

AUDIT COMMITTEE CHARTER

ORGANIZATION

This charter ("Charter") governs the operations of the Audit Committee ("Committee"), which shall review and reassess the Charter at least annually and obtain the approval of the board of directors ("Board") of the Charter and any changes thereto. The Committee shall be members of, and appointed by, the Board and shall comprise at least three directors, each of whom are independent of management and the Corporation. Members of the Committee shall be considered independent as long as they accept no consulting, advisory or other compensatory fees from the Corporation (other than directors' fees from the Corporation and its portfolio companies), are not affiliated persons of the Corporation or its subsidiaries, and meet the independence requirements of the Sarbanes-Oxley Act of 2002 and The Nasdaq Stock Market listing standards. All committee members shall be financially literate, and at least one member shall be an "audit committee financial expert," as defined by SEC regulations.

PURPOSE

The Committee shall provide assistance to the Board in fulfilling its oversight responsibility to the shareholders relating to: the quality and integrity of the Corporation's financial statements; the financial reporting process; the systems of internal accounting and financial controls and performance of the Company's internal audit service provider; the performance of the Corporation's independent auditors; the independent auditors' qualifications and independence; the Corporation's related party policy and procedures; and the Corporation's compliance with ethics policies and legal and regulatory requirements relating to financial statements and reporting.

In discharging its oversight role, the Committee is empowered to investigate any matter brought to its attention with full access to all books, records, facilities and personnel of the Corporation and the authority to engage independent counsel and other advisers as it determines necessary to carry out its duties.

DUTIES AND RESPONSIBILITIES

The primary responsibility of the Committee is to oversee the Corporation's financial reporting process on behalf of the Board and report the results of its activities to the Board. While the Committee has the responsibilities and powers set forth in this Charter, it is not the duty of the Committee to plan or conduct audits or to determine that the Corporation's financial statements are complete and accurate and are in accordance with generally accepted accounting principles. Management is responsible for the preparation, presentation and integrity of the Corporation's financial statements and for the appropriateness of the accounting principles and reporting policies that are used by the Corporation. The independent auditors are responsible for auditing the Corporation's financial statements and for reviewing the Corporation's unaudited interim financial statements.

The Committee, in carrying out its responsibilities, believes its policies and procedures should remain flexible, in order to best react to changing conditions and circumstances. The Committee should take appropriate actions to set the overall corporate "tone" for quality financial reporting, sound business risk practices and ethical behavior. The following shall be the principal duties and responsibilities of the Committee. These are set forth as a guide with the understanding that the Board may supplement the duties and responsibilities as appropriate.

The duties and responsibilities of the Committee include, but are not limited to, the following:

Retention and Oversight of Independent Auditor and Approval of Services

1. Subject to shareholder ratification, the Committee shall be directly responsible for appointment of the independent auditors. If circumstances warrant, the Committee may terminate such appointment. The Committee is responsible for determining the independent auditors' compensation and for oversight of their work, including resolution of disagreements between management and the auditors regarding financial reporting. The Committee shall pre-approve all audit and non-audit services provided by the independent auditors and shall not engage the independent auditors to perform the specific non-audit services proscribed by law or regulation. The Committee may delegate pre-approval authority to a member of the Committee.

The decisions of any committee member to whom pre-approval is delegated must be presented to the Committee at its next scheduled meeting.

2. At least annually, the Committee shall obtain and review a report by the independent auditors describing:

The firm's internal quality control procedures.

Any material issues raised by the most recent internal quality control review, or peer review, of the firm, or by any inquiry or investigation by governmental or professional authorities, within the preceding five years, respecting one or more independent audits carried out by the firm, and any steps taken to deal with any such issues.

All relationships between the independent auditors and the Corporation.

3. The Committee shall pre-approve the Corporation's hiring of any employees or former employees of the independent auditors in full compliance with applicable SEC regulations and The Nasdaq Stock Market listing standards.
4. The Committee shall discuss with the independent auditors the overall scope and plans for their audit, including the adequacy of staffing. Also, the Committee shall discuss with management and the independent auditors the adequacy and effectiveness of the accounting and financial controls, including the Corporation's policies and procedures to assess, monitor and manage business risk, and ethical compliance programs.
5. Periodically, the Committee shall meet separately with management and the independent auditors to discuss issues and concerns warranting Committee attention. The Committee shall provide sufficient opportunity for the independent auditors to meet privately with the members of the Committee, and shall review with the independent auditors any audit problems or difficulties and management's response.
6. The Committee shall receive regular reports from the independent auditors on the critical policies and practices of the Corporation, and all alternative treatments of financial information within generally accepted accounting principles that have been discussed with management.
7. The Committee shall monitor the rotation of the lead audit partner (or other employees of the independent auditor if required by the SEC rules and regulations) having primary responsibility for the audit.

Financial Statements and Disclosure Matters

1. The Committee shall review management's assertion on its assessment of the effectiveness of internal controls as of the end of the most recent fiscal year and the independent auditors' report on management's assertion.
2. The Committee, or its designated member, shall review the interim financial statements and disclosures under Management's Discussion and Analysis of Financial Condition and Results of Operations with management and the independent auditors prior to the filing of the Corporation's Quarterly Report on Form 10-Q. Also, the Committee, or its designated member, shall discuss the results of the quarterly review and any other matters required to be communicated to the Committee by the independent auditors under generally accepted auditing standards. The Committee, or its designated member, shall review and discuss earnings releases.
3. The Committee shall review with management and the independent auditors the financial statements and disclosures under Management's Discussion and Analysis of Financial Condition and Results of Operations to be included in the Corporation's Annual Report on Form 10-K (or the annual report to shareholders if distributed prior to the filing of Form 10-K), including their judgment about the quality, not just the acceptability, of accounting principles, the reasonableness of the valuation of restricted securities and other significant judgments and the clarity of the disclosures in the financial statements.
4. Also, the Committee shall discuss the results of the annual audit and any other matters required to be communicated to the Committee by the independent auditors under generally accepted auditing standards.

Compliance Oversight

1. The Committee shall establish procedures for the receipt, retention and treatment of complaints received by the Corporation regarding accounting, internal accounting controls or auditing matters; and the confidential, anonymous submission by employees of the Corporation of concerns regarding questionable accounting or auditing matters and unethical, irregular or illegal business conduct. See the attached Whistleblower Policy.
2. On an ongoing basis, the Committee shall review and approve all related party transactions exceeding \$50,000 in aggregate value and shall review all related party transactions required to be disclosed in the Company's financial statements and the proxy statement.
3. The Committee shall receive corporate attorneys' reports of evidence of any material violation of securities laws or breaches of fiduciary duty.
4. The Committee shall submit its report to be included in the Corporation's annual proxy statement, as required by SEC regulations.
5. The Committee shall report regularly to the Board and maintain minutes of its meetings.
6. The Committee shall review and concur in the appointment, replacement or dismissal of the firm having primary responsibility for the Company's internal audit function. The Committee shall discuss with the internal auditors their annual plan, testing scope, and ultimately, the results of their procedures and findings.
7. The Committee shall perform an evaluation of its performance at least annually to determine whether it is functioning effectively.

WHISTLE-BLOWER POLICY

Capital Southwest Corporation has set high standards for all of its employees to conduct business ethically and legally. Our employees' adherence to these standards is a key component in building a reputation for excellence, trust and integrity.

All employees must maintain high standards of business conduct. This includes zero tolerance for:

- Harassment or discrimination;
- Use or sale of illegal drugs;
- Threats to personal safety;
- Theft;
- Falsifying company records;
- Disclosures of proprietary information;
- Fraud; or
- Accounting or auditing misrepresentations or improprieties.

Employees are required to report any knowledge of illegal activity, violations of the Company Code of Ethics, instances of activities that cause loss or harm to themselves, co-workers, companies doing business or associated with Capital Southwest, shareholders, or the public.

Concerns regarding accounting or auditing misrepresentations or improprieties, can be reported (anonymously or otherwise), via a dedicated, confidential, "Reporting Hotline" of **469.998.1444**. No employees of Capital Southwest have access to, or the ability to retrieve, any information from this line and all messages are routed directly to the independent Chairman of the Audit Committee of Capital Southwest. The Chairman will then investigate and discuss any reported matters with the Audit Committee and appropriate actions shall be determined.

There will be no retaliatory actions taken by the Company against individuals reporting potential violations or concerns, even if that individual mistakenly reports what they reasonably believe to be an act of wrongdoing, however, knowingly fabricating, distorting, exaggerating, or minimizing a report of wrongdoing in order to injure someone else, to protect another individual, or to hide any wrongdoing by the individual, can subject the caller to possible disciplinary action.