

CAPITAL SOUTHWEST CORP
Form DEF 14A
June 26, 2015

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of the
Securities Exchange Act of 1934 (Amendment No.)

Filed by the Registrant
Filed by a Party other than the Registrant
Check the appropriate box:
Preliminary Proxy Statement
Confidential, For Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
Definitive Proxy Statement
Definitive Additional Materials
Soliciting Material Pursuant to Rule 14a-11(c) or Rule 14a-12

CAPITAL SOUTHWEST CORPORATION

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if Other Than the Registrant)

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1) Amount previously paid:

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3)Filing Party:

4)Date Filed:

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Dallas, TX 75240
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NOTICE OF ANNUAL MEETING OF SHAREHOLDERS
TO BE HELD AUGUST 4, 2015

To the Shareholders of Capital Southwest Corporation:

The 2015 Annual Meeting of Shareholders of Capital Southwest Corporation will be held on August 4, 2015, at 9:00 a.m., Dallas time (the "Annual Meeting"). We will hold our Annual Meeting in the Madison Conference Room, Hilton Dallas Lincoln Centre, 5410 LBJ Freeway, Dallas, Texas 75240. The purpose of this meeting is for our shareholders to consider and vote to:

- (1) elect six (6) directors to serve until the 2016 Annual Meeting of Shareholders or until their respective successors are duly elected and qualified;
- (2) approve the Second Amendment to the Capital Southwest Corporation 2009 Stock Incentive Plan;
- (3) approve the Second Amendment to the Capital Southwest Corporation 2010 Restricted Stock Award Plan;
- (4) approve, by non-binding vote, executive compensation;
- (5) ratify the appointment by our Audit Committee of Grant Thornton LLP as our independent registered public accounting firm for the fiscal year ending March 31, 2016; and
- (6) transact such other business as may properly come before the Annual Meeting.

You have the right to receive notice and to vote at the Annual Meeting if you were a shareholder of record at the close of business on June 12, 2015.

IMPORTANT NOTICE REGARDING THE AVAILABILITY OF PROXY MATERIALS FOR THE ANNUAL MEETING TO BE HELD ON AUGUST 4, 2015. Our proxy statement and our Annual Report on Form 10-K for the fiscal year ended March 31, 2015 ("Annual Report") are available on our website (<http://ir.capitalsouthwest.com/sec.cfm>). The EDGAR version of our Annual Report is also available at the SEC's website (www.sec.gov).

Your vote is very important. Accordingly, please vote, whether or not you plan to attend the Annual Meeting. You may vote by (1) mail by marking, signing, dating and returning the accompanying proxy card in the postage-paid envelope we have provided; (2) Internet at www.voteproxy.com; (3) phone by calling 1-800-776-9437; or (4) attending the Annual Meeting and voting in person. If you plan to attend the Annual Meeting to vote in person and your shares are registered in your own name with our transfer agent, American Stock Transfer & Trust Company, you may do so. If your shares are held in the name of a broker or bank, you must secure a proxy from the broker or bank assigning voting rights to you for your shares. This proxy statement, proxy card and any accompanying proxy materials are being mailed to stockholders on or about July 2, 2015.

You have several ways to revoke or change your vote: (1) execute and submit a later dated proxy card; (2) authorize a subsequent proxy card through the Internet or by telephone; (3) send a written revocation of proxy to our Secretary at

our principal executive office; or (4) attend the Annual Meeting and vote in person.

Thank you for your support of Capital Southwest Corporation.

By Order of the Board of Directors

/s/ Kelly Tacke
Chief Financial Officer,
Chief Compliance Officer, Secretary
and Treasurer

June 26, 2015
Dallas, Texas

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PROXY STATEMENT

ANNUAL MEETING OF SHAREHOLDERS
TO BE HELD ON AUGUST 4, 2015

We are furnishing you this proxy statement in connection with the solicitation of proxies by the Board of Directors (the "Board") of Capital Southwest Corporation, a Texas corporation (the "Company," "we," "us," or "our"). These proxies will be used at the Annual Meeting of Shareholders of the Company (the "Annual Meeting") to be held on August 4, 2015 or any adjournment thereof. We will hold the Annual Meeting at 9:00 a.m., Dallas time in the Madison Conference Room, Hilton Dallas Lincoln Centre, 5410 LBJ Freeway, Dallas, Texas 75240. This proxy statement, the proxy card and any accompanying proxy materials are being mailed to stockholders on or about July 2, 2015.

QUESTIONS AND ANSWERS

Q: What am I voting on?

A: Shareholders entitled to vote will vote at the Annual Meeting on: (1) The election of six directors to hold office for a one-year term; (2) approval of the Second Amendment to the Capital Southwest Corporation 2009 Stock Incentive Plan (the "2009 Plan Amendment"); (3) approval of the Second Amendment to the Capital Southwest Corporation 2010 Restricted Stock Award Plan (the "2010 Plan Amendment"); (4) approval of an advisory vote on executive compensation; and (5) ratification of Grant Thornton LLP as our independent auditors for the fiscal year ending March 31, 2016.

Q: Who is entitled to vote?

A: Shareholders as of the close of business on June 12, 2015 ("shareholders of record") are entitled to vote at the Annual Meeting. Each share of common stock is entitled to one vote.

Q: How do I vote?

A: You may vote by any of the methods describe below. If you do not mark any selection on the proxy card, the proxy holders named on your proxy card will vote your shares in favor of (1) the election of all of the director nominees, (2) the proposal to approve the 2009 Plan Amendment; (3) the proposal to approve the 2010 Plan Amendment; (4) the proposal to approve, on an advisory basis, of the compensation of our named executive officers; and (5) the ratification of Grant Thornton LLP as our independent auditors for the fiscal year ending March 31, 2016. You may change your vote or revoke your proxy at any time before the Annual Meeting by submitting written notice to our Secretary, submitting another proxy that is properly signed and later dated or voting in person at the Annual Meeting. In each case, the later submitted votes will be recorded and the earlier votes revoked.

Under the NASDAQ Global Select Market ("NASDAQ") rules, the proposal to ratify the appointment of independent registered public accountants is considered a "discretionary" item. This means that brokerage firms may vote in their discretion on this matter on behalf of clients who have not furnished voting instructions at least 10 days before the date of the meeting.

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You may vote using any of the following methods:

By Internet: Go to www.voteproxy.com and use the Internet to transmit your voting instructions and for electronic delivery of information until 11:59 p.m. Eastern Time on August 3, 2015. Have your proxy card in hand when you access the Web site and then follow the instructions.

By Phone: Call 1-800-776-9437 on any touch-tone telephone to transmit your voting instructions until 11:59 p.m. Eastern Time on August 3, 2015. Have your proxy card in hand when you call and then follow the instructions.

By Mail: Mark, sign and date your proxy card and return it in the postage-paid envelope we have provided. The named proxies will vote your shares according to your directions. If you submit a signed proxy card without indicating your vote, the person voting the proxy will vote in favor of proposals 1, 2, 3, 4 and 5.

By Attending the Annual Meeting in Person: You may vote shares held directly in your name in person at the meeting. If you want to vote shares that you hold in "street name" at the meeting, you must request a legal proxy from your broker, bank or other nominee that holds your shares.

If your shares are held by a bank, brokerage firm or other nominee, you are considered the "beneficial owner" of shares held in "street name." If your shares are held in street name, these proxy materials are being forwarded to you by your bank, brokerage firm or other nominee (the "account holder"), along with a voting instruction card. As the beneficial owner, you have the right to direct your account holder how to vote your shares, and the account holder is required to vote your shares in accordance with your instructions. In addition, as the beneficial holder of shares, you are entitled to attend the Annual Meeting. If you are a beneficial owner, however, you may not vote your shares in person at the meeting unless you obtain a legal proxy, executed in your favor, from the account holder of your shares.

Q: Is my vote confidential?

A: Yes. Proxy cards, ballots and voting tabulations that identify individual shareholders are confidential. Only the inspectors of election and certain employees associated with processing proxy cards and counting the vote have access to your card. Additionally, all comments directed to management (whether written on the proxy card or elsewhere) will remain confidential, unless you ask that your name be disclosed.

Q: Who will count the vote and how are votes counted?

A: All votes will be tabulated by the inspector of election appointed for the Annual Meeting, who will separately tabulate affirmative and negative votes and abstentions.

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Assuming a quorum is present at the annual meeting, the following votes are required to approve each proposal:

Proposal	Vote Required
Proposal One: Election of Directors	In an uncontested election, our by-laws require that each director nominee receive the affirmative vote of the holders of a plurality of the votes cast, whether in person or represented by proxy, to be elected. Abstentions have the same effect as votes cast against the proposal, while broker non-votes are not counted for purposes of the election of directors.
Proposal Two: Approval of the Second Amendment to the Capital Southwest Corporation 2009 Stock Incentive Plan	The affirmative vote of the holders of a majority of the shares of common stock represented in person or by proxy. Abstentions have the same effect as votes cast against the proposal, while broker non-votes do not affect the outcome.
Proposal Three: Approval of the Second Amendment to the Capital Southwest Corporation 2010 Restricted Stock Award Plan	The affirmative vote of the holders of a majority of the shares of common stock represented in person or by proxy. Abstentions have the same effect as votes cast against the proposal, while broker non-votes do not affect the outcome.
Proposal Four: Approval by Non-Binding Vote of Executive Compensation	The affirmative vote of the holders of a majority of the shares of common stock represented in person or by proxy. Abstentions have the same effect as votes cast against the proposal, while broker non-votes do not affect the outcome.
Proposal Five: Ratification of Independent Registered Public Accounting Firm	The affirmative vote of the holders of a majority of the shares of common stock represented in person or by proxy. Abstentions have the same effect as votes cast against the proposal.

Each proxy delivered to us, unless the shareholder otherwise specifies therein, will be voted "FOR" proposals 1, 2, 3, 4 and 5. In each case where the shareholder has appropriately specified how the proxy is to be voted, it will be voted in accordance with the specification.

"Broker non-votes" are proxies from brokers or other nominees indicating that such person has not received instructions from the beneficial owner or other person entitled to vote the shares that are the subject of the proxy on a particular matter with respect to which the broker or nominee does not have discretionary voting powers.

Q: What constitutes a quorum?

A: As of the record date for the Annual Meeting, 15,583,332 shares of common stock were issued and outstanding. A majority of the outstanding shares, present or represented by proxy, constitutes a quorum for the transaction of business at the Annual Meeting. Abstentions and broker non-votes will be counted in determining the presence of a quorum.

Q: Who can attend the Annual Meeting?

A: All shareholders of record as of the close of business on June 12, 2015 can attend.

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Q: Who pays for this proxy solicitation?

A: We will bear the entire cost of solicitation of proxies, including preparation, assembly and mailing of this proxy statement, the proxy card and any additional information we furnish to shareholders. Copies of solicitation materials will be furnished to banks, brokerage firms, fiduciaries and custodians holding shares of our common stock in their names that are beneficially owned by others to enable these account holders to forward the solicitation material to such beneficial owners. We may reimburse persons representing beneficial owners for their costs of forwarding the solicitation material to such beneficial owners. Original solicitation of proxies by mail may be supplemented by telephone or personal solicitation by our directors, officers or employees. We will not pay any additional compensation to directors, officers, or employees for such services.

Q: What if I receive more than one proxy card?

A: You may receive multiple proxy cards if you hold shares of common stock in different ways (such as, trusts and custodial accounts) or in multiple accounts. You should vote and sign each proxy card you receive.

Q: May I revoke my proxy?

A: Yes. You can revoke or change your vote on a proposal at any time before the Annual Meeting for any reason by revoking your proxy. For shareholders of record, proxies may be revoked by delivering a written notice of revocation, bearing a later date than your proxy, to our Secretary at or before the Annual Meeting. Any written notice of a revocation of a proxy should be sent to Capital Southwest Corporation, 5400 LBJ Freeway, Suite 1300, Dallas, Texas 75240, Attention: Secretary. To be effective, the revocation must be received by our Secretary before the taking of the vote at the Annual Meeting.

Proxies may also be revoked by:

- 1) voting again by Internet or telephone before 11:59 p.m., Eastern Time, on August 3, 2015;
- 2) submitting a new written proxy bearing a later date than a proxy you previously submitted prior to or at the Annual Meeting; or
- 3) attending the Annual Meeting and voting in person.

In each case, the later submitted vote will be recorded and the earlier vote revoked.

If your shares are held in street name, you must follow the specific voting directions provided to you by your bank, broker, nominee or other holder of record to change or revoke any instructions you have already provided. Alternatively, obtain a proxy from your bank, broker or other holder of record and provide it with your vote at the Annual Meeting.

Other Business

In their discretion, the proxy holders are authorized to vote on any other matters that may properly come before the Annual Meeting and at any postponement or adjournment thereof. The Board knows of no other items of business that will be presented for consideration at the Annual Meeting other than the proposals described in this proxy statement. In addition, no shareholder proposals or nominations were received on a timely basis, so no such matters may be brought to a vote at the Annual Meeting.

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PROPOSAL ONE: ELECTION OF DIRECTORS

Prior to this Annual Meeting, there are currently seven directors on the Board. Six of our directors are standing for reelection. Joseph B. Armes, David R. Brooks, Jack D. Furst, T. Duane Morgan, William R. Thomas III and John H. Wilson are currently directors and each has been nominated as director. Samuel B. Ligon will retire from the Board as of the date of the 2015 Annual Meeting and, following his retirement, the number of seats on our Board will be reduced to six. Directors elected at the Annual Meeting will hold office for a one-year term.

All nominees have consented to serve as directors. The Board has no reason to believe that any of the nominees will be unable to act as director. However, if a director is unable to stand for re-election, the Board may either reduce the size of the Board or the Nominating and Corporate Governance Committee may designate a substitute. If a substitute nominee is named, the proxies will vote for the election of the substitute. Directors are elected by a majority of the votes cast at the Annual Meeting. Each share of our common stock is entitled to one vote for each of the six director nominees. Cumulative voting is not permitted.

Board Composition

The Nominating and Corporate Governance Committee seeks directors with established strong professional reputations and experience in areas relevant to the strategy and operations of our business. Each of the nominees for election as a director at the Annual Meeting holds or has held senior executive positions in large, complex organizations and has experience that meets this objective, as described below. In these positions, they have also gained experience in core management skills, such as strategic and financial planning, public company financial reporting, compliance, risk management and leadership development. Each of our directors also has experience serving on or advising boards of directors and board committees of other organizations and has an understanding of corporate governance practices and trends.

The Nominating and Corporate Governance Committee also believes that each of the nominees has other key attributes that are important to an effective board: integrity, candor, analytical skills, the willingness to engage management and each other in a constructive and collaborate fashion, and the ability and commitment to devote significant time and energy to serve on the Board and its committees. The Nominating and Corporate Governance Committee takes into account diversity considerations in determining the director nominees and planning for director succession and believes that, as a group, the nominees bring a diverse range of perspectives to the Board's deliberations.

In addition to the above, the Nominating and Corporate Governance Committee also considered the specific experience described in the biographical details that follow in determining to nominate the individuals set forth below for election as directors. The business address of each nominee listed below is 5400 LBJ Freeway, Suite 1300, Dallas, Texas 75240.

Nominees for Director

Joseph B. Armes, 53, has been the President and Chief Executive Officer of the Company since June 2013 and Chairman of the Board since January 2014. Mr. Armes serves as a director and audit committee chair for RSP Permian, Inc. (NYSE: RSPP), an independent oil and natural gas exploration and production company. He has been the President and Chief Executive Officer of JBA Investment Partners, a family investment vehicle since 2010. Mr. Armes was the Chief Operating Officer of Hicks Holdings LLC, a private investment firm, from 2005 to 2010. Previously, he served as Executive Vice President, Chief Financial Officer and General Counsel of Hicks Sports Group, LLC, owner and manager of various professional sports teams; Executive Vice President and General Counsel of Suiza Foods Corporation (now Dean Foods Company), a publicly held food and beverage company; and Vice President and General Counsel of The Morningstar Group, Inc., a publicly held food and beverage company. Rangers

Equity Holdings GP LLC, a subsidiary of Hicks Sports Group LLC, had an involuntary bankruptcy filed against it in the U.S. Bankruptcy Court for the Northern District of Texas on May 28, 2010. Mr. Armes holds a Bachelor of Business Administration in Finance from Baylor University, a Master of Business Administration from Baylor University and Juris Doctor from Southern Methodist University. Mr. Armes, in his capacity as President and Chief Executive Office, is an “interested person” under the Investment Company Act of 1940. The Company will benefit greatly from Mr. Armes’s extensive background in strategic investing, his significant experience as a director of public and private companies as well as his experience as an executive in public and private companies.

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David R. Brooks, 56, joined our Board in January 2014. Mr. Brooks is the Chairman of the Board, Chief Executive Officer, and a director since the formation in 2002 of Independent Bank Group, Inc. (NASDAQ:IBTX), a publicly-traded bank holding company with approximately \$3.0 billion in assets. Mr. Brooks also serves on the board of managers of Noel-Levitz, LLC, a large national higher education consulting company, and the board of trustees of Houston Baptist University. Mr. Brooks has 34 years of experience in the financial services industry and previously served as the Chief Financial Officer at Baylor University. The Company will benefit from Mr. Brooks' extensive experience in overseeing the operations and growth of a bank holding company, his executive expertise in public and private companies, his significant experience as a director of public and private companies, as well as his expertise in financial matters. Mr. Brooks holds Bachelor and Master degrees in Business Administration from Baylor University.

Jack D. Furst, 56, joined our Board in July 2014. Mr. Furst is the founder of his own private investment firm, Oak Stream Investors, which he started in 2008. Mr. Furst served as a director of Viasystems Group, Inc., a public company on NASDAQ and a leading provider of complex multi-layer printed circuit boards and electro-mechanical solutions from 1996 through 2003 and from 2005 through their merger with TTM Technologies, Inc. in June 2015. He has been affiliated with HM Capital Partners LLC ("HM Capital"), a private equity firm, since 1989, the year in which it was formed (as Hicks, Muse, Tate & Furst, Inc.). Until 2008, he was a Partner in HM Capital and was involved in all aspects of the firm's business, including originating, structuring and monitoring HM Capital's investments. Mr. Furst has over 25 years of experience in leveraged acquisitions and private investments. Prior to joining HM Capital, Mr. Furst served as a Vice President and subsequently a Partner of Hicks & Haas from 1987 to 1989. From 1984 to 1986, Mr. Furst was a merger and acquisitions/corporate finance specialist for The First Boston Corporation in New York. Before joining First Boston, Mr. Furst was a Financial Consultant at PricewaterhouseCoopers. The Company will benefit from Mr. Furst's senior executive and extensive private equity experience and his significant experience as a director of public and private companies. Mr. Furst received his Bachelor of Science degree with honors from the College of Business Administration at Arizona State University and his Master of Business Administration degree with honors from the Graduate School of Business at The University of Texas at Austin.

T. Duane Morgan, 65, joined our Board in May 2012. Mr. Morgan has been a Senior Vice President of Gardner Denver, Inc., and advisor to Kohlberg Kravis Roberts & Co. L.P. ("KKR") during the transition after the purchase of Gardner Denver by KKR in July 2013. Before the purchase, Mr. Morgan was Vice President of Gardner Denver with broad experience in the global energy and industrial manufacturing sectors. Mr. Morgan also serves on the board of SACHEM, Inc., a privately held specialty chemical company. He also co-founded three independent corporations during his business career. The Company will benefit greatly from Mr. Morgan's broad experience in the energy sector, his executive leadership experience and his management skills. Mr. Morgan holds a Bachelor of Science in Mathematics from McNeese State University and a Master of Business Administration from Louisiana State University. Mr. Morgan is a National Association of Corporate Directors ("NACD") Governance Fellow. He has demonstrated his commitment to boardroom excellence by completing NACD's comprehensive program of study for corporate directors. He supplements his skill sets through ongoing engagement with the director community, and access to leading practices.

William R. Thomas III, 44, joined our Board in January 2014. Mr. Thomas is a private investor, and since 2008 he has served as President of the Thomas Heritage Foundation, a non-profit grant-making corporation. In addition, Mr. Thomas serves as a director of Encore Wire Corporation (NASDAQ:WIRE). Mr. Thomas was also a Vice President of the Company from 2006 to 2012. Mr. Thomas, along with Thomas Heritage Partners, Ltd., is one of the largest shareholders of our Company representing 3.8% of voting power. The Company will benefit from Mr. Thomas's investment experience as well as his management and entrepreneurial skills and his significant experience as a director of public and private companies. Mr. Thomas graduated from the United States Air Force Academy and has a Master of Business Administration from Harvard Business School.

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John H. Wilson, 72, has been a member of our Board since 1988. Mr. Wilson has been President of U.S. Equity Corporation since 1983 and has over 45 years of experience as an executive or investor in numerous companies in the banking, insurance, manufacturing, communications, health and transportation industries. Mr. Wilson is also a director of Encore Wire Corporation (NASDAQ: WIRE). The Company will benefit from Mr. Wilson's diverse industry experience, his significant experience as a director of public and private companies, as well as his experience as both an executive and an investor in numerous companies. Mr. Wilson has a Bachelor of Business Administration degree from Baylor University.

Retiring Director

Samuel B. Ligon, 76, has been a member of our Board since 2003. Mr. Ligon has served as CEO of private companies for over 30 years. Mr. Ligon has supervised principal financial officers, worked with various audit firms for public and private companies, analyzed acquisitions and evaluated financial statements and internal control systems. Mr. Ligon served as audit committee chairman of two public companies during the implementation of Sarbanes-Oxley. Mr. Ligon currently serves on the board of directors of Smith's Consumer Products, Inc. The Company benefited greatly from Mr. Ligon's extensive business, finance and audit committee oversight experience, as well as his executive leadership and management experience as a chief executive officer. Mr. Ligon holds a Bachelor of Science degree from Auburn University and a Master of Business Administration from Harvard Business School.

Determinations of Independence

Our Nominating/Corporate Governance Committee has determined that Mr. Armes is an "interested person" as defined in the Investment Company Act of 1940 and that Messrs. Armes and Thomas are not "independent" as defined by the NASDAQ listing standards. Mr. Armes is not considered independent as he is currently an executive officer of the Company. Under NASDAQ rules, Mr. Thomas is not eligible to be considered independent because he was employed by the Company within the past three years. Mr. Thomas left his employment with the Company on September 12, 2012. It is anticipated that the Board will determine that Mr. Thomas is independent after September 12, 2015. The Committee has determined that Messrs. Brooks, Furst, Ligon, Morgan and Wilson are "independent" as defined by the NASDAQ and they are not "interested persons" as defined by the Investment Company Act of 1940.

Non-management directors may meet in executive session without the Chief Executive Officer at any time. There were five executive sessions held by the Board, seven executive sessions held by the Audit Committee and four executive sessions held by the Compensation Committee throughout the fiscal year ended March 31, 2015. The directors decide on a case by case basis which one of them will preside over each full Board executive session depending on the subject matter. The Chairman of each Committee presides over his respective committee's executive sessions.

Vote Required

Directors are elected by a majority of the votes cast at the Annual Meeting. Each share of our common stock is entitled to one vote for each of the six director nominees. Cumulative voting is not permitted.

Board Recommendation

The Board recommends that you vote "FOR" each of the nominees to the Board set forth in this Proposal One.

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Board Committees

Audit Committee

The Audit Committee assists the Board in fulfilling its oversight responsibility to shareholders relating to: (1) the integrity of our financial statements; (2) our systems of internal accounting and financial controls; (3) the independence, qualification and performance of our independent auditors; and (4) our compliance with ethics policies and legal and regulatory requirements relating to financial statements and reporting. The Audit Committee has the responsibility for selecting our independent registered public accounting firm and pre-approving audit and non-audit services. Among other things, the Audit Committee prepares a report for inclusion in the annual proxy statement; reviews the Audit Committee Charter (the “Audit Committee Charter”) and the Audit Committee’s performance; approves the scope of the annual audit; and reviews our corporate policies with respect to financial reporting and valuation of our investments. The Audit Committee would oversee investigations into complaints concerning financial matters. In discharging its oversight role, the Audit Committee has authority to investigate any matter brought to its attention with full access to all books, records, facilities and personnel of the Company and the authority to engage independent counsel and other advisers as it determines necessary to carry out its duties.

The Audit 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 Company. The Audit Committee is comprised of Messrs. Ligon (Chairman), Brooks, and Furst. Members of the Audit Committee shall be considered “independent” as long as they accept no consulting, advisory or other compensatory fees from the Company (other than directors’ fees from the Company and its portfolio companies), are not affiliated persons of the Company or its subsidiaries, and meet the independence requirements of the Sarbanes-Oxley Act of 2002 and the NASDAQ listing standards. Members of the Audit Committee are “independent” as defined above and are not “interested persons” as defined by the Investment Company Act of 1940. All committee members shall be financially literate, and at least one member shall be an “audit committee financial expert,” as defined by the SEC. The Board has determined that both Mr. Ligon and Mr. Brooks are audit committee financial experts as defined by SEC and NASDAQ rules. During the fiscal year ended March 31, 2015, the Audit Committee met seven times.

The duties and responsibilities of the Audit Committee are set forth in the Amended and Restated Audit Committee Charter, which the Board adopted on May 27, 2003. A copy of the Amended and Restated Audit Committee Charter is provided in Appendix C of this proxy statement and is available on our website at www.capitalsouthwest.com/investor-relations/governance.htm, or available by written request addressed to Capital Southwest Corporation, 5400 LBJ Freeway, Suite 1300, Dallas, Texas 75240, Attention: Secretary.

Nominating/Corporate Governance Committee

The primary objectives of the Nominating/Corporate Governance Committee (the “Governance Committee”) are to assist the Board by (1) identifying individuals qualified to become members of our Board consistent with the criteria approved by the Board in our Corporate Governance guidelines and recommending to the Board a slate of director nominees for each annual meeting of our shareholders; (2) ensuring that our Audit, Compensation and Nominating/Corporate Governance Committees shall have the benefit of qualified and experienced “independent” directors; and (3) ensuring the Company complies with its Code of Conduct and Ethics.

The Governance Committee has the responsibility to (1) establish criteria for selection of potential directors, taking into consideration an established set of desired attributes; (2) review the qualifications, performance and independence of Board members pursuant to criteria and procedures established by the Governance Committee and make recommendations whether each director should stand for re-election when his or her term expires; (3) review annually with the Board the composition of the Board as a whole and recommend, if necessary, measures to be taken so that the Board reflects the appropriate balance of knowledge, experience, skill, expertise and diversity desired for the Board as

a whole and contains at least the minimum number of “independent” directors required by NASDAQ and/or any other regulatory requirements; (4) identify individuals who satisfy the criteria for selection to the Board and make recommendations on new candidates for Board membership; (5) consider and evaluate shareholder nominees for election to the Board; (6) recommend to the Board the removal of a director where appropriate; (7) establish criteria for membership on the Board committees and, in consultation with the Chairman of the Board, make recommendations to the Board for appointments to and removal from committees; (8) make verbal reports to the Board after each meeting of the Governance Committee; (9) review and re-examine the Governance Committee Charter periodically and make recommendations to the Board with respect to any proposed changes; (10) review annually its own performance against the responsibilities outlined in its charter and as otherwise established by the Board; (11) obtain advice, reports or opinions from internal and external counsel, search firms and other expert advisors, as needed; (12) review, at least once annually, the Insider Trading Compliance Policies and Procedures and related policies adopted by the Board to assure that it is appropriate for us and complies with the requirements of NASDAQ and/or any other regulatory requirements, recommend to the Board any desirable changes to the Code of Conduct and Ethics, consider any other corporate governance issues that arise from time to time and develop appropriate recommendations for the Board related to any such issues; (13) oversee and establish appropriate procedures for the annual evaluation of the Board and management; and (14) develop and recommend to the Board a set of Corporate Governance Guidelines applicable to us, review them annually, and if appropriate, recommend changes to the Corporate Governance Guidelines to the Board.

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The Governance Committee seeks to identify director candidates who (1) have significant experience that is relevant and beneficial to the Board and the Company; (2) are willing and able to make sufficient time commitments to our affairs in order to perform their duties as directors, including regular attendance at Board and committee meetings; (3) have strong character and integrity; and (4) represent the best interests of our shareholders. The evaluation process for nominees is the same regardless of the source of the recommendation.

The members of the Governance Committee shall be elected annually to one-year terms by a majority vote of the Board at the first meeting of the Board following the annual meeting of the shareholders. Vacancies on the Governance Committee may be filled by majority vote of the Board at the next meeting of the Board following the occurrence of the vacancy. The Governance Committee is comprised of Messrs. Morgan (Chairman) and Wilson. Members of the Governance Committee are “independent” as defined by the NASDAQ Listing Standards and are not “interested persons” as defined by the Investment Company Act of 1940. During the fiscal year ended March 31, 2015, the Governance Committee met four times.

The duties and responsibilities of the Governance Committee are set forth in the Nominating/Corporate Governance Committee Charter, which the Board adopted on January 19, 2009. A copy of the Nominating/Corporate Governance Committee Charter is available on our website at www.capitalsouthwest.com/investor-relations/governance.htm or available by written request addressed to Capital Southwest Corporation, 5400 LBJ Freeway, Suite 1300, Dallas, Texas 75240, Attention: Secretary.

Compensation Committee

The Compensation Committee has the authority and responsibilities: (1) to annually review 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 Compensation Committee deems necessary or desirable; (2) to annually evaluate the performance of the chief executive officer, 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; (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 Compensation 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 Compensation 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 Compensation Committee regarding the terms of any compensation plans and to review and approve the amount and terms of all individual stock options that the Compensation 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 required by the SEC rules and regulations; and (9) to annually review and reassess the adequacy of the Compensation Committee Charter and recommend any changes to the full Board.

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The Compensation Committee shall comprise at least three directors, each of whom is independent of management and the Company. Members shall be appointed and replaced by the Board. The Compensation Committee is comprised of Messrs. Wilson (Chairman), Brooks, Ligon, Furst and Morgan. Each member of the Compensation Committee (a) meets the listing standards of The NASDAQ Stock Market relative to independence and all other applicable legal requirements, (b) is 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) is an “outside director” as that term is defined under Section 162(m) of the Internal Revenue Code of 1986, as amended (the “Code”), and the regulations promulgated thereunder. During the fiscal year ended March 31, 2015, the Compensation Committee met four times.

The duties and responsibilities of the Compensation Committee are set forth in the Compensation Committee Charter, which the Board adopted on March 29, 2007 and amended on April 23, 2014. A copy of the Compensation Committee Charter is available via the Internet on our website at www.capitalsouthwest.com/investor-relations/governance.htm or available by written request addressed to Capital Southwest Corporation, 5400 LBJ Freeway, Suite 1300, Dallas, Texas 75240, Attention: Secretary.

Consideration of Director Nominees of Shareholders

The Governance Committee will consider appropriate nominees for directors whose names are submitted in writing by a holder of our common stock. Nominations must be addressed to Capital Southwest Corporation, 5400 LBJ Freeway, Suite 1300, Dallas, Texas 75240, Attention: Chairman of the Nominating and Corporate Governance Committee, indicating the nominee’s qualification and other relevant biographical information and providing confirmation of the nominee’s consent to serve as a director. In order to be considered for the next annual election of directors, any such written request must comply with the requirements set forth in our by-laws.

The Governance Committee considers nominees for the Board from any reasonable source, including current Board members, shareholders or other persons. While the Governance Committee has the ability to retain a third party to assist in the nomination process, we have not paid a fee to any third party to identify or assist in identifying or evaluating potential nominees.

Messrs. Joseph B. Armes, David R. Brooks, Jack D. Furst, T. Duane Morgan, William R. Thomas III and John H. Wilson are currently directors and each has been nominated as a director. Mr. Samuel B. Ligon will retire from the Board as of the date of the 2015 Annual Meeting and, following his retirement, the number of seats on our Board will be reduced to six.

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GOVERNANCE OF THE COMPANY

During our fiscal year ended March 31, 2015, our Board held five meetings and acted by unanimous written consent four times. All directors who were serving at the time attended our 2014 annual meeting of shareholders. Each of the directors attended at least 75% of the Board meetings held during the fiscal year ended March 31, 2015 and at least 75% of the meetings held by committees on which he served during the fiscal year ended March 31, 2015.

Board Leadership and Structure

The Board recognizes that one of its responsibilities is to evaluate and determine its optimal leadership structure so as to provide independent oversight of management. The Board understands that there is no single, generally accepted approach to providing board leadership and that, given the dynamic and competitive environment in which we operate, the right board leadership structure may vary as circumstances warrant.

The Board appoints the members of the Audit Committee, Compensation Committee and the Nominating/Corporate Governance Committee. Each of these committees has a written charter approved by the Board. The current members of the committees are identified in the following table.

Director	Board Committees		
	Audit	Compensation	Nominating/ Corporate Governance
David R. Brooks	X	X	
Samuel B. Ligon ¹	X*	X	
Jack D. Furst	X	X	
T. Duane Morgan		X	X*
John H. Wilson		X*	X

¹ On June 22, 2015, Mr. Ligon notified the Company that he was retiring from the Board effective as of the date of the 2015 Annual Meeting. Following Mr. Ligon's retirement, the number of seats on our Board will be reduced to six. Mr. Ligon had been a member of the Board since 2003. At the time of his retirement, he will have served on the Audit Committee and the Compensation Committee of the Board. The Board expects Mr. Brooks to be named the Audit Committee chairman following Mr. Ligon's retirement. Following our 2016 Annual Meeting, the Board expects Mr. Furst, Mr. Morgan and Mr. Wilson to serve on the Audit Committee.

* Signifies Committee Chairman

Board Independence and Meeting

Board Governance Documents

The Board maintains charters for all committees. In addition, the Board has adopted a written set of corporate governance guidelines and a code of business conduct and ethics. To view our committee charters, corporate governance guidelines and code of business conduct and ethics, please visit www.capitalsouthwest.com. The Board has adopted and adheres to corporate governance practices that the Board and executive management believe promote the highest standards of integrity, are sound and represent best practices. The Board periodically reviews these governance practices, the rules and listing standards of NASDAQ and SEC regulations, as well as best practices suggested by recognized governance authorities.

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Independence

Currently, the Board has seven directors. Mr. Ligon will retire effective as of the date of the Annual Meeting. Following Mr. Ligon's retirement, the number of seats on our Board will be reduced to six. The Board has determined, after considering all of the relevant facts and circumstances, that five current directors (Messrs. Brooks, Furst, Ligon, Morgan, and Wilson) are independent, as "independence" is defined by NASDAQ. This means that none of the independent directors has any direct or indirect material relationship with us, either directly or as a partner, shareholder or officer of an organization that has a relationship with us. As a result, the Board has a majority of independent directors on the Board as required by the listing requirements.

Executive Sessions

Non-employee directors have regularly scheduled executive sessions in which they meet without the presence of management or management directors. These executive sessions occur after each regularly scheduled meeting of the Board.

Meetings

The Board met five times in the fiscal year ended March 31, 2015. All directors attended at least 75% of the total number of meetings of the Board and committees, collectively, in which they served during the fiscal year ended March 31, 2015. All directors are encouraged to attend our Annual Meeting. All persons then serving as members of the Board attended the 2014 Annual Meeting of Shareholders.

Director Qualifications

The Governance Committee reviews with the Board on an annual basis the appropriate skills and characteristics required of Board members in the context of the then-current composition of the Board. This assessment includes, in addition to qualities of intellect, integrity and judgment, business experience and knowledge, reputation and character, issues of diversity, relevant industry and trade association knowledge and participation, accounting and financial expertise, public company experience, willingness and ability to devote the time and effort required to effectively serve on the Board and relevant legal and regulatory qualifications. The committee makes this determination in the context of an assessment of the perceived needs of the Board at that point in time. The committee evaluates all nominees for director based on these criteria, including nominees that may be recommended by a shareholder.

The Board recognizes that its members benefit from service on the boards of other companies. We encourage that service but also believe it is critical that directors have the ability to dedicate sufficient time to their service on the Board.

Board and Committee Evaluations

Our Corporate Governance Guidelines require the Board and each committee of the Board to conduct an annual self-evaluation to determine whether the Board or respective committee is functioning effectively. The review focuses on the performance of the entire Board or the respective committee. In connection with each annual performance evaluation, the Board or committee surveys and receives comments from each director or committee member regarding an assessment of the Board's or the committee's performance. The Board also reviews the Governance Committee's recommendations concerning the performance and effectiveness of the Board and each of its committees. The Governance Committee will also review the individual performance of a director as circumstances warrant.

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Number of Directors; Director Vacancies

Our by-laws provide that the Board may increase or decrease the number of directors by resolution of the Board, provided that the tenure of office of any incumbent director will not be affected by any decrease in the number of directors. Our by-laws also provide that if any or all of the directors cease to be directors, any vacancy, other than vacancies that result from an increase in the number of directors or from the removal of a director, may in general be filled solely by a majority of the remaining directors even if the remaining directors do not constitute a quorum. Any vacancy that results from an increase in the number of directors constituting the entire Board may be filled by a majority of the entire Board. Any vacancy that results from the removal of a director may be filled either by a majority of the remaining directors or our shareholders. Any director elected to fill a vacancy will hold office until the next annual election of directors and until a successor is elected and qualified.

Guidelines on Governance and Codes of Ethics

The Board has adopted the Guidelines on Governance to address significant corporate governance issues. These guidelines provide a framework for our corporate governance initiatives and cover a variety of topics, including the role of our Board, board selection and composition, Board committees, Board operation and structure, Board orientation and evaluation, Board planning and oversight functions and stock ownership guidelines. The Governance Committee is responsible for overseeing and reviewing the guidelines and reporting and recommending to the Board any changes to the guidelines.

The Board has also adopted a Code of Ethics, which is designated to help officers, managers and employees resolve ethical issues in an increasingly complex business environment. It covers topics such as reporting unethical or illegal behavior, compliance with the law, share trading, conflicts of interest, fair dealing, protection of our assets, disclosure of proprietary information, internal controls, personal community activities, business records, communication with external audiences and obtaining assistance to help resolve ethical issues.

You may obtain a copy of the committee charters, the Guidelines on Governance and Code of Ethics on our website at www.capitalsouthwest.com/investor-relations/governance.htm.

Communication with the Board

Shareholders and interested parties who wish to communicate with any member of the Board may do so in writing to the following address:

Capital Southwest Corporation
5400 LBJ Freeway, Suite 1300
Dallas, Texas 75240
Attention: Board of Directors

Mr. Ligon currently reviews all correspondence addressed to the Board, or any individual Board member, for any inappropriate correspondence and correspondence more suitably directed to management. Mr. Ligon will summarize all correspondence not forwarded to the Board and make the correspondence available to the Board for its review at the Board's request. Mr. Ligon will forward shareholder communications to the Board prior to the next regularly scheduled meeting of the Board following the receipt of the communication as appropriate. The Board expects to assign these responsibilities and tasks to Mr. Brooks following Mr. Ligon's retirement.

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Risk Oversight

The Board has an active role in overseeing management of the Company's risk. The Board regularly reviews information regarding the Company's operational, financial, legal, regulatory, strategic and reputational risks which is usually conveyed to the Board by the senior management of the Company. Because overseeing risk is an ongoing process and inherent in the Company's strategic decisions, the Board discusses risk throughout the year during its meetings in relation to specific proposed actions. The Board delegates certain risk management oversight to the Board committees. While the Board oversees the Company's overall risk management, management is responsible for the day-to-day risk management process. Committees meet in executive session with key management personnel and representatives of outside advisors as needed. The Board believes the division of responsibilities, as summarized below, is the most effect approach for addressing the risks facing the Company.

Board/Committee	Primary Areas of Risk Oversight
Full Board	Strategic, financial and executive risks and exposures associated with the annual operating plan and strategic plan; legal and regulatory exposures and other current matters that may present material risk to our operations, plans, prospects or reputations; material acquisitions and divestitures.
Audit Committee	Risks and exposures associated with accounting, auditing, reporting, financial practices (including the integrity of the Company's financial statements and related systems of internal controls), administration and financial controls, compliance with legal and regulatory requirements, including ethical business standards, the independent registered public accounting firm's qualifications, independence and performance and the performance of the internal audit function. The Audit Committee also has the direct responsibility for the appointment, compensation, retention and oversight of our independent registered public accounting firm, including the performance of any non-audit services.
Compensation Committee	Risks and exposures associated with compensation, severance agreements, any succession plans and incentive compensation and equity-based compensation plans for Company employees and non-employee members of the Board, including with respect to regulatory compliance.
Nominating and Corporate Governance Committee	Risks and exposures related to governance of the Company and to the composition and organization of the Board including nominations and qualification criteria for membership, Board size, and Board education and evaluation.

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EXECUTIVE OFFICERS

Joseph Armes. See “Nominees for Director” for Mr. Armes’ biography.

Kelly Tacke, 57, has served as Senior Vice President, Chief Financial Officer, Chief Compliance Officer, Secretary and Treasurer of the Company since November 2013. Prior to joining the Company, from April 2011 to January 2012, she served as Chief Financial Officer and as a consultant to AMC REIT, Inc., a privately held real estate investment company. From 1993 to April 2011, Ms. Tacke was the Executive Vice President, Chief Financial Officer and Corporate Secretary of Palm Harbor Homes, Inc., a publicly held builder of manufactured homes. The Company was a long-time investor in Palm Harbor Homes, Inc. Palm Harbor Homes, Inc. had an involuntary bankruptcy filed against it in the U.S. Bankruptcy Court in the state of Delaware on October 29, 2010. Ms. Tacke first began her career as an accountant with PricewaterhouseCoopers in 1979. Ms. Tacke holds a Bachelor of Business Administration from The University of Texas at Austin and is a Certified Public Accountant.

Bowen S. Diehl, 46, has served as Senior Vice President and Chief Investment Officer of the Company since March 2014. Prior to that, Mr. Diehl was the Managing Director of American Capital, Ltd. from 2007 to March 2014. He was also a Principal of American Capital from 2004 to 2007, and a Vice President of American Capital from 2001 to 2004. Mr. Diehl’s investments have been in a variety of industries including industrial manufacturing, healthcare, business services, and consumer finance. Prior to American Capital, Mr. Diehl was a Vice President in Investment Banking at Merrill Lynch where he gained experience working with companies in the exploration and production, oilfield services, natural gas pipeline, natural gas gathering and processing, homebuilding and semiconductor sectors. Prior to joining Merrill Lynch, Mr. Diehl was a Vice President in the Global Oil and Gas Group at Chase Securities Inc., in New York, NY and then in Houston, TX, completing numerous transactions in the upstream and midstream oil and gas sectors. Mr. Diehl earned a Bachelor of engineering degree, with majors in Environmental/Geotechnical Engineering and Economics, from Vanderbilt University and a Masters of Business Administration from the University of Texas at Austin.

Christopher J. Mudd, 54, was appointed Senior Vice President, Operations of the Company in January 2015. Prior to joining the Company, from 2003 to 2015, Mr. Mudd held various positions at Dexco Polymers LP, which is a subsidiary of TSRC Corporation, a publicly traded chemical company, including most recently President and General Manager. From 1998 to 2002, Mr. Mudd was the Senior Commercial Manager for Energy and Fuels at Dow Hydrocarbons and Resources and worked in other capacities at The Dow Chemical Company from 1982 to 1998. Mr. Mudd holds a Bachelor of Science in Chemical Engineering from The University of Texas at Austin.

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STOCK OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth certain information with respect to the beneficial ownership of our common stock as of June 12, 2015 by (1) each person, so far as is known to our management, who is the beneficial owner (as that term is defined in the rules and regulations of the Securities and Exchange Commission (“SEC”)) of more than 5% of our outstanding common stock; (2) current executive officer named in the Summary Compensation Table; (3) each director that served at any time during the fiscal year ended March 31, 2015; and (4) all current directors and executive officers as a group. The number of shares beneficially owned by each entity, person, director or executive officer is determined under the rules of the SEC, and the information is not necessarily indicative of beneficial ownership for any other purpose. Under such rules, beneficial ownership includes any shares as to which the individual has the sole or shared voting power or investment power and also any shares that the individual has a right to acquire as of August 25, 2015 (60 days after June 26, 2015) through the exercise of any stock option or other right. Unless otherwise indicated below, each of the persons named in the table has sole voting and investment power with respect to the shares indicated to be beneficially owned.

Name and Address of Beneficial Owner	Amount and Nature of Beneficial Ownership	Percent of Class	
Zuckerman Investment Group ⁽¹⁾ 155 N. Wacker Drive, Suite 1700 Chicago, IL 60606	1,458,094	9.4	%
Moab Capital Partners ⁽²⁾ 15 East 62 nd Street New York, NY 10065	981,065	6.3	%
First Manhattan Co. ⁽³⁾ 399 Park Avenue New York, NY 10022	947,026	6.1	%
Piper Jaffray Companies ⁽⁴⁾ 800 Nicollet Mall Suite 800 Minneapolis, MN 55402	917,076	5.9	%
William R. Thomas III ⁽⁵⁾⁽⁶⁾	591,838	3.8	%
Joseph B. Armes ⁽⁵⁾⁽⁷⁾	67,502	*	
Bowen S. Diehl ⁽⁵⁾⁽⁸⁾	63,000	*	
Kelly Tacke ⁽⁵⁾⁽⁹⁾	52,000	*	
Samuel B. Ligon ⁽⁵⁾	12,900	*	
John H. Wilson ⁽⁵⁾	8,650	*	
Jack D. Furst ⁽⁵⁾	2,100	*	
T. Duane Morgan ⁽⁵⁾⁽¹⁰⁾	2,525	*	
David R. Brooks ⁽⁵⁾	1,500	*	
Christopher Mudd ⁽⁵⁾	-	N/A	
All directors and executive officers as a group (10 persons)	1,933,918	12.4	%

*Less than 1%

Based on information set forth in a Schedule 13G relating to Capital Southwest filed with the SEC on March 23, (1) 2015. Zukerman Investment Group, LLC, Sherwin A. Zuckerman and Daniel R. Zuckerman will beneficially own and have shared voting and dispositive power with respect to 1,458,094 shares of the Company’s common stock. (2)

Based on information set forth in a Schedule 13G relating to Capital Southwest filed with the SEC on January 26, 2015. Moab Partners, L.P. will beneficially own and have sole voting and dispositive power with respect to 957,625 shares of the Company's common stock. Moab Capital Partners, LLC, in its capacity as investment adviser to Moab Partners and a separate account, and Mr. Rothenberg as owner and managing member of Moab Capital Partners will beneficially own and have sole voting and dispositive power with respect to 981,065 shares of the Company's common stock.

(3) Based on information set forth in a Schedule 13G relating to Capital Southwest filed with the SEC on February 11, 2015. First Manhattan Co. will beneficially own and have shared dispositive power with respect to 947,026 shares of the Company's common stock. First Manhattan will have shared voting power with respect to 941,526 shares of the Company's common stock.

(4) Based on information set forth in a Schedule 13G relating to Capital Southwest filed with the SEC on February 17, 2015. Piper Jaffray Companies will beneficially own and have sole dispositive power with respect to 917,076 shares of the Company's common stock. Piper Jaffray will have sole voting power with respect to 637,380 shares of the Company's common stock.

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- (5) Unless otherwise indicated, the address of each of the persons whose name appears in the table above is: c/o Capital Southwest Corporation, 5400 Lyndon B. Johnson Freeway, Suite 1300, Dallas, Texas 75240. Mr. Thomas is President and sole manager of Thomas Heritage Company, L.L.C., the sole general partner (the "General Partner") of Thomas Heritage Partners, Ltd. (the "Partnership"). In such capacity, Mr. Thomas has sole voting (6) and depositor power with respect to 571,939 shares of Common Stock owned by the Partnership. Mr. Thomas beneficially owns 12,000 shares of Company common stock held by his minor children. 4,370 shares reflect ESOP allocations to Mr. Thomas.
- Mr. Armes is a trustee of certain trusts pursuant to ESOPs for our employees and employees of certain of our wholly owned portfolio companies owning 893,651 shares (5.7% of our outstanding common stock) on June 12, 2015. Voting rights on such shares were passed through to the ESOP participants, who are entitled to vote the shares in their individual accounts by July 31, 2015. As a trustee of the ESOPs, Mr. Armes has voting power with respect to the shares not voted by the ESOP participants. Mr. Armes and Ms. Tacke have joint voting power of 238,252 shares owned by a trust pursuant to a pension plan for our employees and employees of certain of our wholly owned portfolio companies. Accordingly, Mr. Armes has voting power with respect to aforementioned (7) 238,252 shares, representing 1.5% of our outstanding common stock. Mr. Armes disclaims beneficial ownership of the common stock held by the ESOPs and pension plan and these shares have been excluded from the amount discussed above. In addition, Mr. Armes has voting power with respect to 46,000 shares of unvested restricted shares, 1,000 shares of common stock and 8,502 shares of common stock held by JBA Family Partners, L.P., a limited partnership of which he and his spouse are 50% owners of the general partner. Mr. Armes disclaims beneficial ownership of the shares held by this partnership except to the extent of his pecuniary interest therein. Lastly, 12,000 shares of his stock options granted under the 2009 Stock Incentive Plan will be exercisable as of August 25, 2015.
- Mr. Diehl has voting power with respect to 46,000 unvested restricted shares and 11,000 shares of common stock. (8) In addition, 6,000 of Mr. Diehl's stock options granted under the 2009 Stock Incentive Plan will be exercisable as of August 25, 2015.
- Ms. Tacke and Mr. Armes have joint voting power of 238,252 shares owned by a trust pursuant to a pension plan for our employees and certain of our wholly owned portfolio companies. Accordingly, Ms. Tacke has voting power with respect to 238,252 shares, representing 1.5% of our outstanding common stock. Ms. Tacke disclaims (9) beneficial ownership of the common stock held by the pension plan and these shares have been excluded from the amount discussed above. In addition, she has voting power with respect to 46,200 shares of unvested restricted shares and 800 shares of common stock. Lastly, 5,000 of Ms. Tacke's stock options granted under the 2009 Stock Incentive Plan will be exercisable as of August 25, 2015.
- (10) Mr. Morgan holds 1,275 shares directly and 1,250 shares indirectly through the Morgan Family Trust.

SECTION 16(A) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Securities Exchange Act of 1934, as amended (the "1934 Act"), requires our officers and directors and persons who beneficially own more than 10% of our common stock to file reports of securities ownership and changes in such ownership with the SEC. Officers, directors and greater than 10% beneficial owners also are required by rules promulgated by the SEC to furnish us with copies of all Section 16(a) forms they file with the SEC. Based solely upon a review of the copies of such forms furnished to us, we believe that, with the exception of Mr. Ray D. Schwertner, each of our officers, directors and greater than 10% beneficial owners complied with all Section 16(a) filing requirements applicable to them during the fiscal year ended March 31, 2015. Mr. Schwertner filed one late report for a transaction subject to Section 16(a) filing requirements; he failed to timely report the exercise of stock options with respect to 1,000 shares of common stock of the Company on August 6, 2014, and filed a Form 4 reporting that option exercise on September 22, 2014.

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COMPENSATION DISCUSSION AND ANALYSIS

The following Compensation Discussion and Analysis, or CD&A, provides information relating to the fiscal year 2015 compensation of our President and Chief Executive Officer (“CEO”), Chief Financial Officer (“CFO”), Chief Investment Officer (“CIO”) and Senior Vice President, Operations, during the year ended March 31, 2015. These four individuals are referred to in this CD&A as the Named Executive Officers.

The Compensation Committee (the “Committee”) has the primary authority to establish our compensation philosophy and the actual compensation levels for the named executive officers and to administer all executive compensation arrangements and policies. Joseph B. Armes, our CEO, assists the Committee by providing recommendations regarding the compensation of our named executive officers, excluding himself. The Committee exercises its discretion by modifying or accepting these recommendations. The CEO routinely attends a portion of the Committee meetings. However, the Committee meets in executive session without the CEO or other members of executive management when discussing compensation matters and on other occasions as determined by the Committee.

At the request of the Committee, executive management prepares a compensation analysis of this peer group for the Committee’s use, using data pulled from public filings, data contained in third party surveys and data provided by the Committee’s compensation consultant. The analysis generally shows trends in base salary, bonus opportunities, equity award sizes, and total compensation (as publicly reported in proxy statements).

During fiscal year 2015, the Committee requested that management prepare information on the market rates of compensation for our other executive officers, using data previously provided by Longnecker and publicly available data for our peer companies. The Committee did not engage a third party consultant for this purpose. With respect to Mr. Mudd, who joined the Company in January 2015, the Committee set his employment package based on the Company’s negotiations with Mr. Mudd, taking into account the compensation package from his prior employer and the opportunities Mr. Mudd had at other potential employers. In all categories, we believe our base salaries, annual cash bonus opportunities, Individual Incentive Awards, stock option awards, restricted stock awards, and other compensation, taken as a whole, help us attract, retain and motivate competent executive officers.

Compensation Objectives

The objectives of our compensation programs are to attract, retain and motivate competent executive officers who have the experience and ability to enhance shareholder value and to contribute to the success of our investment management activities. The individual judgments made by the Committee are subjective and are based largely on the recommendations of the CEO (except with respect to his compensation) and the Committee’s perception of each executive’s contribution to both the Company’s past performance and its future growth potential. The Committee attempts to ensure that the total compensation paid to each executive officer is fair, reasonable, competitive and aligns the interests of executive management and the Company’s shareholders.

The principal elements of compensation for executive officers in fiscal year 2015 are base salary, annual cash bonus opportunities, long-term cash incentives (“Individual Incentive Awards”), stock options granted under the 2009 Stock Incentive Plan, restricted stock granted under the 2010 Restricted Stock Award Plan, contributions to the Employee Stock Ownership Plan (individually an “ESOP” and, together, the “ESOPs”), a qualified defined benefit retirement plan and a non-qualified restoration plan.

Following the completion of the proposed spin-off of the Company’s industrial products, coatings, sealants and adhesives and specialty chemicals businesses in fiscal year 2016, the Committee intends for restricted stock granted under the 2010 Restricted Stock Award plan to continue as the sole long-term component of compensation for executive officers. The committee does not expect to grant any additional shares under the 2009 Stock Incentive Plan or request shareholders’ approval of any additional stock options to be added under the 2009 Stock Incentive Plan. The

Committee also does not intend to make additional Individual Incentive Awards or make any ESOP contributions to the employees of the Company following the completion of the proposed spin-off of the Company's industrial products, coatings, sealants and adhesives and specialty chemicals business.

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Determination of Compensation

Roles and Responsibilities - Compensation Committee

The Committee's responsibilities include:

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 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 CEO, in light of the goals and objectives of the Company's executive compensation plans, and to determine his compensation level based on this evaluation. In determining the incentive components of his compensation, the Committee considers those factors it deems relevant, including the Company's performance and his contribution to that performance. The CEO is not present during deliberations or voting pertaining to the Committee's determination of his 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 our executive compensation plans, market compensation data 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 grants.

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, discuss and recommend to the Board the Compensation Discussion and Analysis required by the Securities and Exchange Commission's (the "SEC") rules and regulations. The Committee will also prepare a Compensation Committee Report for inclusion in the Company's proxy statement and applicable filings with the SEC.

9) To annually review and reassess the adequacy of this Charter and recommend any changes to the full Board.

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Roles and Responsibilities - Executive Officers

Joseph B. Armes, our President and CEO, makes recommendations on salary, annual cash incentive opportunities, Individual Incentive Awards, stock options and restricted stock to the Committee based on the compensation objectives set by the Committee as well as current business conditions. More specifically, Mr. Armes reviews and assesses market data prepared by an executive compensation consulting firm retained by the Committee or the management team and recommends compensation adjustments to the Committee for all officers (other than himself).

The Committee then exercises its discretion in modifying any recommended salaries, annual cash bonus opportunities, Individual Incentive Awards, stock options or restricted stock. The Committee approves or, if applicable, recommends to the Board for approval, recommendations regarding stock based awards for all of our officers. Mr. Armes may attend the meetings of the Committee at the request of the Committee Chairman, but does not attend executive sessions and does not participate in any Committee discussions relating to the final determination of his own compensation.

Executive Compensation Components and Fiscal 2015 Compensation Decisions

For the fiscal year ended March 31, 2015, the components of our compensation program for named executive officers include:

- base salaries;
- cash incentive opportunities;
- long-term compensation awards; and
- other benefits, including participation in the Company's employee stock ownership plans and retirement plans.

Salaries

Salaries were determined by the Committee for each of our named executive officers on an individual basis, taking into consideration individual contributions to overall company performance, length of tenure, compensation levels for comparable positions at peer companies and internal pay equity among similar positions within the Company. The Committee places more emphasis on those compensation elements which are linked to long-term results.

In fiscal year 2015, after consideration of the factors set forth above and the termination of Mr. Armes automobile allowance during fiscal year 2015, in July 2014 the Committee increased the annual base salary of our President and CEO Joseph B. Armes from \$430,000 to \$453,000, our CIO Bowen S. Diehl from \$425,000 to \$429,000 and our CFO Kelly Tacke from \$250,000 to \$255,000. In November 2014, as part of negotiations with Mr. Mudd to become our Senior Vice President-Operations, the Committee set his annual base salary at \$275,000. The Committee believes that the salary changes and resulting base salaries of our named executive officers are appropriate for each named executive officer as a component of his or her overall compensation package.

Cash Incentive Opportunities

Annual cash incentive opportunities are intended to reward individual performance as well as operating results during the year and therefore can be highly variable from year to year. The Committee establishes the target annual cash incentive opportunities for our named executive officers at the start of each year, taking into account the potential contribution by that executive to overall company performance, length of tenure, compensation levels for comparable positions at peer companies and internal pay equity among similar positions within the Company. For the fiscal year ended March 31, 2015, the Committee made no changes to the target bonus levels from the prior year, as the Committee believed the levels were sufficient to motivate each executive to achieve our objectives for the coming year.

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At the start of each fiscal year, the Committee also establishes the performance goals to be achieved to earn the target annual cash incentive award. For the fiscal year ended March 31, 2015, the Committee selected certain strategic goals for named executive officers. The Committee evaluated performance against these goals for the fiscal year ended March 31, 2015 in April 2015 and determined each named executive officer's achievement of the goals and the payment pursuant to those goals. Based on that evaluation, for fiscal year 2015, Mr. Armes was paid an annual cash incentive of \$698,375, Mr. Diehl was paid an annual cash incentive of \$657,651 and Ms. Tacke was paid an annual cash incentive of \$264,625. Mr. Mudd was paid a partial year annual cash incentive of \$68,750.

The Committee believes the annual cash incentives earned by the named executive officers are appropriate in relation to the Company's financial performance for fiscal year 2015 as well as each named executive officer's individual performance during that period.

Long-Term Incentive Awards

Our Board and shareholders have approved our 2009 Stock Incentive Plan and our 2010 Restricted Stock Award Plan. Those plans, in addition to our individual incentive awards, allow us to provide cash and stock-based compensation opportunities to certain key employees, including our named executive officers. The Company uses both cash-based awards and stock-based awards as long-term incentive compensation to: (1) align compensation commensurate with the creation of shareholder value; (2) create opportunities for increased stock ownership by executives; and (3) attain competitive levels of total compensation over the long term.

2009 Stock Incentive Plan

The Committee may grant options to purchase our common stock (including incentive options and nonqualified stock options). Options are granted with an exercise price at the NASDAQ closing price of the Company's stock on the date of grant and thus have no ultimate value unless the value of our stock appreciates. The Company has never granted options with an exercise price that is less than the closing price of our common stock on the grant date, nor has it granted options which are priced on a date other than the grant date. The Committee believes stock options provide a significant incentive for the option holders to enhance the value of our common stock by continually improving the Company's performance and investment results.

Historically, granted options have become exercisable on or after the first anniversary of the date of grant in five annual installments and have a term of 10 years. Upon termination or retirement, option holders have 30 days to exercise vested options to purchase shares except in the case of death or disability (subject to a 6-month limitation). Prior to the exercise of options, holders have no rights as shareholders with respect to the shares subject to such option, including voting rights and the right to receive dividends or dividend equivalents. The Board retains the right to make option holders whole in certain situations, such as distributions.

From time to time, the Committee has recommended and the Board has granted qualified and non-qualified stock options to certain key employees and named executive officers. In August 2014, the Committee granted stock options to each of Mr. Armes, Ms. Tacke and Mr. Diehl as part of the executive compensation plan described under the heading "Transformative Transaction-Related Compensation."

The Committee does not intend to grant additional options under the 2009 Stock Incentive Plan or request shareholders' approval of any additional stock options to be added to the 2009 Stock Incentive Plan.

2010 Restricted Stock Award Plan

The Company received exemptive relief from the SEC that permits the Company to grant restricted stock in exchange for or in recognition of services by its executive officers and certain key employees. Pursuant to the 2010 Restricted

Stock Award Plan, the Committee may award shares of restricted stock to plan participants in such amounts and on such terms as the Committee determines in its sole discretion, provided that such awards are consistent with the conditions set forth in the SEC's exemptive order. Each restricted stock grant will be for a fixed number of shares as set forth in an award agreement between the grantee and the Company. Award agreements will describe time and/or performance vesting schedules and other appropriate terms and/or restrictions with respect to awards, including rights to dividends and voting rights. Historically, the restricted stock will vest ratably over five years.

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If a participant's employment is terminated for any reason, including retirement, other than death or disability, the participant's unvested restricted stock awards shall be forfeited. If a participant's employment is terminated due to death or disability or if a change in control (as defined in the 2010 Restricted Stock Award Plan) occurs, the participant's unvested restricted stock awards will vest immediately. Participants who have received restricted stock awards will receive dividends and will have voting rights with respect to such shares.

Following the completion of the proposed spin-off of the Company's industrial products, coatings, sealants and adhesives and specialty chemicals businesses in fiscal year 2016, the Committee intends for restricted stock granted under the 2010 Restricted Stock Award Plan to continue as the sole long-term incentive compensation for executive officers, replacing the historical use of stock options, Individual Incentive Awards and ESOP Contributions. The Committee does not expect to grant any additional stock options under the 2009 Stock Incentive Plan or request shareholders' approval for any additional stock options to be added under the 2009 Stock Incentive Plan. The Committee believes these restricted stock awards will more closely align the long term incentives of the employees with that of the Company's shareholders in a manner consistent with a yield-oriented credit investment strategy following the completion of the anticipated spin-off.

In August 2014, the Committee granted restricted stock awards to each of Mr. Armes, Ms. Tacke and Mr. Diehl as part of the executive compensation plan described under the heading "Transformative Transaction-Related Compensation."

Individual Incentive Awards

The Committee uses our Individual Incentive Awards as a way to motivate our executives to increase the value of the Company as reflected by our net asset value, without the dilution that accompanies the use of stock options or restricted stock awards. Historically, Individual Incentive Awards vest on the fifth anniversary of the award date, providing a meaningful retention device. The Committee generally sets the baseline for measuring increases in net asset value at the Company's most recent quarterly net asset value per share at the time of issuance, requiring sustained asset value appreciation for the awards to provide a meaningful return. Upon exercise of an Individual Incentive Award, the Company pays the recipient a cash payment in an amount equal to current net asset value per share minus the baseline net asset value per share. The Committee did not make any Individual Incentive Awards during fiscal year 2015.

Following the completion of the proposed spin-off of the Company's industrial products, coatings, sealants and adhesives and specialty chemicals businesses in fiscal year 2016, the Committee does not intend to make additional Individual Incentive Awards.

Other Compensation

ESOP

We maintain Employee Stock Ownership Plans, or ESOPs, as an additional way to align the compensation and interests of our employees with the interests of our shareholders. Employees who have completed one year of credited service are generally eligible to participate in an ESOP. The Company makes discretionary contributions to the ESOPs within limits established by the Code. Funds contributed to the trust established under the ESOPs are applied by the trustees to the purchase of our common stock. A participant's interest in contributions to an ESOP fully vests after three years of credited service, and such vested interest is distributed to a participant at retirement, death or total disability, or after a one year break in service resulting from termination of employment for any other reason. Thus, the ESOPs reward long-term employees, aligning their interests with those of our shareholders.

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Historically, the ESOPs have provided a significant equity incentive to which the Committee would authorize a contribution equivalent to 10% of each participating employee's covered compensation for the fiscal year, subject to limits imposed by Code Section 410(b) coverage testing requirements. Our ESOP contribution has been set at 10%, which the Board and Committee have determined to be appropriate to motivate and retain employees. In order to meet the IRS diversification testing rules, we calculate our contributions as part of each of our wholly-owned portfolio companies' ESOP percentages and we match our contribution percentage to the highest wholly-owned portfolio company's percentage. To the extent their percentages fall below our 10% contribution amount, our employees are granted an ESOP contribution at the wholly-owned portfolio company level, and a cash payment for the difference. Based on earnings results for each of the wholly-owned portfolio companies in which our named executive officers participate, a 10% ESOP contribution was made for the fiscal year ended March 31, 2015. Mr. Armes, Mr. Diehl and Ms. Tacke were eligible to participate in the ESOPs in fiscal year 2015.

Following the completion of the proposed spin-off of the Company's industrial products, coatings, sealants and adhesives and specialty chemicals businesses in fiscal year 2016, the Committee intends to discontinue making ESOP contributions on behalf of the employees of the Company.

Retirement Plans

We maintain a qualified defined benefit, non-contributory retirement plan (the "Retirement Plan") for our employees and employees of certain of our wholly-owned portfolio companies ("Participants"). We also maintain a Restoration Plan (the "Restoration Plan") that provides benefits to the Participants in the qualified plan to fulfill the intent of our Retirement Plan without regard to the limitations imposed by the Code. The Restoration Plan is unfunded and non-qualified.

The retirement benefits payable to our named executive officers under the Retirement Plan and Restoration Plan depend on the Participant's years of service under our plan and their final average monthly compensation determined by averaging the five consecutive years of highest compensation prior to retirement. For pension calculation purposes, earnings include salaries and annual cash bonuses reported in the Summary Compensation Table. Mr. Armes, Mr. Diehl and Ms. Tacke were eligible to participate in both plans in fiscal year 2015.

Potential Payments upon Change in Control or Termination of Employment

We offer severance and change-in-control benefits under our long-term incentive plans to motivate our executives to focus on transactions that are likely in the best interests of our shareholders, even though such transactions may result in a loss of employment for the executives. We believe our programs are consistent with the practices of our peer group of companies and therefore also serve to attract and retain our executives. In addition, as part of our negotiations with Mr. Mudd and to motivate him to join us at a time when we have specifically motivated our executives to focus on a "trigger event", the Committee approved severance rights for Mr. Mudd.

Transformative Transaction-Related Compensation

On August 28, 2014, the Board adopted an executive compensation plan consisting of nonqualified stock options, restricted stock and cash incentive awards intended to align the compensation of the Company's executive officers with the Company's key strategic objective of increasing the market value of the Company's shares through a transformative transaction, such as the proposed spin-off of the Company's industrial products, coatings, sealants and adhesives and specialty chemicals businesses, for the benefit of the Company's shareholders. Under this plan, Mr. Armes, Mr. Diehl and Ms. Tacke will share in a payout equal to six percent of the accretion in aggregate value of the Company's shares realized from the grant date through the date of measurement date on the 90th day following consummation of the transformative transaction (the "Determination Date"). The Determination Date value accretion will equal the excess of the aggregate value of the then outstanding Company and spin-off company's shares together

with interim dividends paid on the Company's shares over the aggregate value of the Company's shares on the grant date (\$557,353,318, based on a grant date closing price of \$36.16 per share).

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Any payments under this plan that are less than \$22.5 million in the aggregate will be divided evenly among Mr. Armes, Mr. Diehl and Ms. Tacke. Any payments in excess of \$22.5 million will be allocated as follows: Mr. Armes, 50%; Mr. Diehl, 25% and Ms. Tacke, 25%. The allocation of this incentive compensation opportunity was made by the Board at the recommendation of Mr. Armes. The awards vest and become payable in thirds, with one third vesting on the Determination Date, another third vesting on the first anniversary of the Determination Date, and the remaining third vesting on the second anniversary of the Determination Date.

The equity awards payable under the executive compensation plan will include both the Company and spin-off company options and restricted shares. The cash bonuses will be payable by the Company. The Company, however, reserves the right, in its sole discretion, to terminate the cash incentive award or to reduce the amount payable thereunder at any time prior to the Determination Date.

Accounting for Stock-Based Compensation

We consider the accounting costs of our executive compensation programs as just one factor in developing these programs. Generally, the Committee is made aware of the tax and accounting treatments of various compensation alternatives. ASC 718, Compensation – Stock Compensation (“ASC 718”) requires us to record the fair value of equity awards on the date of grant as a component of equity. We account for stock option grants in accordance with the provisions of ASC 718, which requires that we determine the fair value of all share-based payments to employees, including the fair value of grants of employee stock options, and record these amounts as an expense in the statement of operations over the vesting period with a corresponding increase to our additional paid-in capital. The increase to our operating expense is offset by the increase to our additional paid-in capital, resulting in no impact on our net asset value. If and when the options are exercised, the net asset value per share will decrease if the net asset value at the time of exercise is higher than the exercise price, and increase if the net asset value per share at the time of exercise is lower than the exercise price. As a result, although we consider the accounting treatment when granting awards we do not consider the accounting treatment to be a dominant factor in the form and/or design of awards.

Tax Deductibility of Compensation

Section 162(m) of the Code generally disallows a deduction to public companies to the extent of excess annual compensation over \$1 million paid to certain executive officers, except for qualified performance-based compensation. Our general policy, where consistent with business objectives, is to preserve the deductibility of executive officer compensation. The Committee may authorize forms of compensation that might not be deductible if the Committee deems such to be in the best interests of Capital Southwest Corporation and its shareholders.

Shareholder Advisory Vote on Executive Compensation

At our 2014 Annual Meeting, our shareholders approved an advisory vote with 95% of the votes cast in favor of our compensation philosophy, policies and procedures and the 2014 fiscal year compensation of our named executive officers (the “Advisory Vote”). The Committee considers the results of the Advisory Vote as an affirmation of the Company’s executive compensation decisions and policies.

Compensatory Risk Assessment

We work to integrate sound risk management into our compensation programs. We believe it is critical to bring a multi-faceted strategy toward mitigating risk in compensation. We believe our focus on long-term stable compensation programs, and retaining long-term employees who have dedicated more than a decade to our success, work to limit incentives to take unnecessary or imprudent risk-taking actions. We also provide stable fixed cash compensation to each of our executive officers as a counterbalance to the financial exposure that our named executive officers face as significant holders of equity in our enterprise. In April 2015, the Committee undertook a review of

our compensation programs and determined that the programs are not reasonably likely to have a material adverse effect on the Company.

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COMPENSATION COMMITTEE REPORT

The Compensation Committee of the Company's Board has reviewed and discussed with management the above Compensation Discussion and Analysis required by Item 402(b) of Regulation S-K. Based on such review and discussions, the Compensation Committee recommended to the Board that the Compensation Discussion and Analysis be included in the Company's proxy statement on Schedule 14A and, by reference, its Annual Report on Form 10-K for the fiscal year ended March 31, 2015.

The foregoing report is provided by the following directors who constitute the Compensation Committee as of the date of this proxy statement.

Compensation Committee
John H. Wilson, Chairman
David R. Brooks
Jack D. Furst
Samuel B. Ligon
T. Duane Morgan

Compensation Committee Interlocks and Insider Participation

None of our executive officers served as a member of the Compensation Committee of our Board or as a member of the compensation committee or as a director of any other entity, one of whose executive officers served as a member of our Compensation Committee or as one of our directors.

Certain Relationships and Related Party Transactions

Our CEO is responsible for reviewing and approving all material transactions with any related party. If there is a related party transaction involving our CEO, the entire Board will review and approve the transaction. Related parties include any of our directors or executive officers, certain of our shareholders and their immediate family members.

To identify related party transactions, each year, in addition to the ongoing reporting obligations of our related parties, we submit and require our directors and executive officers to complete Director and Officer Questionnaires identifying any transactions with us in which the executive officer or director or their family members have an interest. We review related party transactions due to the potential for a conflict of interest. A conflict of interest occurs when an individual's private interest interferes with the interests of the Company as a whole. Our Code of Ethics, which is signed by all employees and directors on an annual basis, requires all directors, officers and employees who have a conflict of interest to immediately notify our CEO or CFO. If there were any actions or relationships that might give rise to a conflict of interest, such actions or relationships would be reviewed and pre-approved by the Board.

We expect our directors, officers and employees to act and make decisions that are in our best interests and encourage them to avoid situations which present a conflict between our interests and their own personal interests. Our directors, officers and employees are prohibited from taking any action that may make it difficult for them to perform their duties, responsibilities and services to the Company in an objective and fair manner. A copy of our Code of Ethics will be mailed to shareholders upon request to 5400 LBJ Freeway, Suite 1300, Dallas, Texas 75240, Attention: Secretary. Additionally, a copy is available over the Internet at www.capitalsouthwest.com/investor-relations/governance.htm.

There were no related party transactions for the fiscal year ended March 31, 2015.

The tables on the following pages provide information about compensation for our senior executive team, which includes the required disclosures about our named executive officers.

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SUMMARY COMPENSATION TABLE

The following table includes information concerning compensation for the years ended March 31, 2015:

Name	Fiscal Year	Salary	Stock Awards (1)	Option Awards (2)	Non-Equity Incentive Plan Compensation	Change in Pension Value and Nonqualified Deferred Compensation Earnings (3)	All Other Compensation	Total
Joseph B. Armes ⁽⁴⁾ President, Chief Executive Officer and Chairman	2015	\$447,250	\$637,980	\$499,868	\$ 698,375	\$ 130,969	\$29,150 ⁽¹¹⁾	\$2,443,592
	2014	340,417	185,100	354,600	878,705 ⁽⁸⁾	-	7,625	1,766,447
Bowen S. Diehl ⁽⁵⁾ Chief Investment Officer and Senior Vice President	2015	\$428,000	\$637,980	\$449,874	\$ 657,651	\$ 48,410	\$27,000 ⁽¹²⁾	\$2,248,915
	2014	17,708	174,550	211,200	249,840 ⁽⁹⁾	-	-	653,298
Christopher J. Mudd ⁽⁶⁾ Senior Vice President, Operations	2015	\$65,753	\$-	\$-	\$ 68,750	\$ -	\$10,344 ⁽¹³⁾	\$144,847
Kelly Tacke ⁽⁷⁾ Chief Financial Officer, Chief Compliance Officer, Secretary, Treasurer and Senior Vice President	2015	\$253,750	\$653,170	\$499,868	\$ 265,625	\$ 73,592	\$26,800 ⁽¹⁴⁾	\$1,772,805
	2014	93,750	134,080	209,250	254,902 ⁽¹⁰⁾	-	-	691,982

(1) These amounts represent the grant date fair value of restricted stock awards determined in accordance with ASC 718 based on the closing price of our common stock on the date of grant for 2014 awards. Pursuant to SEC rules, the amounts shown exclude the impact of estimated forfeitures related to service-based vesting conditions. The amounts do not correspond to the actual value that will be recognized by our named executive officers upon vesting dates of such grants. The 2015 restricted stock awards held by the recipient are subject to reduction under the executive compensation plan. Monte Carlo simulation was utilized to develop the grant date fair value for 2015 restricted stock awards. See Note 7 of the consolidated financial statements in the Company's Annual Report for the year ended March 31, 2015 regarding assumptions underlying valuation of equity awards.

(2) These amounts represent the grant date fair value of stock option awards using Black-Scholes pricing model determined in accordance with ASC 718 based on the closing price of our common stock on the date of grant. Pursuant to SEC rules, the amounts shown exclude the impact of estimated forfeitures related to service-based vesting conditions. The amounts do not correspond to the actual value that will be recognized by our named executive officers upon vesting dates of such grants. See Note 6 of the consolidated financial statements in the Company's Annual Report for the year ended March 31, 2015 regarding assumptions underlying the valuation of equity awards.

- Amounts shown reflect the aggregate change during the year in actuarial present value of accumulated benefit under all pension plans (including restoration plan). See Note 9 of the consolidated financial statements in the
- (3) Company's Annual Report for the year ended March 31, 2015 regarding assumptions used in determining these amounts.
- (4) Effective June 17, 2013, Mr. Armes was named by the Board as President and Chief Executive Officer. His compensation reflects partial year salary and bonus from June 17, 2013 to March 31, 2014 for fiscal year 2014. Effective March 17, 2014, Mr. Diehl joined Capital Southwest Corporation as Chief Investment Officer. His
- (5) compensation reflects partial year salary from March 17, 2014 to March 31, 2014 for fiscal year 2014. Mr. Diehl did not participate in our fiscal year 2014 bonus program.
- (6) Effective January 6, 2015, Mr. Mudd was named by the Board as Senior Vice President, Operations for the Company. His compensation reflects partial year salary from January 6, 2015 to March 31, 2015.
- (7) Effective November 18, 2013, Ms. Tacke joined Capital Southwest Corporation as Senior Vice President, Chief Financial Officer, Chief Compliance Officer, Secretary and Treasurer. Her compensation reflects partial year salary and bonus from November 18, 2013 to March 31, 2014 for fiscal year 2014.
- (8) "Non-Equity Incentive Plan Compensation" for Mr. Armes for 2014 consists of \$294,000 for incentive awards that was previously reported in the "All Other Compensation" column and a \$584,705 performance bonus award that was previously reported in the "Bonus" column. The amounts were moved to more accurately reflect the nature of these awards.
- (9) "Non-Equity Incentive Plan Compensation" for Mr. Diehl for 2014 consists of \$249,840 for incentive awards that was previously reported in the "All Other Compensation" column. The amount was moved to more accurately reflect the nature of the award.
- (10) "Non-Equity Incentive Plan Compensation" for Ms. Tacke for 2014 consists of \$128,600 for incentive awards that was previously reported in the "All Other Compensation" column and a \$126,302 performance bonus award that was previously reported in the "Bonus" column. The amounts were moved to more accurately reflect the nature of these awards.
- (11) "All Other Compensation" for Mr. Armes includes an ESOP contribution of \$26,000 made by the Company, \$900 of dividends received on unvested restricted stock and a \$2,250 automobile allowance for the fiscal year ended March 31, 2015.
- (12) "All Other Compensation" for Mr. Diehl includes an ESOP contribution of \$26,000 made by the Company and \$1,000 of dividends received on unvested restricted stock.
- (13) "All Other Compensation" for Mr. Mudd includes a reimbursement of \$10,344 for temporary living expenses incurred as of March 31, 2015.
- (14) "All Other Compensation" for Ms. Tacke includes an ESOP contribution of \$26,000 made by the Company and \$800 of dividends received on unvested restricted stock.

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Severance Agreement with Mr. Mudd

In connection with Mr. Mudd's acceptance of employment by the Company, Mr. Mudd and Capital Southwest entered into a Severance Agreement dated March 1, 2015 (the "Severance Agreement"). The Severance Agreement provides that Mr. Mudd remains an at-will employee and may be terminated at any time with or without notice and with or without "cause," as that term is defined in the Severance Agreement. In the event that Mr. Mudd is terminated without "cause," Mr. Mudd is eligible to receive: (1) all accrued obligations in a lump sum in cash within 30 days of his termination, consisting of (a) current base salary through the date of his termination, (b) the amount of any bonus, incentive compensation, deferred compensation and other cash compensation earned as of the date of his termination, (c) any expense reimbursements and other cash entitlements accrued as of the date of his termination that are submitted within 90 days of his termination; and (2) a lump sum payment equal to one year of annual base salary (excluding any bonuses, incentives, perquisites or other forms of compensation Mr. Mudd receives) (the "Lump Sum Payment"). The Lump Sum Payment is payable within 60 days of Mr. Mudd's termination date, subject to his execution and non-revocation of a separation agreement.

The Severance Agreement defines "cause" to mean: (1) violation of any standard, written, workplace security, administrative, safety or other policy or procedure concerning workplace behavior, such standard to be determined by the Company in good faith and acting with reasonable discretion; (2) a breach of Mr. Mudd's fiduciary duty to the Company; (3) failure to follow the lawful instructions of Mr. Mudd's superiors or their designees; (4) arrest, conviction or entering of a plea of nolo contendere (no contest) of a felony or any crime involving financial impropriety or moral turpitude; (5) fraud, embezzlement or other non-de minimis misappropriation of funds or property of the Company; (6) disclosure of the Company's confidential or proprietary information other than in the proper course of Mr. Mudd's duties; (7) Mr. Mudd's disparagement of the Company or its senior management; (8) Mr. Mudd's death or disability (as defined in the Company's long term disability insurance policy); (9) gross neglect of duties; or (10) conduct that the Company in its reasonable judgment determines materially injurious to the reputation and/or operations of the Company, or that has a material adverse effect on any of the assets, liabilities, business, reputation or prospects of the Company.

2009 Stock Incentive Plan

The Capital Southwest Corporation 2009 Stock Incentive Plan (the "2009 Stock Incentive Plan") was approved by our shareholders in July 2009 and is administered by the Committee. The 2009 Stock Incentive Plan permits awards in the form of non-statutory stock options and incentive stock options. The Board is asking the shareholders of the Company to approve at the Annual Meeting an amendment to the 2009 Stock Incentive Plan that will increase the maximum number of options to purchase our common stock that may be issued to any individual participant in a single fiscal year under the 2009 Stock Incentive Plan to 120,000 shares. See "Proposal Two: Approval of the Second Amendment to the 2009 Stock Incentive Plan," beginning on page 34.

As of June 26, 2015, there were 4,000 shares available to be issued under the 2009 Stock Incentive Plan. The Compensation Committee does not intend to grant additional options under the 2009 Stock Incentive Plan or request shareholders' approval of additional stock options to be added under the 2009 Stock Incentive Plan.

With respect to non-statutory stock options, if a participant's employment is terminated for any reason, the participant's non-vested non-statutory stock options will be forfeited. If a participant's employment is terminated other than for death or disability or for cause, the participant's vested non-statutory stock options will remain exercisable for one month following the date of termination. If a participant's employment is terminated for death or disability, the participant's vested non-statutory stock options will remain exercisable for six months following the date of termination. If a participant's employment is terminated for cause, all non-statutory stock options will be forfeited on the date of termination.

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With respect to non-statutory stock options, if a participant's employment is terminated for any reason, the participant's non-vested incentive stock options will be forfeited. If a participant's employment is terminated for death or disability, the participant's vested incentive stock options will remain exercisable for six months following the date of termination. If a participant's employment is terminated for cause, all incentive stock options will be forfeited on the date of termination.

Upon a change in control, all unvested awards granted under the 2009 Stock Incentive Plan will immediately vest.

2010 Restricted Stock Award Plan

The Capital Southwest Corporation 2010 Restricted Stock Award Plan (the "2010 Restricted Stock Award Plan") was approved by our shareholders in July 2011 and is administered by the Committee. The Plan permits awards in the form of restricted stock. As of March 31, 2015, there were 31,240 shares of our common stock available for further issuance under the 2010 Restricted Stock Award Plan. The Board is asking the shareholders of the Company to approve at the Annual Meeting an amendment to the 2010 Restricted Stock Award Plan that will increase the maximum number of shares of our common stock that may be issued pursuant to restricted stock awards under the 2010 Restricted Stock Award Plan from 188,000 shares to 638,000 shares. See "Proposal Three: Approval of the Second Amendment to the 2010 Restricted Stock Award Plan," beginning on page 38.

If a participant's employment is terminated for any reason, including retirement, other than death or disability, the participant's unvested restricted stock awards shall be forfeited. If a participant's employment is terminated due to death or disability or if a change in control (as defined in the 2010 Restricted Stock Award Plan) occurs, the participant's unvested restricted stock awards will vest immediately.

Participants who have received restricted stock awards will receive dividends and will have voting rights with respect to such shares.

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GRANTS OF PLAN-BASED AWARDS FOR NAMED EXECUTIVE OFFICERS

The following table sets forth certain information with respect to each grant of a plan-based award to our named executive officers in the fiscal year ended March 31, 2015.

Name	Grant Date	Stock Awards: Number of Shares of Stock	Option Awards: Number of Securities Underlying Options	Exercise or Base Price of Option Awards (per share)	Grant Date Fair Value of Stock and Option Awards
Joseph B. Armes	8/28/2014	42,000	-	-	\$637,980 ⁽¹⁾
	8/28/2014	-	86,333	\$ 36.60	\$