

## **COMPENSATION COMMITTEE CHARTER**

### **PURPOSE OF COMMITTEE**

The primary purposes of the Compensation Committee (the "Committee") are to assist the Board of Directors (the "Board") of Capital Southwest Corporation (the "Company") by: (1) overseeing the Company's compensation and employee benefit plans and practices, including its executive compensation, incentive compensation, and equity-based compensation plans, and (2) reviewing and approving the Company's annual Compensation Discussion and Analysis and preparing the Committee's annual report on executive compensation for inclusion in the Company's proxy statement in accordance with applicable rules and regulations. This Compensation Committee Charter (this "Charter") governs the operations of the Committee.

### **COMMITTEE MEMBERSHIP AND OPERATIONS**

The Committee shall consist of no fewer than three members, each of whom shall be a director of the Company. Each member of the Committee shall (a) meet the listing standards of The NASDAQ Stock Market ("NASDAQ") relative to independence and all other applicable legal requirements, (b) be a "non-employee director" as that term is defined under Rule 16b-3 promulgated under the Securities Exchange Act of 1934, as amended, and (c) be an "outside director" as that term is defined under Section 162(m) of the Internal Revenue Code of 1986, as amended, and the regulations promulgated thereunder. Members shall be appointed and replaced by the Board. A majority of the members of the Committee shall constitute a quorum.

The Board shall designate one member of the Committee as its chairman. The Committee shall meet in person or telephonically at least twice a year at a time and place determined by the Committee chairman, with further meetings to occur or actions to be taken by unanimous written consent when deemed necessary or desirable by the Committee or its chairman.

Following each of its meetings, the chairman of the Committee shall deliver a report to the Board on the meeting, either verbally or in writing, including a description of actions taken by the Committee at the meeting and recommendations to the Board. The Committee shall keep written minutes of its meetings, which minutes shall be maintained with the books and records of the Company. In fulfilling its responsibilities, as set forth below, the Committee shall have authority to delegate its authority to subcommittees or members as the Committee deems necessary or desirable.

### **COMMITTEE AUTHORITY AND RESPONSIBILITIES**

The Committee shall have the following authority and responsibilities:

1. To review at least annually the goals and objectives and the structure of the Company's plans for executive compensation, incentive compensation, equity-based compensation, and its general compensation plans and employee benefit plans (including retirement plans), and to recommend to the Board any new plans or any changes in the objectives and structure of such plans as the Committee deems necessary or desirable.
2. To evaluate annually the performance of the Company's President (the "CEO"), in light of the goals and objectives of the Company's executive compensation plans, and to determine his or her compensation level based on this evaluation. In determining the incentive components of the CEO's compensation, the Committee shall consider those factors it deems relevant, including the Company's performance, and the CEO's contribution to that performance. The CEO shall not be present during voting or deliberations pertaining to the Committee's determination of his or her compensation.

3. To annually review and determine the compensation level of all other executive officers of the Company, in light of the goals and objectives of the Company's executive compensation plans and the CEO's recommendations.
4. In consultation with the CEO, to oversee the annual evaluation of management of the Company, including the other executive officers and key employees of the Company.
5. Periodically, as the Committee deems necessary or desirable and pursuant to the applicable equity-based compensation plan, to recommend that the Board grant equity-based compensation awards to any officer or employee of the Company for such number of shares of common stock as the Committee, in its sole discretion, shall deem to be in the best interest of the Company.
6. To perform such duties and responsibilities as the Board may assign to the Committee regarding the terms of any compensation plans and to review and approve the amount and terms of all individual stock options that the Committee recommends that the Board grant.
7. To recommend to the Board all equity-based compensation plans, including prior approval of those plans that are subject to shareholder approval under the listing standards of NASDAQ.
8. To meet with management to review and discuss the Compensation Discussion and Analysis (the "CD&A") required by the Securities and Exchange Commission's (the "SEC") rules and regulations. The Committee will recommend to the Board whether the CD&A should be included in the Company's proxy statement or other applicable SEC filings. The Committee will also prepare a Compensation Committee Report for inclusion in the Company's proxy statement and applicable filings with the SEC. This report will state whether the Committee reviewed and discussed with management the CD&A, and whether, based on such review and discussion, the Committee recommended to the Board that the CD&A be included in the Company's proxy statement or other applicable SEC filings.
9. To annually review and reassess the adequacy of this Charter and recommend any changes to the full Board.

The Committee shall perform any other activities consistent with this Charter, the Company's Bylaws and governing laws as the Committee or the Board deems necessary or desirable. Any action of the Committee (other than actions for which the Committee has sole authority as set forth herein) shall be subject to revision, modification, rescission, or alteration by the Board.

#### **PERFORMANCE EVALUATION**

The Committee shall provide to the Board an annual performance evaluation of the Committee and the adequacy and appropriateness of this charter, including an assessment of the performance of the Committee based on the duties and responsibilities set forth in this charter and such other matters as the Committee may determine. The evaluation to the Board may take the form of an oral report by the Committee chairman or any other member of the Committee designated by the Committee to make the report.

#### **RESOURCES AND AUTHORITY OF THE COMMITTEE**

The Committee shall have the resources and authority appropriate to discharge its duties and responsibilities, including the authority to retain counsel and other experts or consultants. The Committee shall have the sole authority to select and retain a compensation consultant, to terminate any consultant retained by the Committee, and to approve the fees and other retention terms of any consultant.

**MINUTES**

Minutes will be kept of each meeting of the Committee and will be available to each member of the Board.

**AMENDMENTS**

This Compensation Committee Charter may be amended in whole or in part with the approval of a majority of the Board.

Adopted: March 29, 2007