

Capital Southwest Corporation Administrative Regulation 3.0

Policy regarding securities trades by directors, executive officers and designated employees

I. Purpose of the Policy

The Securities and Exchange Commission ("SEC") vigorously pursues violations of federal insider trading laws. The Securities Exchange Act of 1934, as amended (the "Act"), and the SEC rules and regulations promulgated thereunder, govern securities transactions by directors, officers and certain employees of publicly-traded companies. In addition to providing penalties for insider trading, the Act places the responsibility on companies and other "controlling persons" for violations by company personnel having access to sensitive information (commonly known as an "Insider" or "Insiders"). As a result, companies must take active steps to adopt policies and procedures covering securities trades by Insiders.

In addition to responding to the Act, it is the Directors' intention in adopting this policy to define the position of Capital Southwest Corporation (the "Company") on the improper use of material nonpublic information and to avoid improper conduct or any appearance of improper conduct on the part of any director, executive officer or designated employee of the Company and of any other Insider.

II. Consequences of Violations

The penalties for Insider trading violations are severe:

- A. For individuals who trade on inside information (or who pass on or "tip" such information to others):
 - 1. A civil penalty of up to three times the profit gained or loss avoided;
 - 2. A criminal fine (no matter how small the profit) of up to \$1 million; and
 - 3. A jail term of up to ten years.
- B. For controlling persons who control, directly or indirectly, those who trade on inside information (or who pass on or "tip" such information to others):
 - 1. A civil penalty of up to the greater of \$1,000,000 or three times the profit gained or loss avoided;
 - 2. A criminal fine (no matter how small the profit) of up to \$1 million; and
 - 3. A jail term of up to ten years.
- C. For a company that fails to take appropriate steps to prevent illegal trading:
 - 1. A civil penalty of up to the greater of \$1,000,000 or three times the profit gained or loss avoided; and
 - 2. A criminal penalty of up to \$2.5 million.

III. Trading Policy of the Company

If any Insider has material nonpublic information relating to the Company, neither that person nor any related person may buy or sell securities of the Company or engage in any other action to take advantage of, or pass on to others, that information.

- A. **Material Information.** Material Information is any information that a reasonable investor would consider important in a decision to buy, hold or sell securities of the Company - in short, any information which could reasonably be expected to affect the

price of the Company's securities. Common examples of information regarding the Company and its investments that may be Material Information are: unannounced changes in net asset value; pending mergers, acquisitions or tender offers; pending distributions of portfolio securities; significant acquisitions or dispositions of portfolio securities or other assets; changes in dividend policies; planned offerings of additional securities; changes in management; impending bankruptcies or financial liquidity problems; significant events which could materially effect the performance of the Company or its investments; or the occurrence of any other developments which may have a material immediate or long-term effect of the Company. Either positive or negative information may be material.

- B. **Transactions by Household Members.** The same restrictions apply to the members of the Insider's household, including family members and others living in the household. Insiders are expected to be responsible for the compliance of the members of their personal households.
- C. **Tipping Information To Others.** Whether the information is proprietary information about the Company or information that could have an effect on the price of Company securities, Insiders must not pass such information on to others. The above penalties apply, whether or not the Insider or tipper derives any benefit from the transaction.
- D. **When Information is Public.** It is also improper for an Insider to enter into a securities trade immediately after the Company has made a public announcement of Material Information, including net asset value releases. Because the Company's shareholders and the investing public must be afforded the time to receive Material Information and act upon it, as a general rule, Insiders may not engage in any transactions until after the third (3rd) business day following the day on which Material Information was released. See "Procedures For and Timing of Trades by Company Insiders" below.

IV. **Procedures For and Timing of Trades By Company Insiders**

To provide assistance in preventing inadvertent violations and avoiding even the appearance of an improper transaction, the following procedure shall apply:

Generally, no acquisition or disposition of any Company securities may be made by any Insider during any period described below or any period specified by the Compliance Officer or other Company officer designated by the Directors (including open market transactions or revisions of elections to acquire Company stock pursuant to any employee stock purchase plan or any dividend reinvestment plan). As set forth below, proposed acquisitions or dispositions of Company securities by Insiders will not be permitted during the following periods:

- A. During the period commencing five (5) business days prior to the end of each calendar quarter and extending through the second (2nd) business day following the day of the public release of the Company's quarterly or annual net asset value. The public release of quarterly net asset value will generally occur within five business days after the day of the Company's board of directors meeting following the end of the June 30, September 30 and December 31 quarters and the public release of the annual March 31 net asset value will generally occur within 10 business days after each April board of directors meeting;
- B. During the period commencing when an Insider receives Material Information or learns of a material event and continuing through the second (2nd) business day following the day of public dissemination of a press release regarding such Material Information or event;

- C. During any period in which a development of major importance outside of the Company's ordinary course of business (e.g., a major capital transaction, merger or acquisition) is possible in the foreseeable future;
 - D. Any extensions of the periods defined in A through C above and any other "black-out" periods which may be communicated to you by the President, Compliance Officer or securities counsel of the Company.
- V. This Administrative Regulation 3.0 supercedes and replaces all previous policies on the subjects covered herein.

Revised on 7/15/02