

Dividend Department

Important Legal Information: *The Depository Trust Company ("DTC") does not represent or warrant the accuracy, adequacy, timeliness, completeness or fitness for any particular purpose of the information contained in this communication, which is based in part on information obtained from third parties and not independently verified by DTC and which is provided as is. The information contained in this communication is not intended to be a substitute for obtaining tax advice from an appropriate professional advisor. In providing this communication, DTC shall not be liable for (1) any loss resulting directly or indirectly from mistakes, errors, omissions, interruptions, delays or defects in such communication, unless caused directly by gross negligence or willful misconduct on the part of DTC, and (2) any special, consequential, exemplary, incidental or punitive damages.*

To ensure compliance with Internal Revenue Service Circular 230, you are hereby notified that: (a) any discussion of federal tax issues contained or referred to herein is not intended or written to be used, and cannot be used, for the purpose of avoiding penalties that may be imposed under the Internal Revenue Code; and (b) as a matter of policy, DTC does not provide tax, legal or accounting advice and accordingly, you should consult your own tax, legal and accounting advisor before engaging in any transaction.

Non-Confidential

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IMPORTANT TAX INFORMATION

January 29, 2010

TO SHAREHOLDERS OF RECORD ON DECEMBER 31, 2009:

For the year ended December 31, 2009, Capital Southwest Corporation met the requirements of the Internal Revenue Code for federal income tax treatment as a regulated investment company. As a result, certain tax requirements and benefits apply to shareholders of record on December 31, 2009, and to beneficial owners of shares registered in the name of a broker or other nominee on that date. This memorandum, together with the enclosed Form 2439, should be retained and used in preparing your 2009 Federal income tax return.

TAX BENEFITS

During the year ended December 31, 2009, Capital Southwest realized taxable long-term capital gains of \$2,327,150 (\$0.622 per share) and will pay federal income taxes of 35%, equivalent to \$814,502 (\$0.2177 per share). Capital Southwest elected to retain these gains and, as a regulated investment company, has designated them to shareholders of record on December 31, 2009. The tax effect is the same as if the capital gains had been distributed to Capital Southwest shareholders, who then elected to reinvest 65% of the amount received. The 35% capital gains tax paid by Capital Southwest is considered to have been paid on behalf of the shareholders.

Your share of the undistributed long-term capital gains (\$0.622 per share) must be included on your 2009 Federal income tax return, and you are entitled to a tax credit (\$0.2177 per share) for the tax to be paid on your behalf by Capital Southwest. This will result in a net Federal income tax credit (or refund) to most individual shareholders because the maximum Federal capital gains tax rate for individuals in 2009 was less than the corporate capital gains tax of 35% - the rate at which the tax credit to shareholders is computed. Since you are considered to have reinvested the net after-tax proceeds (\$0.4043 per share) in the Company, the tax basis of your Capital Southwest shares is increased by that amount.

APPLICATION OF FORM 2439 TO FEDERAL INCOME TAX RETURNS

Enclosed are two copies of Form 2439 - Notice to Shareholder of Undistributed Long-Term Capital Gains. Copy B should be filed with your 2009 federal income tax return and Copy C should be retained for your records. A copy of the form will also be filed with Capital Southwest's tax return for 2009.

Line 1a on Form 2439 includes your share of the long-term capital gains retained by Capital Southwest but designated to you, on the basis of \$0.622 for each share owned by you on December 31, 2009. Line 2 indicates the amount of tax applicable to the capital gains reflected on Line 1a, which was paid by Capital Southwest, and is equivalent to \$0.2177 per share.

In preparing individual tax returns: the amount on line 1a of Form 2439 should be entered on Schedule D (Form 1040), line 11, column (f); and the amount on line 2 of Form 2439 should be entered on line 70 of Form 1040 and the Form 2439 box on that line should be marked. Instructions for individuals and for other taxable and tax-exempt entities are provided on the reverse sides of Copy B and Copy C of Form 2439 and in the detailed instructions for the applicable tax forms.

Certain shareholders such as Individual Retirement Accounts, pension trusts and other tax-exempt entities are entitled to a refund of the entire tax (\$0.2177 per share) deemed to have been paid for such shareholders by Capital Southwest, which may be claimed by filing IRS Form 990-T in accordance with instructions on the reverse side of Copy C of Form 2439.

The tax basis of each share of Capital Southwest owned by you on December 31, 2009 should be increased by \$0.4043 per share. The aggregate amount of your basis increase is computed by subtracting the amount shown on Line 2 from the amount shown on Line 1a of Form 2439. Each year our annual report includes a table of all previous basis adjustments.

SHARES HELD BY BROKERS OR OTHER NOMINEES

Under provisions of the Internal Revenue Code, Capital Southwest is permitted to issue Form 2439 only to shareholders of record on December 31, 2009. Therefore, shareholders whose shares were held by brokers or other nominees will not receive Form 2439 directly from Capital Southwest. Specific instructions appear on the reverse side of Copy C of Form 2439 requiring brokers or other nominees who receive Capital Southwest's Form 2439 to issue a supplemental Form 2439 to beneficial owners. **If you owned shares of Capital Southwest which were held by a broker or other nominee on December 31, 2009 and have not received a supplemental Form 2439, you should immediately request Form 2439 from the record holder to substantiate the tax benefits available in filing your 2009 Federal income tax return and adjusting the tax basis of your Capital Southwest shares.**

STATE TAX CONSIDERATIONS

Most states tax undistributed long-term capital gains in the same manner as the federal government. However, we have been advised that the State of California does not impose taxes on undistributed long-term capital gains. If you are a California resident owning Capital Southwest common stock, you should consult your tax advisor or the appropriate state office to confirm this advice. Residents of other states should also obtain competent advice to determine the proper basis on which to file state tax returns for undistributed long-term capital gains.

IMPORTANT - RETAIN THIS MEMORANDUM AND THE ENCLOSED FORM 2439 FOR USE IN PREPARING YOUR 2009 FEDERAL INCOME TAX RETURN

**URGENT NOTICE TO SECURITIES DEALERS AND OTHER NOMINEES
IMMEDIATE ACTION REQUIRED**

The purpose of this letter is to notify you of certain tax forms which the Internal Revenue Code requires you to prepare and provide to beneficial owners of Capital Southwest Corporation common stock for whom your firm was the holder of record on December 31, 2009.

During 2009, Capital Southwest Corporation (Nasdaq: CSWC, Tax I.D. 75-1072796) realized taxable long-term capital gains of \$2,327,150 (\$0.622 per Capital Southwest share) and will pay Federal income taxes of \$814,502 (\$0.2177 per Capital Southwest share). As a regulated investment company, Capital Southwest elected to retain these gains but designate them to shareholders of record on December 31, 2009. Each beneficial owner of Capital Southwest common stock must include his proportionate share of the undistributed long-term capital gains in his Federal income tax return, and is entitled to a tax credit for the tax paid on such gains. Each beneficial owner is also entitled to increase the tax basis of his Capital Southwest stock by \$0.4043 per share.

Prior to the end of February 2010, Capital Southwest will issue a Form 2439 to each shareholder of record on December 31, 2009. Form 2439 includes the shareholder's proportionate share of: the total undistributed long-term capital gains and the credit for taxes paid by Capital Southwest, which will be reported in each shareholder's 2009 federal income tax return.

Under provisions of the Internal Revenue Code, Capital Southwest is permitted to issue Form 2439s only to shareholders of record on December 31, 2009. Therefore, brokers or other nominees who receive Capital Southwest's Form 2439 are required to issue a supplemental Form 2439 to each beneficial owner at December 31, 2009. Since your firm was a record holder of Capital Southwest stock on December 31, 2009, you will receive a Form 2439 by the end of February 2010. Pursuant to regulations of the Internal Revenue Code, you are required to issue a supplemental Form 2439 to each beneficial owner, in accordance with the instructions on the reverse side of Copy C of Form 2439.

Please prepare a supplemental Form 2439 for each beneficial owner of Capital Southwest for whom you were the holder of record on December 31, 2009. Although the instructions to Form 2439 indicate a deadline of March 31, 2010, we urge you to prepare all supplemental Form 2439s immediately since many shareholders will have already filed their Federal income tax returns long before March 31, 2010. Your clients who receive supplemental Form 2439s after filing their tax returns are required to file amended returns; therefore, it is imperative that your firm issue all supplemental Form 2439s without delay.

Line 1a on each supplemental Form 2439 should include the proportionate share of the long-term capital gains retained by Capital Southwest on the basis of \$0.622 per share owned by the beneficial owner on December 31, 2009. Line 2 should include the proportionate share of the tax paid by Capital Southwest applicable to the capital gains reflected on Line 1a, and is equivalent to \$0.2177 per share.

Included herewith are copies of a memorandum entitled "Important Tax Information" which should be included with each supplemental Form 2439 that you send to beneficial owners. This memorandum describes the Form 2439 and the tax benefits and requirements applicable to each beneficial owner.

Thank you for your prompt attention to this important matter. If you have any questions, please call me at (972) 233-8242.

Sincerely,



Tracy L. Morris
Chief Financial Officer