

**CAPITAL SOUTHWEST CORPORATION  
BOARD OF DIRECTORS  
CORPORATE GOVERNANCE GUIDELINES**

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The following Corporate Governance guidelines have been adopted by the Board of Directors (the "Board") of Capital Southwest Corporation (the "Company") to assist the Board in the exercise of its responsibilities to the Company and its shareholders. These guidelines should be interpreted in the context of all applicable laws and the Company's Certificate of Incorporation, By-laws and other corporate governance documents, and are intended to serve as a flexible framework within which the Board may conduct its business and not as a set of legally binding obligations. These guidelines are subject to modification and the Board shall be able, in the exercise of its discretion, to deviate from these guidelines from time to time, as the Board may deem appropriate or as required by applicable laws and regulations.

**DIRECTOR QUALIFICATIONS**

The Board will have a majority of directors who meet the criteria for independence required by NASDAQ. In determining independence, each year the Board shall affirmatively determine whether each director has no "material relationship" with the Company other than as a director. When assessing the "materiality" of a director's relationship with the Company, the Board shall consider all relevant facts and circumstances, not merely from the director's standpoint, but from that of the persons or organizations with which the director has an affiliation, and the frequency or regularity of the services, whether the services are being carried out at arm's length in the ordinary course of business and whether the services are being provided substantially on the same terms to the Company as those prevailing at the time from unrelated parties for comparable transactions. Material relationships can include commercial, banking, industrial, consulting, legal, accounting, charitable and familiar relationships. In no event will a director be considered "independent" if: (i) the director was employed by the Company within the preceding three years; (ii) an immediate family member of the director was employed by the Company as an executive officer within the preceding three years; (iii) within the preceding three years, the director, or an immediate family member of the director, received more than \$100,000 during any twelve-month period in direct compensation from the Company (other than director and committee fees and pension or other forms of deferred compensation for prior service with the Company; provided such compensation is not contingent in any way on continued service); (iv) the director is a current partner or employee of the Company's internal or external auditor; (v) an immediate family member of the director is a current partner of the Company's internal or external auditor or a current employee of such a firm who is participating in the firm's audit, assurance of tax compliance (but not tax planning) practice; (vi) the director or an immediate family member of the director is, or has been within the last three years, employed as an executive officer of another company where any of the Company's current executive officers at the same time serves or served on that company's compensation committee as an executive officer; or (viii) the director is a current executive officer or employee of, or an immediate family member of the director is a current executive officer of, a company that has made payments to, or received payments from the Company for property or services in an amount which, in any of the last three fiscal years, exceeds the greater of \$1 million, or 2% of the other company's consolidated gross revenues. To help maintain the independence of the Board, all directors shall deal at arm's length with the Company and its subsidiaries and disclose all circumstances material to the director that might be perceived as a conflict of interest.

The Nominating/Corporate Governance Committee is responsible for reviewing with the Board, on an annual basis, the requisite skills and characteristics that the Board seeks in Board

members as well as the composition of the Board as a whole, including an annual evaluation of whether members qualify as independent under applicable standards. During the course of a year, directors are expected to inform the Board of any material changes in their circumstances or relationships that may impact their designation by the Board as independent.

Nominees for director will be selected on the basis of outstanding achievement in their professional careers; broad experience; integrity; ability to make independent, analytical inquiries; understanding of the business environment; and willingness to devote adequate time and energy to Board duties. The Board will not discriminate on the basis of race, color, national origin, gender, religion or disability in selecting nominees.

Directors will be shareholders and/or become shareholders either directly or beneficially of the Company within six months of their appointment. Nominees for directorship will be recommended by the Nominating/Corporate Governance Committee to the full Board in accordance with the policies and principles in its charter. The invitation to join the Board should be extended by the Board itself, by the Chairman or his designee.

It is the sense of the Board that individual directors who significantly change responsibilities or job positions should volunteer to resign from the Board. It is not the sense of the Board that in every instance the directors who retire or change from the position they held when they came on the Board should necessarily leave the Board. There should however, be an opportunity for the Board, through the Nominating/Corporate Governance Committee, to review the continued appropriateness of Board membership under the circumstances.

Directors should advise the Chairman of the Board and the Chairman of the Nominating/Corporate Governance Committee in advance of accepting an invitation to serve on another public company board.

## **DIRECTOR RESPONSIBILITIES**

The basic responsibility of the directors is to exercise their business judgment to act in what they reasonably believe to be in the best interest of the Company and its shareholders. In discharging that obligation, directors should be entitled to rely on the honesty and integrity of the Company's senior executives and its outside advisors and auditors, to the fullest extent permitted by law. At the Board's discretion the Company may purchase reasonable directors' and officers' liability insurance on their behalf, and indemnify the directors to the fullest extent permitted by law and the Company's articles of incorporation, by-laws and any indemnification agreements.

The specific duties and responsibilities of the Board will include, among other things, overseeing the management of the business and affairs of the Company; providing investment guidance and approval of acquisitions and divestitures; selecting and recommending to shareholders appropriate candidates for election to the Board; reviewing and, where appropriate, approving the business plans, major strategies and financial objectives of the Company; evaluating Board processes and performances and the overall effectiveness of the Board; evaluating the performance of the Company and of senior management; requiring, approving and overseeing the implementation of the Company's succession plans; reviewing compliance with applicable laws and regulations and adopting policies of corporate conduct to assure compliance with applicable laws and regulations and to assure maintenance of necessary accounting, financial, and other controls; and showing, through its actions, its awareness that the Company's long-term success depends upon its strong relationship with its customers, associates, suppliers and the communities, including the global community, in which it operates.

Directors are expected to serve on Board committees.

Directors are expected to attend regularly scheduled Board meetings and meetings of committees on which they serve, and to spend the time necessary to discharge properly their responsibilities. Information and data that are important to the Board's understanding of the business to be conducted at a Board or committee meeting generally should be distributed in writing to the directors before the meeting, and directors should review these materials in advance of the meeting. Directors are also expected to attend the Annual Shareholders' meeting.

The Board will meet at least four times per year and will hold additional meetings either in person or by teleconference when needed to address issues of special concern or urgency. The offices of Chairman of the Board and President are currently the same. The Board will review if it should be changed in the future.

Management will prepare Board agendas with concurrence of the Chairman. Each Board member is free to suggest the inclusion of items on the agenda. Each Board member is free to raise subjects at any Board meeting that are not on the agenda for that meeting. The Board will review the Company's strategic plans and the principal issues that the Company will face in the future during at least one Board meeting each year. All meetings of the Board shall be held pursuant to the by-laws of the Company with regard to notice and waiver thereof, and written minutes of each meeting, in the form approved by the Board, shall be duly filed in the Company records.

The directors will meet in executive session at each meeting of the Board without the Company's management. The chairman who presides at these meetings will be the Chairman of the Nominating/Governance Committee or his designee. The Company will also disclose in the proxy statement a method for interested parties to contact the presiding director, or the independent directors as a group, directly.

The Board should ensure that all required reporting is provided by management to shareholders, potential shareholders and the investment community.

The Board believes that management speaks for the Company. Individual Board members may, from time to time, meet or otherwise communicate with various constituencies that are involved with the Company. It is expected, however, that Board members would do this with the knowledge of the management and, absent unusual circumstances or as contemplated by the committee charters, only at the request of management. Generally, directors should refer investors, market professionals and the media to the President or another individual designated by the Company.

## **BOARD COMMITTEES**

The Board will have at all times an Audit Committee, a Nominating/Corporate Governance Committee and a Compensation Committee. The members of the Audit Committee, the Nominating/Corporate Governance Committee and the Compensation Committee will be independent directors under the criteria established by the NASDAQ and any other applicable rules or regulations. Committee members will be appointed annually by the Board upon recommendation of the Nominating/Corporate Governance Committee with consideration of the desires of individual directors.

Each committee will have its own charter. The charters will set forth the purposes, goals and responsibilities of the committees as well as qualifications for committee membership, procedures for

committee member appointment and removal, committee structure and operations and committee reporting to the Board. The charters will also provide that each committee will annually evaluate its performance.

The chairman of each committee, in consultation with the committee members, will determine the frequency and length of the committee meetings consistent with any requirements set forth in the committee's charter. During the year, the chairman of each committee, in consultation with the appropriate members of the committee and management, will develop the agenda for each meeting. All meetings of each committee shall be held pursuant to the by-laws of the Company with regard to notice and waiver thereof, and written minutes of each meeting, in the form approved by the relevant committee, shall be duly filed in the Company records.

A report regarding each committee meeting will be provided to the full Board, as appropriate. Directors will be given copies of the minutes of any committee meeting.

In addition, the chairman of each committee will report to the full Board regarding matters that should be brought to the attention of the Board.

The Board and each committee have the power to hire independent legal, financial or other advisors, as they may deem necessary, without consulting or obtaining the approval of any officer of the Company in advance.

The Board may, from time to time, establish, eliminate or maintain additional committees as necessary or appropriate.

#### **DIRECTOR ACCESS TO OFFICERS, ASSOCIATES AND OUTSIDE ADVISORS**

Directors have full and free access to officers and other employees of the Company and the Company's outside advisors. Any meetings or contacts that a director wishes to initiate may be arranged through the President or the Secretary or directly by the director. The directors will use their judgment to ensure that any such contact is not disruptive to the business operations of the Company. It is the expectation of the Board that directors will keep the President informed of communications between a director and an officer or other employee of the Company, as appropriate.

At least once per year management will report to the Board regarding management development and succession, including progress and strategic planning.

Other executives may attend Board meetings or committee meetings at the invitation of the Chairman of the Board or Committee or the President to provide information and insight to the Board or Committee.

## **DIRECTOR COMPENSATION**

The Compensation Committee shall have the responsibility for recommending to the Board appropriate compensation for non-employee directors. The Compensation Committee will annually review director compensation. The Compensation Committee will consider that directors' independence may be jeopardized if director compensation and perquisites exceed customary levels, if the Company makes substantial charitable contributions to organizations with which a director is affiliated, or if the Company enters into consulting contracts with (or provides other indirect forms of compensation to) a director or an organization with which the director is affiliated. Compensation of directors will be disclosed annually in the Company's proxy.

## **DIRECTOR CONTINUING EDUCATION**

Each director is expected to maintain the necessary level of expertise to perform his or her responsibilities as a director. The Company may, from time to time, offer continuing education programs to assist the directors in maintaining such level of expertise.

## **PRESIDENT EVALUATION AND MANAGEMENT SUCCESSION**

The Nominating/Corporate Governance Committee will conduct an annual review of the President's performance, as set forth in its charter. The Board will review the Nominating/Corporate Governance Committee's report in order to ensure that the President is providing the best leadership for the Company in the long- and short-term.

The Nominating/Corporate Governance Committee should make an annual report to the Board on succession planning. The entire Board will work with the Nominating/Corporate Governance Committee to nominate and evaluate potential successors to the President. The President should, at all times, make available his or her recommendations and evaluations of potential successors, along with a review of any development plans recommended for such individuals.

## **ANNUAL PERFORMANCE EVALUATION**

The Board will conduct an annual self-evaluation to determine whether it and its committees are functioning effectively. The Nominating/Corporate Governance Committee will receive comments from all directors and report annually to the Board with an assessment of the Board's performance. This will be discussed with the full Board following the end of each fiscal year. The assessment will focus on the Board's contribution to the Company and specifically focus on areas in which the Board or management believes that the Board could improve.

Adopted January 19, 2009