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

FORM 8-K

CURRENT REPORT
Pursuant to Section 13 or 15(d) of the
Securities Exchange Act of 1934

Date of report (Date of earliest event reported): **September 8, 2015**

CAPITAL SOUTHWEST CORPORATION

(Exact Name Of Registrant As Specified In Charter)

Texas
(State or Other Jurisdiction of Incorporation)

814-00061
(Commission File Number)

75-1072796
(IRS Employer Identification No.)

5400 Lyndon B. Johnson Freeway, Suite 1300
Dallas, Texas 75240
(Address of Principal Executive Offices) (Zip Code)

Registrant's telephone number, including area code: **(972) 233-8242**

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2. below):

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
 - Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
 - Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
 - Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))
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Item 1.01 Entry into a Material Definitive Agreement.

On September 8, 2015, the Board of Directors (the “Board”) of Capital Southwest Corporation (the “Company”) approved the spin-off of certain of its industrial products businesses through the pro rata distribution of shares of CSW Industrials, Inc. (“CSWI”) to holders of the Company’s common stock (the “Share Distribution”) at the close of business on September 18, 2015 (the “Record Date”). The Share Distribution is expected to be completed on September 30, 2015 (the “Distribution Date”).

Following the Share Distribution, CSWI will be a separate, publicly traded company. The Company will not retain any ownership interest in CSWI. The Company’s shareholders will receive one share of CSWI common stock for every share of Company common stock held on the Record Date. Fractional shares of CSWI common stock will not be distributed. Any fractional share of CSWI common stock otherwise issuable to a Company shareholder will be sold in the open market on such shareholder’s behalf, and such shareholder will receive a cash payment with respect to such fractional share.

In order to effect the Share Distribution and govern the Company’s relationship with CSWI after the Share Distribution, the Company entered into a Distribution Agreement, a Tax Matters Agreement and an Employee Matters Agreement with CSWI on September 8, 2015. The Employee Matters Agreement was amended and restated on September 14, 2015. The following summary describes the material terms of these agreements. This summary is qualified in its entirety by reference to the Distribution Agreement, the Tax Matters Agreement and the Employee Matters Agreement filed as Exhibits 2.1, 10.1 and 10.2, respectively, to this Current Report.

Distribution Agreement

The Distribution Agreement sets forth the agreement between the Company and CSWI regarding the principal transactions necessary to effect the Share Distribution. It also sets forth other aspects of the relationship between the Company and CSWI after the Share Distribution and provides certain indemnities related to the Share Distribution and CSWI’s business.

In general, the Distribution Agreement does not contain any representations or warranties by either the Company or CSWI. Accordingly, neither the Company nor CSWI make any representation or warranty under the Distribution Agreement regarding the transactions contemplated by the Distribution Agreement or their respective businesses, assets, liabilities, condition or prospects. The term of the Distribution Agreement is perpetual, unless the agreement is terminated by mutual consent of both parties.

Distribution. On the Distribution Date, the Company will distribute to its shareholders one share of CSWI common stock for every share of Company common stock held by its shareholders.

Transfer of CSWI Businesses. The Distribution Agreement provides for the transfer to CSWI, prior to the Distribution Date, of the Company’s equity interests in The RectorSeal Corporation, The Whitmore Manufacturing Company, Jet-Lube, Inc., Balco, Inc., Strathmore Holdings, LLC, Smoke Guard, Inc. and CapStar Holdings Corporation (collectively, the “CSWI Businesses”).

Transfer of Cash. The Distribution Agreement provides for the transfer, immediately prior to the Share Distribution, of \$13.0 million in cash from the Company to CSWI.

Additional Transfers of Assets. The Distribution Agreement also identifies certain ancillary transfers of assets at a corporate level that are necessary in connection with the Share Distribution, including certain trademarks that will be used in the CSWI Businesses following the Share Distribution.

Assumption of Liabilities. The Distribution Agreement provides for the assumption by CSWI, prior to the Distribution Date, of certain liabilities of the Company, including liabilities arising out of the ownership or operation of the CSWI Businesses as conducted at any time prior to, on or after the Distribution Date and costs relating to the incorporation of CSWI and the post-Share Distribution operations of CSWI as a holding company for the CSWI Businesses.

Termination of Management Agreements. The Distribution Agreement provides for the termination of certain management agreements between the Company and the CSWI Businesses.

Conditions. The Distribution Agreement also provides that several conditions must be satisfied or waived by the Company in its sole and absolute discretion before the Share Distribution can occur. These conditions include:

- the SEC will have declared effective CSWI's Registration Statement on Form 10 (the "Form 10"), with no stop order in effect with respect to the Form 10, and the information statement attached as an exhibit to the Form 10 shall have been mailed to the shareholders of the Company;
- the Company shall have received a favorable opinion from a nationally recognized accounting firm with respect to the tax-free nature of the Share Distribution for federal income tax purposes;
- the Board will not have withdrawn its authorization and approval regarding (1) the Share Distribution and (2) the transfers of assets and assumptions of liabilities contemplated by the Distribution Agreement;
- no order, injunction, decree or regulation issued by any court or agency of competent jurisdiction or other legal restraint or prohibition preventing the consummation of the Share Distribution shall be in effect;
- CSWI common stock shall have been approved for listing on NASDAQ, subject to official notice of issuance;
- each of the ancillary agreements related to the Share Distribution shall have been entered into before the Share Distribution and shall not have been materially breached by any party thereto; and
- no other events or developments have occurred that, in the judgment of the Board, in its sole and absolute discretion, would result in the Share Distribution having a material adverse effect on Capital Southwest or its shareholders.

Release of Claims. CSWI has agreed to broad releases pursuant to which CSWI will release the Company and its affiliates, successors and assigns from, and indemnify and hold harmless all such persons against and from, any claims against any of them that arise out of or relate to the management of CSWI's business, certain events that took place prior to the Share Distribution, the Share Distribution, the terms of the Distribution Agreement, the Tax Matters Agreement, the Employee Matters Agreement and the other agreements being entered into in connection with the Share Distribution and any other decision made or action taken relating to CSWI. The releases will not extend to obligations or liabilities under any agreements between the parties that remain in effect following the Share Distribution, including, but not limited to, the Distribution Agreement, the Tax Matters Agreement and the Employee Matters Agreement.

Indemnification. The Company and CSWI have agreed to indemnify each other and each of their respective affiliates and representatives, and each of the heirs, executors, successors and assigns of such representatives against certain liabilities in connection with their respective businesses and any breach by such company of the Distribution Agreement. In addition, the Company will indemnify CSWI for all liabilities arising out of the ownership or operation of any business of the Company, other than the CSWI Businesses, as conducted at any time prior to, on or after the Distribution Date. CSWI will indemnify the Company for all liabilities arising out of the ownership or operation of any of the CSWI Businesses, as conducted at any time prior to, on or after the Distribution Date. Neither the Company's nor CSWI's indemnity obligations to the other under the Distribution Agreement are subject to any limitations.

Access to Information; Confidentiality. The Company and CSWI will allow each other and their respective representatives reasonable access to all records in their possession relating to the business and affairs of the other party, including for audit, accounting, litigation, income taxes, financial reporting and regulatory compliance purposes. Subject to limited exceptions, the Company and CSWI and their representatives are required to hold confidential all information in their possession concerning the other party.

Third-Party Beneficiaries. The Company and CSWI have agreed that each party identified as an indemnitee in the Distribution Agreement who is not a party to the agreement is an intended third-party beneficiary of the indemnification provisions.

Further Assurances. The Company and CSWI have agreed to take all actions reasonably necessary or desirable to consummate and make effective the transactions contemplated by the Distribution Agreement and the ancillary agreements related thereto, including using commercially reasonable efforts to promptly obtain all consents and approvals, to enter into all agreements and to make all filings and applications that may be required for consummation of such transactions.

Costs of the Share Distribution. Except as otherwise expressly set forth in the Distribution Agreement or any other agreement between the Company and CSWI, all costs and expenses incurred on or prior to the Distribution Date (whether or not paid on or prior to the Distribution Date) in connection with the preparation, execution, delivery, printing and implementation of the Distribution Agreement, the Share Distribution, and the consummation of the transactions contemplated by the Distribution Agreement, will be charged to and paid by the Company. Following the Distribution Date, each party will be responsible for its own costs and expenses.

Termination. The Distribution Agreement provides that it may be terminated by the Company at any time prior to the Share Distribution in the sole discretion of the Company without the approval of CSWI or the shareholders of the Company. In the event of such termination, neither the Company nor CSWI will have any liability of any kind to the other party.

Tax Matters Agreement

The Tax Matters Agreement generally governs the Company's and CSWI's respective rights, responsibilities and obligations with respect to taxes in connection with the Share Distribution. The Tax Matters Agreement provides that CSWI will be liable for taxes incurred by the Company as a result of CSWI's taking or failing to take certain actions that result in the Share Distribution failing to meet the requirements of a tax-free distribution under the Internal Revenue Code of 1986, as amended (the "Code"). The Tax Matters Agreement also restricts the Company's and CSWI's ability to take actions that could cause the Share Distribution to fail to meet the requirements of a tax-free distribution under the Code. These restrictions may prevent the Company and CSWI from entering into transactions that might be advantageous to the Company or its shareholders. The term of the Tax Matters Agreement is perpetual, unless the agreement is terminated by mutual consent of both parties.

Amended and Restated Employee Matters Agreement

The amended and restated Employee Matters Agreement (the “Employee Matters Agreement”) allocates liabilities and responsibilities between the Company and CSWI relating to employee compensation and benefit plans and programs, including the treatment of certain employment agreements, outstanding annual and long-term incentive awards, and health and welfare benefit obligations and provide for the cooperation between the Company and CSWI in the sharing of employee information.

In general, following the Share Distribution, CSWI will be responsible for all employment and benefit-related obligations and liabilities related to those individuals employed by the CSWI Businesses prior to the Share Distribution (the “CSWI Employees”) and those individuals whose employment will be transferred to CSWI in connection with the Share Distribution (the “Transferring Employees”). In general, the Company will be responsible for any employment and benefit-related obligations and liabilities of any employees who continue to be employees of the Company following the Share Distribution (the “Capital Southwest Employees”). The term of the Employee Matters Agreement is perpetual, unless the agreement is terminated by mutual consent of both parties.

Specific provisions of the Employee Matters Agreement include the following:

Equity Awards. The Employee Matters Agreement provides for adjustments to outstanding equity awards of the Company, such that the awards will represent stock options and restricted stock awards of both the Company and CSWI.

Retirement Plan. As of the Distribution Date, CSWI shall take all actions necessary to assume sponsorship of the qualified defined benefit pension plan in which certain of the CSWI Businesses participate (the “Retirement Plan”) and be substituted as the party to any trust and/or custodian agreement related thereto. Prior to the Distribution Date, the Company shall take all actions necessary to transfer the sponsorship of the Retirement Plan to CSWI, to be effective as of the Distribution Date.

Restoration Plan. The Company shall retain sponsorship of the unfunded retirement restoration plan in which certain of the CSWI Businesses participate (the “Restoration Plan”) on and after the Distribution Date. All CSWI Employees and all Transferring Employees shall cease active participation in the Restoration Plan effective as of the Distribution Date. CSWI shall take all actions necessary to establish a non-qualified deferred compensation plan containing substantially the same terms as the Restoration Plan, effective as of the Distribution Date (the “CSWI Restoration Plan”). All liabilities with respect to benefits accrued under the Restoration Plan on behalf of CSWI Employees and the Transferring Employees shall be transferred to the CSWI Restoration Plan and assumed by CSWI. All CSWI Employees and all Transferring Employees who participated in the Restoration Plan immediately prior to the Distribution Date shall become active participants in the CSWI Restoration Plan effective on the Distribution Date. The Company shall retain all liabilities with respect to benefits accrued under the Restoration Plan on behalf of Capital Southwest Employees and all former employees.

401(k) Plans. Prior to the Distribution Date, the Company shall cause the applicable CSWI Businesses to transfer sponsorship of the qualified 401(k) plans sponsored prior to the Distribution Date by the CSWI Businesses (the “CSWI 401(k) Plan”) to CSWI to be effective as of the Distribution Date, and CSWI shall take all actions necessary to assume sponsorship of the CSWI 401(k) Plan and be substituted as a party to any trust and/or custodian agreement related thereto effective as of the Distribution Date. Prior to the Distribution Date, the Company will take all actions necessary to cause one of its subsidiaries that is being retained by the Company to establish a qualified 401(k) plan to be effective following the Distribution date (the “Capital Southwest 401(k) Plan”).

ESOP. Certain of the CSWI Businesses sponsor two qualified, non-leveraged employee stock ownership plans (collectively, the “ESOP”) in which all U.S. employees of the participating CSWI Businesses are eligible to participate following the completion of one year of service. Prior to the Distribution Date, the Company shall cause the applicable CSWI Businesses to transfer sponsorship of the ESOP to CSWI to be effective as of the Distribution Date, and CSWI shall take all actions necessary to assume sponsorship of the ESOP and be substituted as the party to any trust and/or custodian agreement related thereto effective as of the Distribution Date. As soon as administratively practicable following the Distribution Date, CSWI shall cause a transfer of plan assets of the Capital Southwest Employees who have an account balance under the ESOP as of the Distribution Date, valued as of the date such assets are transferred, from the trust maintained with respect to the ESOP to the trust maintained with respect to the Capital Southwest 401(k) Plan, and the Company will cause the trust maintained with respect to the Capital Southwest 401(k) Plan to accept such transfer of assets. Effective as of the Distribution Date, Capital Southwest Employees shall cease participation in the ESOP.

Cash Incentive Awards. The Company’s compensation program includes long-term cash incentives (“Cash Incentive Awards”). The Company will use commercially reasonable efforts to enter into an agreement with each holder of a Cash Incentive Award as of the Distribution Date to cause the value of such award to be determined based upon net asset value calculated as of the last day of the fiscal quarter ending immediately prior to the Distribution Date. Such Cash Incentive Awards shall continue to be otherwise subject to substantially the same terms and conditions after the Distribution Date as applied to such awards immediately prior to the Distribution Date. The Company and CSWI will use commercially reasonable efforts to enter into a new incentive agreement with the holders of each such Cash Incentive Award. Such new awards shall remain subject to substantially the same terms and conditions after the Distribution Date as applied to the Cash Incentive Awards immediately prior to the Distribution Date, to the extent necessary to comply with Section 409A of the Code.

Health and Welfare Benefit Plans. Effective as of the Distribution Date, the Company shall cause the sponsorship of certain health and welfare benefit plans to be transferred to CSWI and all related insurance policies to be assigned to CSWI. CSWI shall take all actions necessary to assume sponsorship of such plans and insurance policies. During the period commencing on the Distribution Date and ending on the date that Capital Southwest Employees become eligible to participate in health and welfare plans sponsored by the Company, provided that such date shall in no event be after December 31, 2015, Capital Southwest Employees shall continue to participate in the health and welfare plans assumed and sponsored by CSWI. The Company shall establish its own health and welfare benefit plans effective as soon as administratively possible following the distribution date but in no event later December 31, 2015, and Capital Southwest Employees shall cease participation in the health and welfare benefit plans assumed and sponsored by CSWI on that date.

Share Distribution-Related Payments. Certain executive officers of the Company hold stock option, restricted stock and cash bonus award payments issued under the Company’s executive compensation plan vesting in three annual installments following the consummation of the Share Distribution (the “Share Distribution Executive Compensation Plan”). The equity awards payable under the Share Distribution Executive Compensation Plan will include both Capital Southwest and CSWI stock options and restricted shares. The Company shall retain all liabilities with respect to the cash incentive awards granted under the Share Distribution Executive Compensation Plan. The Company shall pay such cash incentive awards at the time and manner provided under the terms of the Share Distribution Executive Compensation Plan.

Item 5.02 Departure of Directors or Certain Officers; Election of Directors; Appointment of Certain Officers; Compensatory Arrangements of Certain Officers.

Resignations

On September 8, 2015, in connection with the Share Distribution, Joseph B. Armes, the Company's President and Chief Executive Officer, Kelly Tacke, the Company's Chief Financial Officer, Chief Compliance Officer, Secretary and Treasurer and Christopher Mudd, the Company's Senior Vice President, Operations, resigned from their positions with the Company effective in each case immediately following the consummation of the Share Distribution.

Appointment of Officers

On September 8, 2015, Bowen S. Diehl was appointed President and Chief Executive Officer of the Company and Michael S. Sarner was appointed Chief Financial Officer, Chief Compliance Officer, Secretary and Treasurer of the Company effective in each case immediately following the consummation of the Share Distribution.

Mr. Diehl, age 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, New York and then in Houston, Texas, 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.

Mr. Sarner, age 43, has served as Senior Vice President of the Company since July 14, 2015. Before joining the Company, Mr. Sarner spent 15 years at American Capital, Ltd., in a variety of financial roles, most recently as Senior Vice President, Treasury, a position he held since 2012. He was also a Vice President of American Capital from 2006 to 2012, and a Manager from 2000 to 2006. At American Capital, he was responsible for initiatives and staff development related to debt capital markets, treasury and financial planning and analysis. These responsibilities included corporate debt originations, refinancings, RIC/BDC compliance and debt servicing. During his tenure at American Capital, Mr. Sarner was also the lead in charge of both a corporate debt restructuring and corporate re-organization. He received a B.B.A. in Business Administration/Accounting from James Madison University and an M.B.A. in Finance from George Washington University's School of Business and Public Management.

Employee Matters Agreement

On September 8, 2015, the Company entered into the Employee Matters Agreement with CSWI, as discussed in Item 1.01. That disclosure is incorporated herein by reference.

Amendments to Compensation Arrangements

The Company adopted the Share Distribution Executive Compensation Plan on August 28, 2014, pursuant to which non-qualified stock option, restricted stock and cash incentive awards were granted to Mr. Armes, Mr. Diehl and Ms. Tacke. The awards vest in three annual installments following consummation by the Company of a transformative transaction, subject to accelerated vesting in connection with certain change of control events. On September 8, 2015, the Board designated the Share Distribution as a transformative transaction for purposes of the plan and amended the award agreements granted under the plan to provide for accelerated vesting of the awards held by an executive in the event of a termination of such executive's service effected by the executive for good reason, by the employer without cause, or as a result of the disability or death of the executive.

The foregoing summary description is qualified in its entirety by reference to the full text of the amended and restated non-qualified stock option agreement, the amended and restated restricted stock award agreement and the amended and restated cash incentive award agreement, copies of which are attached hereto as Exhibits 10.3, 10.4 and 10.5 to this Current Report on Form 8-K and are incorporated herein by reference.

The existing non-qualified stock option agreement, restricted stock award agreement and cash incentive award agreement are more fully described in the Company's Current Report filed with the Securities and Exchange Commission on August 29, 2014, which description is incorporated by reference herein.

Item 8.01 Other Events.

The Company issued a press release on September 8, 2015 announcing the declaration of the Share Distribution by the Board and related information. The press release is filed as Exhibit 99.1 to this Current Report and incorporated herein by reference.

Item 9.01 Financial Statements and Exhibits.

(d) Exhibits

<u>Exhibit No.</u>	<u>Description</u>
2.1	Distribution Agreement
10.1	Tax Matters Agreement
10.2	Amended and Restated Employee Matters Agreement
10.3	Form of Amended and Restated Non-Qualified Stock Option Agreement
10.4	Form of Amended and Restated Restricted Stock Award Agreement
10.5	Form of Amended and Restated Cash Incentive Award Agreement
99.1	Press Release of the Company dated September 8, 2015

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

Dated: September 14, 2015

By: /s/ Joseph B. Armes

Name: Joseph B. Armes
Title: Chairman of the Board,
Chief Executive Officer and President

EXHIBIT INDEX

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10.5	Form of Amended and Restated Cash Incentive Award Agreement
99.1	Press Release of the Company dated September 8, 2015

DISTRIBUTION AGREEMENT

BY AND BETWEEN

CAPITAL SOUTHWEST CORPORATION

AND

CSW INDUSTRIALS, INC.

DATED AS OF SEPTEMBER 8, 2015

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DISTRIBUTION AGREEMENT

This Distribution Agreement (this “Agreement”) is dated as of September 8, 2015, by and between Capital Southwest Corporation, a Texas corporation (“Capital Southwest”), and CSW Industrials, Inc., a Delaware corporation and a wholly-owned subsidiary of Capital Southwest (“CSWI” and, together with Capital Southwest, the “Parties”).

WHEREAS, the Board of Directors of Capital Southwest has determined that it is in the best interests of Capital Southwest and its shareholders to separate the CSWI Businesses from Capital Southwest’s other businesses on the terms and conditions set forth herein;

WHEREAS, the Board of Directors of Capital Southwest has authorized the distribution to the holders of the issued and outstanding shares of common stock, par value \$0.25 per share, of Capital Southwest (the “Capital Southwest Common Stock”) as of the Record Date of all the issued and outstanding shares of common stock, par value \$0.01 per share, of CSWI (each such share is individually referred to as a “CSWI Share” and collectively referred to as the “CSWI Common Stock”), respectively, on the basis of one CSWI Share for every share of Capital Southwest Common Stock (the “Share Distribution”); and

WHEREAS, the Parties have determined to set forth in this Agreement and the Ancillary Agreements the principal corporate and other transactions required to effect the Share Distribution, as well as the other agreements that will govern certain other matters prior to and following the Share Distribution.

NOW, THEREFORE, in consideration of the mutual covenants contained in this Agreement, the Parties hereby agree as follows:

ARTICLE I

DEFINITIONS

Section 1.1 General. Unless otherwise defined herein or unless the context otherwise requires, as used in this Agreement, the following terms have the following meanings:

“Action” means any demand, action, suit, arbitration, inquiry, proceeding, investigation, audit, counter suit, hearing or litigation of any nature, whether administrative, civil, criminal, regulatory or otherwise, by or before any Governmental Authority or any arbitration or mediation tribunal.

“Affiliate” means, when used with respect to any specified Person, a Person that directly or indirectly controls, is controlled by, or is under common control with such specified Person. As used herein, “control” means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of such Person, whether through the ownership of voting securities or other interests, by contract or otherwise. Unless expressly provided herein to the contrary, for purposes of this Agreement, neither CSWI nor any CSWI Company shall be deemed to be an Affiliate of Capital Southwest or any of its Subsidiaries, and neither Capital Southwest nor any of its Subsidiaries (other than CSWI or any CSWI Company) shall be deemed to be an Affiliate of CSWI or any of its Subsidiaries.

“Agent” has the meaning set forth in Section 2.2(a).

“Agreement” has the meaning set forth in the preamble to this Agreement.

“Ancillary Agreements” means all of the written agreements, instruments, understandings, assignments or other arrangements (other than this Agreement) entered into by the Parties in connection with the transactions contemplated hereby (including the Internal Reorganization and the Contribution), including the Tax Matters Agreement, the Employee Matters Agreement and the Sublease.

“Business Day” means any day other than a Saturday, Sunday or a day on which commercial banking institutions located in Dallas, Texas are authorized or obligated by Law to close.

“Capital Southwest” has the meaning set forth in the preamble to this Agreement.

“Capital Southwest Business” means the business of acting as a business development company under the Investment Company Act of 1940.

“Capital Southwest Common Stock” has the meaning set forth in the recitals to this Agreement.

“Capital Southwest Indemnitees” means Capital Southwest and its Affiliates and Representatives, and each of their respective heirs, executors, successors and assigns.

“Capital Southwest Liabilities” means any and all Liabilities of Capital Southwest and its Affiliates (including CSWI and the CSWI Companies), other than CSWI Liabilities, including any and all Liabilities arising out of or resulting from (a) the ownership or operation of the Capital Southwest Business or any other business, in each case as conducted at any time prior to, on or after the Distribution Date or (b) the use by CSWI or any of its Affiliates prior to the consummation of the Share Distribution of any Capital Southwest Marks.

“Capital Southwest Marks” shall include all names, logos or trademarks of Capital Southwest and its Affiliates and all intellectual property rights therein and all trademarks and logos comprised of or derivative of any of the foregoing, in each case other than any CSWI Marks.

“Claim Notice” has the meaning set forth in Section 4.3(a).

“Code” means the Internal Revenue Code of 1986.

“Commission” means the United States Securities and Exchange Commission.

“Confidential Information” has the meaning set forth in Section 5.4(a).

“Contribution” has the meaning set forth in Section 2.1(b).

“CSWI” has the meaning set forth in the preamble to this Agreement.

“CSWI Businesses” means the businesses of each of CSWI and the CSWI Companies prior to, on and after the Distribution Date.

“CSWI Common Stock” has the meaning set forth in the recitals to this Agreement.

“CSWI Companies” means The RectorSeal Corporation, The Whitmore Manufacturing Company, Jet-Lube, Inc., Balco, Inc., Strathmore Holdings, LLC, Smoke Guard, Inc. and CapStar Holdings Corporation, and each of their respective Subsidiaries.

“CSWI Indemnitees” means CSWI and each of the CSWI Companies and each of their respective Affiliates and Representatives, and each of their respective heirs, executors, successors and assigns.

“CSWI Liabilities” means any and all Liabilities, to the extent relating to, arising out of or resulting from (a) the ownership or operation of the CSWI Businesses (including any discontinued business or any business which has been sold or transferred), as conducted at any time prior to, on or after the Distribution Date, (b) the ownership or operation of any business conducted by CSWI or any CSWI Company at any time prior to, on or after the Distribution Date, (c) the incorporation of CSWI, (d) the post-Share Distribution operation of CSWI as a holding company of the CSWI Companies and (e) any other Liabilities that are expressly assumed by CSWI under this Agreement or any Ancillary Agreement.

“CSWI Marks” means “CSW Industrials” and the logo attached as Schedule A.

“CSWI Share” has the meaning set forth in the recitals to this Agreement.

“Direct Claim” has the meaning set forth in Section 4.4.

“Distribution Date” means such date as may be determined by the Board of Directors of Capital Southwest or a committee of such Board of Directors as the date as of which the Share Distribution shall be effected.

“Effective Date” has the meaning set forth in Section 2.5.

“Employee Matters Agreement” means the Employee Matters Agreement, by and between Capital Southwest and CSWI, which agreement shall be entered into prior to or on the Distribution Date.

“Encumbrance” means, with respect to any property or asset, any lien, pledge, charge, claim, encumbrance, security interest, option, mortgage, easement, or deed of trust, hypothecation, assignment, preemptive purchase right, or other adverse claim of any kind in respect of such property or asset.

“Exchange Act” means the Securities Exchange Act of 1934.

“Financial Requirements” has the meaning set forth in Section 5.1(c).

“Governmental Authority” means any federal, state, local, foreign or international court, government, department, commission, board, bureau, agency, official or other regulatory, administrative or governmental authority or self-regulatory organization.

“Indemnified Party” has the meaning set forth in Section 4.3(a).

“Indemnifying Party” has the meaning set forth in Section 4.3(a).

“Indemnitee” means, as applicable, a CSWI Indemnitee or a Capital Southwest Indemnitee.

“Information Statement” means the information statement, attached as an exhibit to the Registration Statement, and any related documentation provided to holders of Capital Southwest Common Stock in connection with the Share Distribution, including any amendments or supplements thereto.

“Internal Reorganization” has the meaning set forth in Section 2.1(a).

“Law” means any statute, law, ordinance, regulation, rule, code or other requirement of, or Order issued by, a Governmental Authority.

“Liabilities” means any and all debts, liabilities and obligations of any kind, whether accrued or not accrued, known or unknown, asserted or unasserted, matured or unmatured, conditional or unconditional, patent or latent, liquidated or unliquidated, determined or determinable, absolute or contingent, due or to become due, written or oral, whenever or however arising (including, whether arising out of any Law or Contract, or tort based on negligence or strict liability) and whether or not the same would be required by United States generally accepted accounting principles to be reflected in financial statements or disclosed in the notes thereto.

“Losses” means any and all Liabilities, claims, Actions, assessments, deficiencies, Taxes, interest, penalties and costs and expenses (including attorneys’ fees and out-of-pocket disbursements).

“Management Agreements” means any agreement pursuant to which CSWI or any CSWI Company is obligated to pay management or other related fees to Capital Southwest or any of its Affiliates.

“NASDAQ” means The NASDAQ Stock Market LLC.

“Notice Period” has the meaning set forth in Section 4.3(a).

“Order” means any orders, judgments, injunctions, awards, decrees, writs or other legally enforceable requirement handed down, adopted or imposed by, including any consent decree, settlement agreement or similar written agreement with, any Governmental Authority or any arbitration or mediation tribunal.

“Parties” has the meaning set forth in the preamble to this Agreement.

“Permitted Encumbrances” means, collectively, (a) Encumbrances reflected or reserved against or otherwise disclosed in the audited financial statements of any of the CSWI Companies and (b) mechanics’, materialmen’s, warehousemen’s, carriers’, workers’, or repairmen’s liens or other similar common law or statutory Encumbrances arising or incurred in the ordinary course of business and not securing any amount that is past due.

“Person” means any natural person, corporation, business trust, limited liability company, joint venture, association, company, partnership or government, or any agency or political subdivision thereof.

“Record Date” means such date as may be determined by the Board of Directors of Capital Southwest or a committee of such Board of Directors as the record date for the Share Distribution.

“Records” has the meaning set forth in Section 5.1(a).

“Registration Statement” means the registration statement on Form 10 filed with the Commission to effect the registration of the CSWI Shares pursuant to the Exchange Act.

“Representative” means, with respect to any Person, any of such Person’s directors, officers, employees, agents, consultants, advisors, accountants, attorneys and representatives.

“Share Distribution” has the meaning set forth in the recitals to this Agreement.

“Share Issuance” has the meaning set forth in Section 2.1(b).

“Sublease” means the Sublease, by and between Capital Southwest and CSWI, which agreement shall be entered into prior to or on the Distribution Date.

“Subsidiary” means with respect to any specified Person, any corporation or other legal entity of which such Person or any of its Subsidiaries controls or owns, directly or indirectly, more than 50% of the stock or other equity interests entitled to vote on the election of members to the board of directors or similar governing body or, in the case of a Person with no governing body, more than 50% of the equity or voting interests. Unless expressly provided herein to the contrary, for purposes of this Agreement, neither CSWI nor any CSWI Company shall be deemed to be a Subsidiary of Capital Southwest or any of its Subsidiaries.

“Tax” means any tax, charge, fee, duty, levy, impost or other assessment imposed by any federal, state, local or foreign Governmental Authority, including income, gross receipts, excise, property, sales, use, license, capital stock, transfer, franchise, payroll, withholding, social security, value added or other tax, and any interest, penalties or additions attributable thereto.

“Tax Matters Agreement” means the Tax Matters Agreement, by and between Capital Southwest and CSWI, which agreement shall be entered into prior to or on the Distribution Date.

“Third Party Claim” has the meaning set forth in Section 4.3(a).

“Transferred Assets” means:

- (a) all of the capital stock or other equity interests in each of the CSWI Companies;
- (b) \$13.0 million in cash; and
- (c) the assets listed on Schedule B.

Section 1.2 Reference; Interpretation. Unless the context requires otherwise, (a) all references to Sections, Articles or Schedules are to the Sections, Articles or Schedules of or to this Agreement, (b) each accounting term not otherwise defined in this Agreement has the meaning commonly applied to it in accordance with United States generally accepted accounting principles, consistently applied, and as in effect on the date of this Agreement, (c) words in the singular include the plural and vice versa, (d) all references to \$ or dollar amounts will be to lawful currency of the United States, (e) to the extent the term “day” or “days” is used, it will mean calendar days unless Business Days are specified, (f) the pronoun “his” refers to the masculine, feminine and neuter, the words “herein,” “hereby,” “hereof,” “hereunder” and other words of similar import refer to this Agreement as a whole and not to any particular Section, Article or other subdivision, (g) the term “including” means “including without limitation,” (h) the term “or” will be disjunctive but not exclusive, (i) the term “extent” in the phrase “to the extent” means the degree to which a subject or other thing extends, and such phrase will not mean simply “if,” and (j) any reference to any contract or Law is a reference to it as amended, modified and supplemented from time to time (and, in the case of a Law, to (i) any successor provision and (ii) the rules and regulations promulgated thereunder). Neither this Agreement nor any Ancillary Agreement shall be construed against either Party as the principal draftsman hereof or thereof.

ARTICLE II

INTERNAL REORGANIZATION AND CONTRIBUTION; SHARE DISTRIBUTION; CERTAIN COVENANTS

Section 2.1 Internal Reorganization and Contribution.

- (a) Prior to the Share Distribution, Capital Southwest will:
 - (i) cause Balco, Inc. to redeem the outstanding minority interest in its common stock held by certain members of its management; and
 - (ii) cause Capital Southwest Venture Corporation to distribute all of the outstanding preferred stock of CapStar Holdings Corporation owned by Capital Southwest Venture Corporation to Capital Southwest;

(such actions, collectively, the “Internal Reorganization”).

(b) Following the completion of the Internal Reorganization, immediately prior to the effectiveness of the Share Distribution, Capital Southwest will transfer to CSWI, and CSWI will acquire from Capital Southwest, all of Capital Southwest’s right, title and interest in and to the Transferred Assets, free and clear of all Encumbrances other than Permitted Encumbrances (the “Contribution”), in exchange for such number of CSWI Shares as will be necessary for Capital Southwest to distribute to its shareholders of record on the Record Date one CSWI Share for every one share of Capital Southwest Common Stock outstanding on the Record Date (the “Share Issuance”).

(c) In furtherance of the Contribution, Capital Southwest will, prior to the Share Distribution, deliver or cause to be delivered to CSWI:

(i) certificates evidencing (A) all shares of capital stock of The RectorSeal Corporation, (B) 80% of the shares of capital stock of The Whitmore Manufacturing Company, (C) all shares of capital stock of Balco, Inc. and (D) all shares of capital stock of CapStar Holdings Corporation, each duly endorsed in blank or accompanied by a stock power duly endorsed in blank;

(ii) an amount in cash equal to \$13.0 million, by wire transfer of immediately available funds, to an account designated by CSWI; and

(iii) a bill of sale and assignment and assumption agreement, transferring to CSWI all of Capital Southwest's right, title and interests in and to the Transferred Assets set forth on Schedule B.

(d) In furtherance of the Share Issuance, CSWI will issue to Capital Southwest a stock certificate representing the CSWI Shares to be issued to Capital Southwest in the Share Issuance.

Section 2.2 Share Distribution.

(a) On or prior to the Distribution Date, Capital Southwest shall deliver to Capital Southwest's stock transfer agent (the "Agent") a single stock certificate representing all of the issued and outstanding CSWI Shares, in each case, endorsed by Capital Southwest in blank, for the benefit of the holders of Capital Southwest Common Stock, and Capital Southwest shall instruct the Agent to distribute, on or as soon as practicable following the Distribution Date, such number of the CSWI Shares to holders of record of shares of Capital Southwest Common Stock on the Record Date, all as further contemplated by the Registration Statement and hereby. CSWI shall provide any share certificates that the Agent shall require in order to effect the Share Distribution. The Share Distribution shall be effective as of 11:59 p.m. on the Distribution Date.

(b) The CSWI Common Stock issued in the Share Distribution is intended to be distributed only pursuant to a book entry system. Capital Southwest shall instruct the Agent to deliver the CSWI Common Stock previously delivered to the Agent to a depository and to mail to each holder of record of Capital Southwest Common Stock on the Record Date, a statement of the CSWI Common Stock credited to such holder's account. If following the Share Distribution a holder of CSWI Common Stock requests physical certificates instead of participating in the book entry system, the Agent shall issue certificates for such shares.

(c) Capital Southwest will direct the Agent, as soon as practicable after the effectiveness of the Share Distribution, to (i) determine the number of whole shares and fractional shares of CSWI Common Stock allocable to each holder, (ii) aggregate all such fractional shares into whole shares and sell the whole shares obtained thereby in open market transactions or otherwise as determined by the Agent at the then prevailing trading prices on behalf of holders that would otherwise be entitled to fractional share interests, and (iii) distribute to each such holder, or for the benefit of each beneficial owner of fractional shares, such holder or beneficial owner's ratable share of the net proceeds of such sales, based upon the weighted average gross selling price per share of CSWI Common Stock after making appropriate deductions for any amount required to be withheld under applicable Law and less any applicable transfer, stock transfer, stamp or similar Taxes. CSWI will be responsible for payment of any brokerage fees associated with such sales. None of Capital Southwest, CSWI, any CSWI Company or the Agent will guarantee any minimum sale price for the fractional shares of CSWI Common Stock. None of Capital Southwest, CSWI, any CSWI Company or the Agent will pay any interest on the proceeds from the sale of such shares.

(d) If the aggregation of fractional shares results in any remaining fractional shares, CSWI will redeem such fractional shares for cash at a price equal to the weighted average gross selling price per share of CSWI Common Stock received by the Agent and will pay such funds to the Agent for payment as cash in lieu of fractional shares.

Section 2.3 Capital Southwest Determinations. Capital Southwest shall have the sole and absolute discretion to determine whether to proceed with all or part of the Share Distribution and all terms thereof, including the form, structure and terms of any transaction(s) and/or offering(s) to effect the Share Distribution and the timing of and conditions to the consummation of the Share Distribution.

Section 2.4 Charter; Bylaws. On or prior to the Distribution Date, CSWI and Capital Southwest shall take all necessary actions to provide for the adoption of the form of Certificate of Incorporation and Bylaws in substantially the form filed by CSWI with the Commission as exhibits to the Registration Statement.

Section 2.5 Directors. On or prior to the effective date of the Registration Statement (the “Effective Date”), Capital Southwest and CSWI shall take all necessary action to cause the Board of Directors of CSWI to consist of the individuals identified in the Registration Statement as directors of CSWI as of immediately following the Effective Date.

Section 2.6 Election of Officers. On or prior to the Effective Date, CSWI shall take all actions necessary and desirable so that as of the Effective Date the officers of CSWI will be as set forth in the Information Statement.

Section 2.7 Certain Licenses and Permits. On or prior to the Distribution Date or as soon as reasonably practicable thereafter, Capital Southwest shall use its commercially reasonable efforts to transfer or cause to be transferred any transferable licenses, permits and authorizations issued by any Governmental Authority which relate to the CSWI Businesses but which are held in the name of Capital Southwest or any of its Affiliates, to the appropriate CSWI Company.

Section 2.8 State Securities Laws. Prior to the Distribution Date, Capital Southwest and CSWI shall take all such action as may be necessary or appropriate under state securities Laws or “blue sky” Laws in order to effect the Share Distribution.

Section 2.9 Listing Application. Prior to the Effective Date, Capital Southwest and CSWI shall prepare and file with NASDAQ a listing application and related documents and shall take all such other actions with respect thereto as shall be necessary or desirable in order to cause NASDAQ to list on or prior to the Distribution Date, subject to official notice of issuance, the CSWI Shares.

Section 2.10 Misallocated Transfers. In the event that, at any time from and after the Distribution Date, a Party discovers that it or any of its Affiliates is the owner of, receives or otherwise comes to possess any asset (including the receipt of payments made pursuant to contracts and proceeds from accounts receivable with respect to the period on or prior to the Distribution Date) or is liable for any Liability that is attributable to the other Party or any Affiliate of the other Party pursuant to this Agreement or any Ancillary Agreement, such Party will promptly convey, or cause to be conveyed such asset or Liability to the Person so entitled thereto or responsible therefor (and the relevant Party will cause such entitled Person to accept such asset or assume such Liability).

Section 2.11 Ancillary Agreements. On or prior to the Effective Date, each of Capital Southwest and CSWI shall enter into, the Ancillary Agreements and any other agreements in respect of the Share Distribution reasonably necessary or appropriate in connection with the transactions contemplated hereby and thereby.

Section 2.12 Termination of Management Agreements. The Parties will cause each of the Management Agreements to be terminated effective as of the Distribution Date.

Section 2.13 Release. Except as otherwise provided in the Ancillary Agreements, effective as of consummation of the Share Distribution, each Party hereby irrevocably waives, releases and discharges, and shall cause its Affiliates not to assert, to the fullest extent permitted by applicable Law, any claims, or take or bring any actions, against the other Party or any of its Affiliates or Representatives in relation to any and all Liabilities, Actions or claims of whatever kind or nature, in law, equity or otherwise, arising from, connected or related to, caused by or based on any facts, conduct, activities, agreements, transactions, events or occurrences, known or unknown, of any type that existed, occurred, happened, arose or transpired from the beginning of time through the Distribution Date, including (except as otherwise provided in the Ancillary Agreements) any Liabilities, Actions or claims arising out of, related to or otherwise in connection with: (a) the management, operation or conduct by such Party or its Affiliates of the Capital Southwest Business or the CSWI Business, as the case may be; (b) the Share Distribution, the Internal Reorganization and the Contribution; (c) the terms of this Agreement; and (d) any other decision that may have been made, or any action taken, relating to the formation of CSWI and the consummation of the Internal Reorganization, the Contribution and the Share Distribution; provided, however, that nothing in this Section 2.13 shall affect any Party's rights or obligations under this Agreement or any Ancillary Agreement or any Liabilities owed by a Party or its Affiliates to a director, officer, employee or other Representative or equity holder of the other Party or its Affiliates in their capacity as such. The Parties acknowledge and agree that the purpose of this Section 2.13 is to make clear the intent of the Parties that, following consummation of the Share Distribution, the only Liability that any Party shall have to any other Party or its Affiliates shall be its obligations under and pursuant to the terms of this Agreement and the Ancillary Agreements and there shall be no Liability in respect of any event, occurrence, action or inaction on or prior to the Share Distribution.

Section 2.14 Discharge of Liabilities. Except as otherwise expressly provided herein or in any of the Ancillary Agreements, all intercompany trade accounts receivable and accounts payable between Capital Southwest, on the one hand, and CSWI or any CSWI Company, on the other hand, in existence immediately prior to the Distribution Date shall be repaid, redeemed, settled, released or cancelled as of the Distribution Date.

Section 2.15 Further Assurances. If at any time after the Share Distribution any further action is reasonably necessary or desirable to carry out the purposes of this Agreement and the Ancillary Agreements, each Party shall take all such necessary action and do and perform all such acts and things, and execute and deliver all such agreements, to the extent reasonably requested to do so by the other Party, and each Party agrees to execute and deliver such documents, in a form reasonably satisfactory to such Party, as may be reasonably necessary to evidence the assumption of any Liabilities hereunder. Without limiting the foregoing, each Party shall use its commercially reasonable efforts promptly to obtain all consents and approvals, to enter into all agreements and to make all filings and applications that may be required for the consummation of the transactions contemplated by this Agreement and the Ancillary Agreements, including all applicable filings with, and approvals from, any Governmental Authority.

ARTICLE III

CONDITIONS

Section 3.1 Conditions Precedent to Consummation of the Share Distribution. The Share Distribution shall not be effected unless and until the following conditions have been satisfied or waived by Capital Southwest, in its sole and absolute discretion, at or before the Distribution Date:

(a) the Registration Statement shall have been declared effective by the Commission under the Exchange Act, with no stop order in effect with respect thereto, and no Actions for such purpose shall be pending before, or threatened by, the Commission;

(b) Capital Southwest shall have mailed the Information Statement (and such other information concerning CSWI, the Share Distribution and such other matters as the Parties shall determine and as may otherwise be required by Law) to the shareholders of Capital Southwest;

(c) Capital Southwest shall have received an opinion from a nationally recognized accounting firm engaged by Capital Southwest, in form and substance satisfactory to Capital Southwest in its sole and absolute discretion, that, subject to the accuracy of and compliance with certain representations, assumptions and covenants, the Contribution and the Share Distribution should qualify as tax-free to Capital Southwest and Capital Southwest's shareholders (except for cash received in lieu of fractional shares) for U.S. federal income tax purposes under Sections 355 and 368(a)(1)(D) and related provisions of the Code;

(d) the Board of Directors of Capital Southwest shall have declared the distribution of outstanding shares of common stock of CSWI to Capital Southwest shareholders as of the Record Date, which declaration may be made or withheld at its sole and absolute discretion;

(e) all actions and filings necessary or appropriate under applicable U.S. federal or state securities Laws and state “blue sky” Laws and any comparable laws under any foreign jurisdictions in connection with the Share Distribution shall have been taken and become effective;

(f) no Order preventing the consummation of, or materially limiting the benefits of, the Share Distribution shall be in effect;

(g) the CSWI Shares shall have been approved for listing on NASDAQ, subject to official notice of issuance;

(h) each of this Agreement and the Ancillary Agreements shall have been executed and delivered by each of the parties thereto and no party to this Agreement or to any of the Ancillary Agreements will be in material breach of any such agreement; and

(i) no other events or developments shall have occurred that, in the judgment of the Board of Directors of Capital Southwest, in its sole discretion, would result in the Share Distribution having a material adverse effect on Capital Southwest or its shareholders.

Section 3.2 Right Not to Close. Each of the conditions set forth in Section 3.1 is for the benefit of Capital Southwest, and the Board of Directors of Capital Southwest may, in its sole and absolute discretion, determine whether to waive any condition, in whole or in part. Any determination made by the Board of Directors of Capital Southwest concerning the satisfaction or waiver of any or all of the conditions in Section 3.1 will be conclusive and binding on the Parties. The satisfaction of the conditions set forth in Section 3.1 will not create any obligation on the part of Capital Southwest to any other Person to effect the Share Distribution or in any way limit Capital Southwest’s right to terminate this Agreement as set forth in Section 6.10.

ARTICLE IV

INDEMNIFICATION

Section 4.1 Indemnification by Capital Southwest. From and after the Distribution Date, Capital Southwest shall indemnify, defend and hold harmless the CSWI Indemnitees from and against any and all Losses of the CSWI Indemnitees to the extent arising out of, related to or otherwise in connection with:

(a) any breach by Capital Southwest of any of its or its Affiliates’ covenants or agreements set forth in this Agreement or any of the Ancillary Agreements (excluding the Tax Matters Agreement, for which any indemnification for Taxes will be determined pursuant to that agreement);

(b) any claims or Actions by any shareholder of Capital Southwest, stockholder of CSWI or any other Person, in each case in respect of or related to this Agreement, any Ancillary Agreement (excluding the Tax Matters Agreement, for which any indemnification for Taxes will be determined pursuant to that agreement), the Registration Statement or any of the transactions contemplated by this Agreement or any Ancillary Agreement, including the Internal Reorganization, the Contribution and the Share Distribution;

(c) any claims or Actions by employees or former employees of Capital Southwest, CSWI or any CSWI Company in respect of any stock options, restricted stock or other awards with respect to any rights to any equity interests in or securities exercisable or convertible into equity interests of Capital Southwest; and

(d) any Capital Southwest Liability (other than any Liability that is subject to indemnification under the Tax Matters Agreement).

Section 4.2 Indemnification by CSWI. From and after the Distribution Date, CSWI shall indemnify, defend and hold harmless the Capital Southwest Indemnitees from and against any and all Losses of the Capital Southwest Indemnitees to the extent arising out of, related to or otherwise in connection with:

(a) any breach by CSWI of any of its or its Affiliates' covenants or agreements set forth in this Agreement or any of the Ancillary Agreements (excluding the Tax Matters Agreement); and

(b) any CSWI Liability (other than any Liability that is subject to indemnification under the Tax Matters Agreement).

Section 4.3 Third Party Claim Indemnification Procedures.

(a) In the event that any written claim or demand for which an indemnifying party (an "Indemnifying Party") may have liability to any indemnified party (an "Indemnified Party") hereunder is asserted against or sought to be collected from any Indemnified Party by a third Person (a "Third Party Claim"), such Indemnified Party shall promptly, but in no event more than 30 days following such Indemnified Party's receipt of a Third Party Claim, notify the Indemnifying Party, as applicable, in writing of such Third Party Claim (a "Claim Notice"); provided, however, that the failure to timely give a Claim Notice shall affect the rights of an Indemnified Party hereunder only if such failure has a prejudicial effect on the Indemnifying Party with respect to such Third Party Claim. Notice under this Section 4.3 shall be provided in accordance with Section 6.5. The Indemnifying Party shall have 20 days (or such lesser number of days set forth in the Claim Notice as may be required by court proceeding in the event of a litigated matter) after receipt of the Claim Notice (the "Notice Period") to notify the Indemnified Party, as applicable, that it desires to defend the Indemnified Party against such Third Party Claim. For the avoidance of doubt, knowledge of a Third Party Claim by a Person who is an officer or director of both Capital Southwest and CSWI shall not constitute notice for purposes of this Section 4.3.

(b) In the event that the Indemnifying Party notifies the Indemnified Party within the Notice Period that it desires to defend the Indemnified Party against a Third Party Claim, the Indemnifying Party, as the case may be, shall have the right to defend the Indemnified Party by appropriate proceedings and shall have the sole power to direct and control such defense. Once the Indemnifying Party, as the case may be, has duly assumed the defense of a Third Party Claim, the Indemnified Party shall have the right, but not the obligation, to participate in any such defense and to employ separate counsel of its choosing. The Indemnified Party's participation in any such defense shall be at its own expense unless (i) representation of the Indemnified Party's interests by the Indemnifying Party's counsel would involve an actual conflict of interest or (ii) the Indemnified Party assumes the defense of a Third Party Claim after the Indemnifying Party, as the case may be, has failed to diligently pursue a Third Party Claim it has assumed, as provided in the first sentence of Section 4.3(c), in which case the Indemnifying Party shall pay the expenses of the Indemnified Party's counsel. The Indemnifying Party shall not, without the prior written consent of the Indemnified Party, settle, compromise or offer to settle or compromise any Third Party Claim on a basis that would result in (A) the imposition of a consent Order that would restrict the future activity or conduct of the other party or any of its Affiliates, (B) a finding or admission of a violation of Law or violation of the rights of any Person by the Indemnified Party or any of its Affiliates, (C) a finding or admission that would have an adverse effect on other claims made or threatened against the Indemnified Party or any of its Affiliates, or (D) any monetary liability of the Indemnified Party that will not be promptly paid or reimbursed by the Indemnifying Party. The Indemnified Party shall cooperate in the defense of any Third Party Claim, including by providing access to such personnel, support and relevant business records and other documents, as may be reasonably requested by the Indemnifying Party in connection with such defense.

(c) If the Indemnifying Party (i) elects not to defend the Indemnified Party against a Third Party Claim, whether by not giving the Indemnified Party timely notice of its desire to so defend or otherwise or (ii) after assuming the defense of a Third Party Claim, fails to use its reasonable best efforts to defend diligently such Third Party Claim within 10 Business Days after receiving written notice from the Indemnified Party to the effect that Indemnifying Party, as the case may be, has so failed, the Indemnified Party shall have the right but not the obligation to assume its own defense; it being understood that the Indemnified Party's right to indemnification for a Third Party Claim shall not be adversely affected by assuming the defense of such Third Party Claim. The Indemnifying Party shall not, without the prior written consent of the other party, settle, compromise or offer to settle or compromise any Third Party Claim on a basis that would result in (A) the imposition of a consent Order that would restrict the future activity or conduct of the Indemnified Party or any of its Affiliates, (B) a finding or admission of a violation of Law or violation of the rights of any Person by the Indemnified Party or any of its Affiliates, (C) a finding or admission that would have an adverse effect on other claims made or threatened against the Indemnified Party or any of its Affiliates, or (D) any monetary liability of the Indemnified Party that will not be promptly paid or reimbursed by the Indemnifying Party.

Section 4.4 Direct Claim Indemnification Procedures. Any claim for indemnification of Losses under this Article IV that is not a Third Party Claim (a "Direct Claim") by an Indemnified Party shall be asserted by giving prompt written notice thereof to the Indemnified Party; provided, however, that any delay in providing, or the failure to provide such notification, shall not affect the right of the Indemnified Party to indemnification hereunder except to the extent that the Indemnifying Party is materially prejudiced by the delay or failure. Such notice shall describe the Direct Claim in reasonable detail, including (to the extent practicable) copies of any written evidence thereof and shall indicate the estimated amount of Losses, if reasonably determinable, that have been sustained by the Indemnified Party. The Indemnifying Party will have until 5:00 PM Central time on the date that is 20 Business Days after the Direct Claim is asserted to respond in writing to such Direct Claim. If such response by the Indemnifying Party is not received within such 20 Business Day period, the Indemnifying Party will be deemed to have accepted such claim. If the response of the Indemnifying Party rejecting the Direct Claim is received by the Indemnified Party within such 20 Business Day period, however, the Indemnified Party will be free to pursue such remedies as may be available to the Indemnified Party on the terms and subject to the provisions of this Article IV.

Section 4.5 Indemnification Payments.

(a) Indemnification required by this Article IV shall be made by periodic payments of the amount thereof during the course of the investigation or defense, as and when bills are received or a Loss is incurred, by wire transfer of immediately available funds.

(b) The amount of any claim by an Indemnitee under this Agreement shall be reduced to reflect any insurance proceeds actually received (net of costs or any mandatory premium increases) by any Indemnitee that result from the Losses that gave rise to such indemnity. Notwithstanding the foregoing, no Indemnitee will be obligated to seek recovery for any Losses from any third Person before seeking indemnification under this Agreement and in no event will an Indemnifying Party's obligation to indemnify and hold harmless any Indemnitee pursuant to this Agreement be conditioned upon the status of the recovery of any offsetting amounts from any such third Person.

(c) For all applicable income Tax purposes, the Parties shall treat any payment made by one Party to the other Party pursuant to this Article IV as a capital contribution by Capital Southwest to CSWI or a distribution by CSWI to Capital Southwest, as the case may be, immediately prior to the Share Distribution, except as otherwise mandated by applicable Law.

Section 4.6 Indemnification Rights. The sole and exclusive remedy of a Party with respect to any and all claims relating to this Agreement or the transactions contemplated by this Agreement (other than claims of, or causes of action arising from, knowing and intentional fraud and except for seeking specific performance or other equitable relief to require a Party to perform its obligations under this Agreement to the extent permitted hereunder and thereunder and except as otherwise provided herein or in any Ancillary Agreement) will be pursuant to the indemnification provisions set forth in this Article IV or any Ancillary Agreement. The rights and obligations of each Party and any Indemnitee hereunder shall survive the distribution, sale or transfer by any Party of any assets or the delegation or assignment by it of any Liabilities and shall remain operative and in full force and effect regardless of any investigation made by or on behalf of any Indemnitee, the knowledge by the Indemnitee of Liabilities for which it might be entitled to indemnification hereunder and any termination of this Agreement.

ARTICLE V

ACCESS TO INFORMATION

Section 5.1 Provision of Corporate Records; Record Retention.

(a) From and after the Distribution Date, upon the prior written request by CSWI for agreements, documents, books, records or files including accounting, Tax and financial records (collectively, “Records”) which relate to CSWI or a CSWI Company or the conduct of the CSWI Businesses prior to the Share Distribution, or which CSWI determines are necessary or advisable (i) in order for CSWI to prepare its financial statements, (ii) for use in any Action or in order to satisfy audit, accounting, regulatory or other similar legal or regulatory requirements, or (iii) to comply with reporting, disclosure, filing or other requirements imposed on CSWI or its Affiliates by a Governmental Authority, Capital Southwest shall arrange, as soon as reasonably practicable following the receipt of such request, to promptly provide, at the sole cost and expense of CSWI, appropriate copies of such Records (or the originals thereof if CSWI has a reasonable need for such originals) in the possession or control of Capital Southwest.

(b) From and after the Distribution Date, upon the prior written request by Capital Southwest for Records which relate to Capital Southwest or its current or former Subsidiaries (including for this purpose CSWI and the CSWI Companies) or the conduct of the Capital Southwest Business prior to the Share Distribution, or which Capital Southwest determines are necessary or advisable (i) in order for Capital Southwest to prepare its financial statements, (ii) for use in any Action or in order to satisfy audit, accounting, regulatory or other similar legal or regulatory requirements, or (iii) to comply with reporting, disclosure, filing or other requirements imposed on Capital Southwest or its Affiliates by a Governmental Authority, CSWI shall arrange, as soon as reasonably practicable following the receipt of such request, to promptly provide, at the sole cost and expense of Capital Southwest, appropriate copies of such Records (or the originals thereof if Capital Southwest has a reasonable need for such originals) in the possession or control of CSWI or any of the CSWI Companies.

(c) Except when a longer retention period is otherwise required by Law or agreed to in writing by any Party, Capital Southwest, CSWI and the CSWI Companies shall retain all Records relating to the Capital Southwest Business and the CSWI Businesses as of the Distribution Date for the periods of time provided in each Party’s record retention policy (with respect to the documents of such party and without regard to the Share Distribution or its effects) as in effect on the Distribution Date. Following the expiration of the retention period specified in the immediately preceding sentence, Capital Southwest or CSWI may offer in writing to deliver such Records to the other and, if such offer is not accepted within 90 days, the offered Records may be destroyed or otherwise disposed of at any time following the expiration of such 90-day period. If a recipient of such offer shall request in writing prior to the scheduled date for such destruction or disposal that any of the Records proposed to be destroyed or disposed of be delivered to such requesting Party, the Party proposing the destruction or disposal shall promptly arrange for delivery of such of the Records as was requested (at the cost of the requesting Party).

Section 5.2 Access to Information. From and after the Distribution Date, each of Capital Southwest and CSWI shall afford to the other and its authorized Representatives reasonable access during normal business hours, subject to appropriate restrictions for classified, privileged or confidential information, to the Representatives, properties, and Records of, in the possession of or in the control of the non-requesting Party and its Subsidiaries insofar as such access is reasonably required by the requesting Party pursuant to Section 5.1.

Section 5.3 Witnesses; Documents and Cooperation in Actions. From and after the Distribution Date, each of Capital Southwest and CSWI shall use their commercially reasonable efforts to make available to the other, upon reasonable written request, its and its Subsidiaries' Representatives as witnesses and any Records within its control or which it otherwise has the ability to make available, to the extent that such Persons or Records may reasonably be required in connection with the prosecution, evaluation, pursuit, settlement, compromise or defense of any Action, including any Third Party Claim, in which the requesting Party may from time to time be involved. This provision shall not apply to any Action brought by one Party against another Party (as to which production of documents and witnesses shall be governed by applicable discovery rules). Without limiting any provision of this Section 5.3, the Parties shall cooperate and consult to the extent reasonably necessary with respect to any Third Party Claim.

Section 5.4 Confidentiality.

(a) Each Party acknowledges that prior to the Distribution Date, Capital Southwest and its Affiliates, on the one hand, and CSWI and the CSWI Companies, on the other hand, have each had access to certain non-public confidential information relating to financial statements, clients, customers, potential clients or customers, employees, suppliers, equipment, designs, programs, strategies, analyses, profit margins, sales, methods of operation, plans, products, technologies, materials, trade secrets, strategies, prospects or other proprietary information of the other ("Confidential Information"), and that the unauthorized use or disclosure of any Confidential Information at any time may irreparably damage Capital Southwest and its Affiliates or CSWI and the CSWI Companies, as the case may be. Capital Southwest and its Affiliates, on the one hand, and CSWI and the CSWI Companies, on the other hand, shall keep, and shall cause their respective Affiliates and Representatives to keep, confidential all Confidential Information concerning the other Party in their possession, their custody or under their control to the extent such information (i) relates to or was acquired during the period prior to the Distribution Date, (ii) relates to any Ancillary Agreement, (iii) is obtained in the course of performing services for the other Party pursuant to any Ancillary Agreement, or (iv) is based upon or is derived from Confidential Information described in the preceding clauses (i), (ii), or (iii), and each Party shall not (without the prior written consent of the other) otherwise release or disclose such information to any other Person, except such Party's auditors, attorneys, consultants and advisors, subject to Section 5.4(b). Each Party shall be deemed to have satisfied its obligation to hold confidential any Confidential Information concerning or owned by the other Party or, in the case of CSWI, any CSWI Company, if it exercises the same care as it takes to preserve confidentiality for its own similar information. The covenants in this Section 5.4 shall survive the transactions contemplated by this Agreement and shall continue indefinitely. This Section 5.4 shall not apply to information (A) that has been in the public domain through no fault of such Party, (B) that has been later lawfully acquired from other sources by such Party, provided that such source is not and was not bound by a confidentiality agreement, (C) the use or disclosure of which is permitted by this Agreement or any other Ancillary Agreement or any other agreement entered into pursuant hereto, (D) that is immaterial and its disclosure is required as part of the conduct of that Party's business and would not reasonably be expected to be detrimental to the interests of the other Party, (E) that the other Party has agreed in writing may be so used or disclosed, or (F) the Party can demonstrate by contemporaneous written records was already in the possession of the such Party on a non-confidential basis at the time of disclosure.

(b) If any Party or, in the case of CSWI, any CSWI Company, either determines that it is required to disclose pursuant to applicable Law, or receives any demand under lawful process or from any Governmental Authority to disclose or provide, Confidential Information of the other Party (or in the case of CSWI, any CSWI Company) that is subject to the confidentiality provisions of Section 5.4(a), such Party shall notify the other Party prior to disclosing or providing such information and shall cooperate at the expense of the requesting Party in seeking any reasonable protective arrangements requested by such other Party. Subject to the foregoing, the Person that received such request may thereafter disclose or provide such information if and to the extent required by such Law or by lawful process or such Governmental Authority; provided, however, that the Person shall only disclose such portion of the Confidential Information as is required to be disclosed or provided.

Section 5.5 Privileged Matters. Except as may be otherwise provided in an Ancillary Agreement, the Parties recognize that legal and other professional services that have been and will be provided prior to the Distribution Date have been and will be rendered for the benefit of Capital Southwest, CSWI and the CSWI Companies, and that Capital Southwest, CSWI and each of the CSWI Companies should be deemed to be the client for the purposes of asserting all privileges which may be asserted under applicable Law. To allocate the interests of each Party in the information as to which any Party is entitled to assert a privilege, the Parties agree as follows:

(a) Capital Southwest shall be entitled, in perpetuity, to control the assertion or waiver of all privileges in connection with privileged information which relates solely to the Capital Southwest Business (including with respect to Liabilities as to which CSWI is required to provide indemnification under Article IV), whether or not the privileged information is in the possession of or under the control of Capital Southwest or CSWI or the CSWI Companies. Capital Southwest shall also be entitled, in perpetuity, to control the assertion or waiver of all privileges in connection with privileged information that relates solely to the subject matter of any claims constituting Capital Southwest Liabilities, now pending or which may be asserted in the future, in any lawsuits or other proceedings initiated against or by Capital Southwest or any of its Subsidiaries, whether or not the privileged information is in the possession of or under the control of Capital Southwest or CSWI or the CSWI Companies.

(b) CSWI shall be entitled, in perpetuity, to control the assertion or waiver of all privileges in connection with privileged information which relates solely to the CSWI Businesses (including with respect to Liabilities as to which Capital Southwest is required to provide indemnification under Article IV), whether or not the privileged information is in the possession of or under the control of Capital Southwest or CSWI or the CSWI Companies. CSWI shall also be entitled, in perpetuity, to control the assertion or waiver of all privileges in connection with privileged information which relates solely to the subject matter of any claims constituting CSWI Liabilities, now pending or which may be asserted in the future, in any lawsuits or other proceedings initiated against or by CSWI or the CSWI Companies, whether or not the privileged information is in the possession of CSWI or the CSWI Companies or under the control of Capital Southwest or CSWI or the CSWI Companies.

(c) The Parties agree that they shall have a shared privilege, with equal right to assert or waive, subject to the restrictions in this Section 5.5, with respect to all privileges not allocated pursuant to the terms of Sections 5.5(a) and (b).

(d) Subject to Sections 5.5(a) and (b), no Party may waive any privilege which could be asserted under any applicable Law, and in which the other Party has a shared privilege, without the consent of the other Party, which consent shall not be unreasonably withheld or delayed, except as provided in subsection (e) below. Consent shall be in writing, or shall be deemed to be granted unless written objection is made within 20 days after notice upon the other Party requesting such consent.

(e) In the event of any litigation or dispute between or among the Parties, any Party and a Subsidiary of the other Party, or a Subsidiary of one Party and a Subsidiary of the other Party, either such Party may waive a privilege in which the other Party has a shared privilege, without obtaining the consent of the other Party; provided, however, that such waiver of a shared privilege shall be effective only as to the use of information with respect to the litigation or dispute between the Parties and/or their Subsidiaries, and shall not operate as a waiver of the shared privilege with respect to any Third Party Claims.

(f) If a dispute arises between or among the Parties or their respective Subsidiaries regarding whether a privilege should be waived to protect or advance the interest of any Party, each Party agrees that it shall negotiate in good faith, shall endeavor to minimize any prejudice to the rights of the other Party, and shall not unreasonably withhold consent to any request for a waiver by the other Party. Each Party specifically agrees that it will not withhold consent to a waiver for any purpose except to protect its own legitimate interests.

(g) Upon receipt by any Party or by any Subsidiary thereof of any subpoena, discovery or other request which arguably calls for the production or disclosure of information subject to a shared privilege or as to which another Party has the sole right hereunder to assert a privilege, or if any Party obtains knowledge that any of its or any of its Subsidiaries' current or former Representatives have received any subpoena, discovery or other request which arguably calls for the production or disclosure of such privileged information, such Party shall promptly notify the other Party of the existence of the request and shall provide the other Party a reasonable opportunity to review the information and to assert any rights it or they may have under this Section 5.5 or otherwise to prevent the production or disclosure of such privileged information.

(h) The transfer of all Records and other information pursuant to this Agreement is made in reliance on the agreement of Capital Southwest and CSWI, as set forth in Sections 5.4 and 5.5, to maintain the confidentiality of privileged information and to assert and maintain all applicable privileges. The access to information being granted pursuant to Sections 5.1, 5.2 and 5.3, the agreement to provide witnesses and individuals pursuant to Section 5.3, the furnishing of notices and documents and other cooperative efforts contemplated by Section 5.3, and the transfer of privileged information between and among the Parties and their respective Subsidiaries, Affiliates and Representatives pursuant to this Agreement shall not be deemed a waiver of any privilege that has been or may be asserted under this Agreement or otherwise.

Section 5.6 Ownership of Information. Any information owned by one Party or any of its Subsidiaries that is provided to a requesting Party pursuant to Article IV or this Article V shall be deemed to remain the property of the providing Person. Unless specifically set forth herein, nothing contained in this Agreement shall be construed as granting or conferring rights of license or otherwise in any such information.

Section 5.7 Cost of Providing Records and Information. A Party requesting Records, information or access to Representatives, witnesses or properties, under Articles IV or V, agrees to reimburse the other Party and its Subsidiaries for the reasonable out-of-pocket costs, if any, incurred in seeking to satisfy the request of the requesting Party.

Section 5.8 Other Agreements Providing for Exchange of Information. Nothing in this Article V shall limit any rights of the Parties under the Tax Matters Agreement. The rights and obligations granted under this Article V are subject to any specific limitations, qualifications or additional provisions on cooperation, access to information, privilege and the sharing, exchange or confidential treatment of information set forth in any Ancillary Agreement or in any other agreement to which Capital Southwest and CSWI or a CSWI Company is a party.

Section 5.9 Compliance with Laws and Agreements. Subject to Section 5.8 in connection with the Tax Matters Agreement, nothing in this Article V shall be deemed to require any Person to provide any information if doing so would, in the opinion of counsel to such Person, be inconsistent with any legal or constitutional obligation applicable to such Person.

ARTICLE VI

MISCELLANEOUS

Section 6.1 Complete Agreement; Construction. This Agreement, including the schedules hereto, and the Ancillary Agreements shall constitute the entire agreement between the Parties with respect to the subject matter hereof and shall supersede all previous negotiations, commitments and writings with respect to such subject matter.

Section 6.2 Counterparts. This Agreement may be executed in one or more counterparts, all of which shall be considered one and the same agreement, and shall become effective when one or more such counterparts have been signed by each of the Parties and delivered to the other Party. The delivery of an executed Agreement by facsimile or other electronic delivery shall be sufficient to bind the Party so delivering such Agreement.

Section 6.3 Survival of Agreements. Except as otherwise contemplated by this Agreement, all covenants and agreements of the Parties contained in this Agreement shall survive the Distribution Date.

Section 6.4 Distribution Expenses. Except as otherwise expressly set forth in this Agreement or any Ancillary Agreement, all costs and expenses incurred on or prior to the Distribution Date (whether or not paid on or prior to the Distribution Date) in connection with the preparation, execution, delivery, printing and implementation of this Agreement and any Ancillary Agreement, the Registration Statement, the Share Distribution, the Internal Reorganization, the Contribution and the consummation of the transactions contemplated thereby, shall be charged to and paid by Capital Southwest. Such expenses shall be deemed to be Capital Southwest Liabilities. Except as otherwise set forth in this Agreement or any Ancillary Agreement, each Party shall bear its own costs and expenses incurred after the Distribution Date. Any amount or expense to be paid or reimbursed by any Party to any other Party shall be so paid or reimbursed promptly after the existence and amount of such obligation is determined and written demand therefor is made.

Section 6.5 Notices. All notices and other communications hereunder shall be in writing, shall reference this Agreement and shall be hand delivered or mailed by registered or certified mail (return receipt requested) to the Parties at the following addresses (or at such other addresses for a Party as shall be specified by like notice) and will be deemed given on the date on which such notice is received:

To Capital Southwest:

Capital Southwest Corporation
5400 Lyndon B. Johnson Freeway, Suite 1300
Dallas, Texas 75240
Attention: Chief Executive Officer

To CSWI:

CSW Industrials, Inc.
5400 Lyndon B. Johnson Freeway, Suite 1300
Dallas, Texas 75240
Attention: Chief Executive Officer

Section 6.6 Waivers. The failure of any Party to require strict performance by any other Party of any provision in this Agreement will not waive or diminish that Party's right to demand strict performance thereafter of that or any other provision hereof.

Section 6.7 Amendments. This Agreement may not be modified or amended except by an agreement in writing signed by each of the Parties.

Section 6.8 Assignment. This Agreement shall not be assignable, in whole or in part, directly or indirectly, by any Party without the prior written consent of the other Party and any attempt to assign any rights or obligations arising under this Agreement without such consent shall be void; provided, however, that either Party may assign this Agreement to a purchaser of all or substantially all of the properties and assets of such Party; provided, that no such assignment will relieve the assigning Party of its obligations hereunder.

Section 6.9 Successors and Assigns. The provisions to this Agreement shall be binding upon, inure to the benefit of and be enforceable by the Parties and their respective successors and permitted assigns.

Section 6.10 Termination. This Agreement (including Article IV) may be terminated and the Share Distribution may be amended, modified or abandoned at any time prior to the Share Distribution by and in the sole discretion of Capital Southwest without the approval of CSWI or the shareholders of Capital Southwest. In the event of such termination, no Party shall have any liability of any kind to any other Party or any other Person. After the Share Distribution, this Agreement may not be terminated except by an agreement in writing signed by the Parties; provided, however, that Article IV shall not be terminated or amended after the Share Distribution in respect of a third party beneficiary thereto without the consent of such Person.

Section 6.11 Third Party Beneficiaries. This Agreement is solely for the benefit of the Parties and their respective Subsidiaries, Affiliates, successors and assigns and shall not be deemed to confer upon any other Person any remedy, claim, liability, reimbursement, cause of action or other right in excess of those existing without reference to this Agreement. The Parties agree that each CSWI Indemnitee and Capital Southwest Indemnitee who is not a party to this Agreement is an intended third party beneficiary of the indemnification provisions of this Agreement.

Section 6.12 Title and Headings. Titles and headings to Sections herein are inserted for convenience of reference only and are not intended to be a part of or to affect the meaning or interpretation of this Agreement.

Section 6.13 Governing Law. THIS AGREEMENT SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF DELAWARE APPLICABLE TO CONTRACTS MADE AND TO BE PERFORMED IN THE STATE OF DELAWARE.

Section 6.14 Waiver of Jury Trial. The Parties hereby irrevocably waive any and all right to trial by jury in any legal proceeding arising out of or related to this Agreement.

Section 6.15 Specific Performance. From and after the Share Distribution, in the event of any actual or threatened default in, or breach of, any of the terms, conditions and provisions of this Agreement, the Parties agree that the Party to this Agreement who is or is to be thereby aggrieved shall have the right to specific performance and injunctive or other equitable relief of its rights under this Agreement, in addition to any and all other rights and remedies at law or in equity, and all such rights and remedies shall be cumulative. The Parties agree that, from and after the Share Distribution, the remedies at Law for any breach or threatened breach of this Agreement, including monetary damages, are inadequate compensation for any loss, that any defense in any action for specific performance that a remedy at Law would be adequate is hereby waived, and that any requirements for the securing or posting of any bond with such remedy are hereby waived.

Section 6.16 Severability. In the event any one or more of the provisions contained in this Agreement should be held invalid, illegal or unenforceable in any respect, the validity, legality and enforceability of the remaining provisions contained herein and therein shall not in any way be affected or impaired thereby. The Parties shall endeavor in good faith negotiations to replace the invalid, illegal or unenforceable provisions with valid provisions, the economic effect of which comes as close as possible to that of the invalid, illegal or unenforceable provisions.

[Signature page follows.]

IN WITNESS WHEREOF, the Parties have caused this Agreement to be duly executed as of the day and year first above written.

CAPITAL SOUTHWEST CORPORATION

By: /s/ Bowen S. Diehl

Name: Bowen S. Diehl

Title: Chief Investment Officer

CSW INDUSTRIALS, INC.

By: /s/ Joseph B. Armes

Name: Joseph B. Armes

Title: Chief Executive Officer

[Signature Page to Distribution Agreement]

TAX MATTERS AGREEMENT

This Tax Matters Agreement (the “Agreement”), dated as of September 8, 2015, is by and among Capital Southwest Corporation, a Delaware corporation (“Capital Southwest”), and CSW Industrials, Inc., a Delaware corporation (“CSWI”). Each of Capital Southwest and CSWI is sometimes referred to as a “Party,” and, collectively, as the “Parties.”

WHEREAS, CSWI and one or more of its Subsidiaries are members of the Affiliated Group of which Capital Southwest is the common parent corporation;

WHEREAS, following the Share Distribution, Capital Southwest will not own, directly or indirectly, any Capital Stock in CSWI or any of its Subsidiaries;

WHEREAS, following the Share Distribution, CSWI and one or more of its Subsidiaries will be members of the Affiliated Group of which CSWI is the common parent corporation; and

WHEREAS, Capital Southwest and CSWI desire to set forth certain covenants and indemnities relating to the preservation of the tax-free status of the Share Distribution.

NOW, THEREFORE, in consideration of the mutual obligations and undertakings contained herein, the parties agree as follows:

ARTICLE I**DEFINITIONS**

As used in this Agreement, the following terms shall have the following meanings:

“Acting Party” has the meaning set forth in Section 3.03(a) of this Agreement.

“Affiliate” means, with respect to any specified Person, a Person that directly, or indirectly through one or more intermediaries, controls, is controlled by, or is under common control with, the specified Person.

“Affiliated Group” means an affiliated group of corporations within the meaning of Section 1504 of the Code.

“Business Day” means any day that is not a Saturday, a Sunday or any other day on which banks are required or authorized by applicable law to be closed in New York, New York.

“Capital Southwest Active Business” means the Sensory Device Manufacturing Business, as defined in the Tax Opinion.

“Capital Stock” means all classes or series of capital stock of a Party, including (i) common stock, (ii) preferred stock, (iii) all options, warrants and other rights to acquire such capital stock, and (iv) all instruments properly treated as stock in a Party for U.S. federal income tax purposes.

“Code” means the Internal Revenue Code of 1986, as amended.

“Contribution” has the meaning given to such term in the Distribution Agreement.

“CSWI Active Business” means the Diversified Industrial Growth Business, as defined in the Tax Opinion.

“Distribution Agreement” means the Distribution Agreement by and between Capital Southwest and CSWI, dated as of September 8, 2015.

“Distribution Date” has the meaning given to such term in the Distribution Agreement.

“Fifty-Percent or Greater Interest” has the meaning that is given to such term for purposes of Section 355(e) of the Code.

“Filing Date” has the meaning set forth in Section 3.04(d) of this Agreement

“Final Determination” means the final resolution of liability for any Tax with respect to a taxable period (i) as specified on an effective IRS Form 870 or 870-AD (or any successor forms), or as specified on an effective comparable form of another Taxing Authority, except that an IRS Form 870 or 870-AD or comparable form that reserves (whether by its terms or by operation of law) the right of the taxpayer to file a claim for a refund or the right of the Taxing Authority to assert a further deficiency shall not constitute a Final Determination; (ii) by a decision, judgment, decree, or other order by a court of competent jurisdiction, which has become final and may not be appealed; (iii) by a closing agreement or accepted offer in compromise under Section 7121 or 7122 of the Code, or comparable agreement under the laws of any other jurisdiction; or (iv) by any other final disposition, including by reason of the expiration of the applicable statute of limitations.

“IRS” means the Internal Revenue Service.

“Member” has the meaning given to such term in Treasury Regulation Section 1.1502-1(b).

“Non-Acting Party” has the meaning set forth in Section 3.03(a) of this Agreement.

“Notified Action” has the meaning set forth in Section 3.03(a) of this Agreement.

“Party” has the meaning set forth in the preamble.

“Person” means an individual, a partnership, a corporation, a limited liability company, an association, a joint stock company, a trust, a joint venture, an unincorporated organization or a governmental entity or any department, agency or political subdivision thereof, without regard to whether any entity is treated as disregarded for U.S. federal income tax purposes.

“Proposed Acquisition Transaction” means a transaction or series of related transactions (or any agreement, understanding, arrangement, or substantial negotiations within the meaning of Section 355(e) of the Code and Treasury Regulations section 1.355-7, to enter into a transaction or series of related transactions), whether such transaction is supported by the Party’s officers, directors, management or shareholders, is a hostile acquisition, or otherwise, as a result of which such Party would merge or consolidate with any other Person or as a result of which any Person or any group of related Persons would, directly or indirectly, acquire, or have the right to acquire, from such Party and/or one or more holders of outstanding shares of such Party’s Capital Stock, a number of shares of such Party’s Capital Stock that would, when combined with any other changes in ownership of such Party’s Capital Stock relevant for purposes of Section 355(e) of the Code, comprise 40% or more of (A) the value of all outstanding shares of all classes of stock of such Party as of the date of such transaction, or, in the case of a series of related transactions, the date of the last transaction of such series, or (B) the total combined voting power of all outstanding shares of all classes of voting stock of such Party as of the date of such transaction, or, in the case of a series of related transactions, the date of the last transaction of such series. Notwithstanding the foregoing, a Proposed Acquisition Transaction shall not include (A) the adoption by a Party of a shareholder rights plan or (B) issuances by a Party that satisfy Safe Harbor VIII (relating to acquisitions in connection with a person’s performance of services) or Safe Harbor IX (relating to acquisitions by a retirement plan of an employer) of Treasury Regulations Section 1.355-7(d). For purposes of determining whether a transaction constitutes an indirect acquisition, any recapitalization resulting in a shift of voting power or any redemption of shares of stock shall be treated as an indirect acquisition of shares of stock by the non-exchanging shareholders. This definition and the application thereof is intended to monitor compliance with Section 355(e) of the Code and shall be interpreted accordingly. Any clarification of, or change in, Section 355(e) of the Code or the regulations thereunder shall be incorporated in this definition and its interpretation.

“Protective Section 336(e) Election” has the meaning set forth in Section 4.11 of this Agreement.

“Representation Letters” means the officers’ certificates setting forth representations delivered or deliverable by Capital Southwest and/or CSWI to the Tax Advisor in connection with the rendering of the Tax Opinion.

“Ruling” means a written determination furnished by the National Office of the IRS in response to a request by Capital Southwest or CSWI.

“Share Distribution” has the meaning given to such term in the Distribution Agreement.

“Subsidiary” of any Person means another Person (a) in which the first Person owns, directly or indirectly, an amount of the voting interests sufficient to elect at least a majority of its board of directors or other governing body (or, if there are no voting interests, a majority of the equity interests in such other Person), or (b) with respect to whom the first Person otherwise has the power to direct its management and policies. A Subsidiary may be owned directly or indirectly by such first Person or by another Subsidiary of such first Person.

“Tax” or “Taxes” means any and all taxes, charges, fees, duties and other governmental charges imposed by a Taxing Authority, including, without limitation, all net income, alternative or add-on minimum, estimated, gross income, sales, use, ad valorem, gross receipts, value added, franchise, profits, license, transfer, recording, withholding, payroll, employment, excise, severance, stamp, occupation, premium, property, windfall profit, custom duty or other taxes of any kind whatsoever, together with any related interest, penalties and other additions to tax.

“Tax Advisor” means a United States tax counsel or accountant of recognized national standing.

“Tax Controversy” means any audit (including any pending or threatened audit), examination, dispute, suit, action, proposed assessment or other proceeding relating to Taxes.

“Tax-Free Status” means the qualification of the Contribution and Share Distribution, taken together, (a) as a reorganization described in Sections 368(a)(1)(D) and 355 of the Code, (b) as a transaction in which the CSWI stock that is distributed by Capital Southwest is “qualified property” for purposes of Sections 355(d), 355(e), and 361(c) of the Code, and (c) as a transaction in which the shareholders of Capital Southwest recognize no income or gain for U.S. federal income tax purposes pursuant to Section 355 of the Code (except for cash received in lieu of fractional shares, if any).

“Tax Materials” has the meaning set forth in Section 3.01(a)(i) of this Agreement.

“Tax Opinion” means the opinion of the Tax Advisor deliverable to Capital Southwest in connection with the Contribution and Share Distribution.

“Tax-Related Losses” means (i) all Taxes imposed pursuant to any Final Determination and resulting from the failure of the Contribution and the Share Distribution, taken together, to qualify for Tax-Free Status, and (ii) all reasonable accounting, legal and other professional fees, and court costs incurred in connection with such failure.

“Tax Return” means any return, filing, questionnaire or other document, including requests for extensions of time, filings made with estimated Tax payments, claims for refund and amended returns, that may be filed for any taxable period with any Taxing Authority in connection with any Tax (whether or not a payment is required to be made with respect to such filing) or any information reporting requirement (including any related supporting information or schedule attached thereto).

“Taxing Authority” means a federal, national, foreign, municipal, state, or other governmental authority responsible for the administration of any Tax.

“Treasury Regulations” means the U.S. Treasury Regulations promulgated under the Code.

“Unqualified Tax Opinion” means an unqualified “will” opinion of a Tax Advisor to the effect that a transaction will not affect the qualification of the Contribution and Share Distribution for Tax-Free Status. Any such opinion must assume that the Contribution and Share Distribution would have qualified for Tax-Free Status if the transaction in question did not occur. An unqualified “will” opinion may describe the reasons for the conclusions and include the facts, assumptions, and supporting legal analysis.

COOPERATION AND TAX CONTROVERSIES

Section 2.01. Cooperation.

(a) Each Party shall use its commercially reasonable best efforts to cooperate fully with the other Party in connection with the preparation and filing of any Tax Return and the conduct of any Tax Controversy, in each case, concerning any matter that is relevant for purposes of this Agreement. Such cooperation shall include (i) the retention and provision, on commercially reasonable demand, of books, records, documentation and other information relating to any Tax Return until the later of (x) the expiration of the applicable statute of limitations (giving effect to any extension, waiver, or mitigation thereof), and (y) in the event a claim has been made under this Agreement for which such information is relevant, until a Final Determination with respect to such claim; (ii) the filing or execution of any document that may be necessary or reasonably helpful in connection with the filing of any Tax Return, or in connection with any Tax Controversy (including a power of attorney); and (iii) the use of the Parties' commercially reasonable best efforts to obtain any documentation from a governmental authority or a third party that may be necessary or helpful in connection with any of the foregoing. Each Party shall make its employees and facilities available on a mutually convenient, commercially reasonable basis to facilitate such cooperation.

Section 2.02. Tax Controversies.

(a) Each Party shall use commercially reasonable efforts to keep the other Party informed on a timely basis as to the status of any Tax Controversy involving any issue that could give rise to any liability of the other Party under this Agreement. Each Party shall promptly notify the other Party of any inquiries by any Taxing Authority, or any other administrative, judicial or other governmental authority, that relate to any Tax that may give rise to any liability under this Agreement. Capital Southwest shall have sole control of any Tax Controversy relating to any of its Tax Returns, except, however, that in the case of any such Tax Controversy that may affect Taxes for which CSWI may have indemnification liability under this Agreement (such Taxes, "Section 3.04(a) Taxes"), (i) CSWI shall be entitled to participate, jointly along with Capital Southwest, in the Tax Controversy, at CSWI's cost and expense, to the extent the Tax Controversy relates to Section 3.04(a) Taxes, (ii) Capital Southwest shall keep CSWI promptly informed and consult in good faith with CSWI with respect to any issue relating to Section 3.04(a) Taxes, (iii) Capital Southwest shall promptly provide CSWI with copies of all correspondence, notices, and other written materials received from any Taxing Authority relating to Section 3.04(a) Taxes and shall otherwise keep CSWI promptly advised of all developments related to Section 3.04(a) Taxes, (iv) CSWI may request Capital Southwest to take a position (as specified, and in the form set forth, in written materials provided by CSWI to Capital Southwest) with respect to Section 3.04(a) Taxes, and Capital Southwest shall take such position (as specified and in such form), provided, (A) there exists at least "substantial authority" for such position within the meaning of Section 6662 of the Code, (B) the adoption of such position could not reasonably be expected to increase Capital Southwest's Taxes, other than Section 3.04(a) Taxes, or CSWI agrees to indemnify and hold harmless Capital Southwest for such increases in Taxes, and (C) CSWI agrees to reimburse Capital Southwest for any reasonable third party costs that are attributable to CSWI's request, (v) Capital Southwest shall provide CSWI with a copy of any written submission to be sent to a Taxing Authority, to the extent related to Section 3.04(a) Taxes, at least 10 days prior to the submission thereof and shall incorporate any comments or suggested revisions that CSWI may have with respect thereto, and (vi) there shall be no settlement, resolution or closing or other agreement with respect to Section 3.04(a) Taxes without the prior written consent of CSWI.

ARTICLE III

TAX-FREE STATUS

Section 3.01. Representations, Warranties and Covenants.

(a) CSWI represents and warrants, and covenants as to time periods after the date hereof as set forth in Section 3.01(a)(ii), that:

(i) it has examined (A) the Tax Opinion, and (B) the Representation Letters (the foregoing (A) and (B), collectively, the “Tax Materials”);

(ii) the facts presented and the representations made in the Tax Materials, to the extent descriptive of CSWI and its Subsidiaries (including the business purposes for the Contribution and Share Distribution, to the extent that they relate to CSWI and its Subsidiaries, and the plans, proposals, intentions, policies and covenants of CSWI and its Subsidiaries) are, and will be through and including the Distribution Date, and thereafter as relevant, true, correct, and complete in all respects; and

(iii) neither it nor any of its Subsidiaries has any plan or intention to take any action that is inconsistent with any of the representations or covenants made by them in the Tax Materials.

(b) Capital Southwest hereby represents and warrants, and covenants as to time periods after the date hereof as set forth in Section 3.01(b)(ii), that:

(i) it has examined the Tax Materials;

(ii) it has delivered complete and accurate copies of the Tax Materials to CSWI, and the facts presented and the representations made therein, to the extent descriptive of Capital Southwest and its Subsidiaries (other than CSWI and its Subsidiaries) (including the business purposes for the Contribution and Share Distribution, to the extent that they relate to Capital Southwest and its Subsidiaries (other than CSWI and its Subsidiaries), and the plans, proposals, intentions, policies and covenants of Capital Southwest and its Subsidiaries (other than CSWI and its Subsidiaries), are, and will be through and including the Distribution Date, and thereafter as relevant, true, correct and complete in all respects; and

(iii) neither it, nor any of its Subsidiaries (other than CSWI and its Subsidiaries) has any plan or intention to take any action that is inconsistent with any of the representations or covenants made by them in the Tax Materials.

Section 3.02. Restrictions on Capital Southwest and CSWI. Capital Southwest and CSWI each agree that:

(a) it will not take or fail to take, or permit, any of its Subsidiaries (as they exist from time to time) to take or fail to take any action if such action or failure to act would be inconsistent with any representation or covenant in the Tax Materials;

(b) from the date hereof until the first day after the two-year anniversary of the Distribution Date, it will (i) “actively conduct,” within the meaning of Section 355(b)(2) of the Code, its active business (the Capital Southwest Active Business and the CSWI Active Business, respectively), and (ii) not engage in any transaction that would result in it ceasing to “actively conduct” its active business; and

(c) from the date hereof until the first day after the two-year anniversary of the Distribution Date, it will not:

(i) enter into any Proposed Acquisition Transaction or, to the extent it has the right to prohibit any Proposed Acquisition Transaction, permit any Proposed Acquisition Transaction to occur,

(ii) liquidate or partially liquidate (within the meaning of such terms as defined for purposes of Sections 331 and 302, respectively, of the Code),

(iii) sell or transfer in a single transaction or series of transactions, other than sales or transfers of inventory in the ordinary course of business, 35% or more of the gross assets of the Capital Southwest Active Business or the CSWI Active Business or 35% or more of its and its Affiliates consolidated gross assets (such percentages to be measured based on fair market value as of the Distribution Date), or sell or transfer any portion of its and its Affiliates’ assets if such sale or transfer would result in the violation of the “continuity of business enterprise” requirement of Treasury Regulations Section 1.368-1(d) in connection with the Contribution and Share Distribution,

(iv) redeem or otherwise repurchase, directly or through one or more of its Affiliates, any of its Capital Stock, except to the extent such repurchases satisfy Section 4.05(1)(b) of Revenue Procedure 96-30 (as in effect prior to the amendment of such Revenue Procedure by Revenue Procedure 2003-48),

(v) amend its certificate of incorporation or other organizational documents, or take any other action, whether through a stockholder vote or otherwise, affecting the voting rights of its Capital Stock (including, without limitation, through the conversion of one class of its Capital Stock into another class of its Capital Stock); or

(vi) take any other action or actions, including any action that would be reasonably likely to be inconsistent with any representation made in the Tax Materials, which in the aggregate (and taking into account any other transactions described in this subparagraph (c)) would be reasonably likely to have the effect of causing or permitting one or more Persons (whether or not acting in concert) to acquire, directly or indirectly, stock representing a Fifty-Percent or Greater Interest in Capital Southwest or CSWI or otherwise jeopardize qualification of the Contribution and Share Distribution for Tax-Free Status,

unless prior to taking any such action (A) it shall provide the other Party with an Unqualified Tax Opinion in form and substance satisfactory to the other Party in the other Party's discretion, which discretion shall be exercised in good faith to preserve the Tax-Free Status (and in determining whether an opinion is satisfactory, the other Party may consider, among other factors, the appropriateness of any underlying assumptions and management's representations if used as a basis for the opinion), or (B) the other Party shall have waived in writing the requirement to obtain such Unqualified Tax Opinion.

Section 3.03. Procedures Regarding Opinions.

(a) If either Party (the "Acting Party") notifies the other Party (the "Non-Acting Party") that it desires to take one of the actions described in clauses (i) through (vi) of Section 3.02(c) (a "Notified Action"), the parties shall cooperate and use commercially reasonable best efforts to attempt to obtain the Unqualified Tax Opinion referred to in Section 3.02(c), unless the Non-Acting Party shall have waived in writing the requirement to obtain the Unqualified Tax Opinion. Each Party shall bear its own costs and expenses of obtaining the Unqualified Tax Opinion.

Section 3.04. Liability for Tax-Related Losses.

(a) Subject to Section 3.04(c), CSWI shall be responsible for, and shall indemnify and hold harmless Capital Southwest and its Affiliates and each of their respective officers, directors and employees from and against, any Tax-Related Losses, without duplication, that are attributable to or result from any one or more of the following: (A) the acquisition (other than pursuant to the Distribution Agreement or the Share Distribution) by any Person, other than Capital Southwest and its Affiliates, of all or a portion of CSWI's stock and/or its or its Subsidiaries' assets, (B) any negotiations, understandings, agreements or arrangements by CSWI (other than as set forth in the Distribution Agreement) with respect to transactions or events (including, without limitation, stock issuances (pursuant to the exercise of stock options or otherwise), option grants, capital contributions, or acquisitions, or a series of such transactions or events) that cause the Contribution and Share Distribution to be treated as part of a plan (or series of related transactions) pursuant to which one or more Persons acquire directly or indirectly stock of CSWI representing a Fifty-Percent or Greater Interest therein, (C) any action or failure to act by CSWI after the Share Distribution (including any amendment to CSWI's certificate of incorporation or other organizational document, whether through a stockholder vote or otherwise) affecting the voting rights of CSWI stock (including through the conversion of one class of CSWI stock into another class of CSWI stock), (D) any breach by CSWI of its covenants set forth in Section 3.02 (regardless of whether the act or failure to act giving rise to the breach is covered by a Ruling or Unqualified Tax Opinion), or (E) any breach by CSWI of its representations, warranties, or covenants set forth in Section 3.01(a).

(b) Subject to Section 3.04(c), Capital Southwest shall be responsible for, and shall indemnify and hold harmless CSWI and its Affiliates and each of their respective officers, directors and employees from and against any Tax-Related Losses, without duplication, that are attributable to, or result from any one or more of the following: (A) the acquisition (other than pursuant to the Distribution Agreement, or the Share Distribution) by any Person, other than CSWI and its Affiliates, of all or a portion of Capital Southwest's stock and/or its or its Subsidiaries' assets, (B) any negotiations, understandings, agreements or arrangements by Capital Southwest (other than as set forth in the Distribution Agreement) with respect to transactions or events (including, without limitation, stock issuances (pursuant to the exercise of stock options or otherwise), option grants, capital contributions, or acquisitions, or a series of such transactions or events) that cause the Contribution and Share Distribution to be treated as part of a plan (or series of related transactions) pursuant to which one or more Persons acquire directly or indirectly stock of Capital Southwest representing a Fifty-Percent or Greater Interest therein, (C) any action or failure to act by Capital Southwest after the Share Distribution (including any amendment to Capital Southwest's certificate of incorporation (or other organizational document), whether through a stockholder vote or otherwise) affecting the voting rights of Capital Southwest stock (including through the conversion of one class of Capital Southwest stock into another class of Capital Southwest stock), (D) any breach by Capital Southwest of its covenants set forth in Section 3.02 (regardless of whether such act or failure to act is covered by a Ruling or Unqualified Tax Opinion), or (E) any breach by Capital Southwest of its representations, warranties, or covenants set forth in Section 3.01(b).

(c) Notwithstanding Sections 3.04(a) and (b), to the extent that any Tax-Related Loss of a Party can be attributed to an action or actions taken by each Party, individually, or to actions taken by both Parties (whether or not such actions are the same), responsibility for such Tax-Related Loss shall be shared by Capital Southwest and CSWI according to relative fault.

(d) A Party shall pay to the other Party the amount of any Tax-Related Losses for which the first Party is responsible under this Section 3.04: (A) in the case of Tax-Related Losses described in clause (i) of the definition of Tax-Related Losses no later than three (3) business days prior to the date Capital Southwest files, or causes to be filed, the applicable amended Tax Return for the year of the Contribution and Share Distribution (the "Filing Date"), and (B) in the case of Tax-Related Losses described in clause (ii) of the definition of Tax-Related Losses, no later than five (5) days after the date the Other Party pays such Tax-Related Losses.

ARTICLE IV

MISCELLANEOUS

Section 4.01. Effective Date. This Agreement is effective upon the occurrence of the Share Distribution; provided, however, that the representations, warranties, and covenants set forth in Section 3.01 shall be effective as of the date of this Agreement.

Section 4.02. Complete Agreement. This Agreement constitutes the entire agreement of the parties concerning the subject matter hereof. Any other agreements (including tax sharing agreements), whether or not written, in respect of any Tax between or among Capital Southwest and CSWI or any of CSWI's Subsidiaries shall be terminated and have no further effect as of the Distribution Date. This Agreement may not be amended except by an agreement in writing signed by the parties hereto.

Section 4.03. Notices. All notices, requests, demands, waivers and other communications required or permitted to be given under this Agreement must be in writing and will be deemed to have been duly given (i) when delivered by hand, (ii) three (3) Business Days after it is mailed, certified or registered mail, return receipt requested, with postage prepaid, (iii) on the same Business Day when sent by facsimile or electronic mail (return receipt requested) if the transmission is completed before 5:00 p.m. recipient's time, or one (1) Business Day after the facsimile or email is sent, if the transmission is completed on or after 5:00 p.m. recipient's time or (iv) one (1) Business Day after it is sent by Express Mail, Federal Express or other courier service, as follows (or at such other address for a party as shall be specified in a notice given in accordance with this Section 4.03):

If to CSWI: CSW Industrials, Inc.
5400 Lyndon B. Johnson Freeway
Suite 1300
Dallas, TX 75240
Attn.: Chief Executive Officer

If to Capital Southwest: Capital Southwest Corporation
5400 Lyndon B. Johnson Freeway
Suite 1300
Dallas, TX 75240
Attn.: Chief Executive Officer

Section 4.04. Governing Law; Jurisdiction; Waiver of Jury Trial.

(a) Governing Law; Jurisdiction. This Agreement (and all claims, controversies or causes of action, whether in contract, tort or otherwise, that may be based upon, arise out of or relate to this Agreement or the negotiation, execution, termination, performance or nonperformance of this Agreement (including any claim, controversy or cause of action based upon, arising out of or relating to any representation or warranty made in or in connection with this Agreement or as an inducement to enter into this Agreement)) shall be governed by, and construed and enforced in accordance with, the laws of the State of Delaware, without regard to any choice or conflict of law provision or rule (whether of the State of Delaware or any other jurisdiction) that would cause the application of the laws of any jurisdiction other than the State of Delaware. Each of the parties hereto irrevocably agrees that all proceedings arising out of or relating to this Agreement and the rights and obligations arising hereunder, or for recognition and enforcement of any judgment in respect of this Agreement and the rights and obligations arising hereunder brought by the other party hereto or its successors or assigns shall be brought, heard and determined exclusively in any federal or state court sitting in Delaware. Consistent with the preceding sentence, each of the parties hereto hereby (a) submits to the exclusive jurisdiction of any federal or state court sitting in Delaware for the purpose of any proceeding arising out of or relating to this Agreement or the rights and obligations arising hereunder brought by any party hereto and (b) irrevocably waives, and agrees not to assert by way of motion, defense, counterclaim, or otherwise, in any such proceeding, any claim that it or its property is not subject personally to the jurisdiction of the above-named courts, that the proceeding is brought in an inconvenient forum, that the venue of the proceeding is improper, or that this Agreement, the Share Distribution or any of the other transactions contemplated by this Agreement may not be enforced in or by any of the above-named courts. Each party agrees that service of process upon such party in any such action or proceeding shall be effective if notice is given in accordance with Section 4.03.

(b) Waiver of Jury Trial. EACH OF THE PARTIES HERETO HEREBY WAIVES TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW ANY RIGHT IT MAY HAVE TO A TRIAL BY JURY WITH RESPECT TO ANY LITIGATION DIRECTLY OR INDIRECTLY ARISING OUT OF, UNDER OR IN CONNECTION WITH THIS AGREEMENT OR THE TRANSACTIONS CONTEMPLATED BY THIS AGREEMENT. EACH OF THE PARTIES HERETO HEREBY (A) CERTIFIES THAT NO REPRESENTATIVE, AGENT OR ATTORNEY OF THE OTHER PARTY HAS REPRESENTED, EXPRESSLY OR OTHERWISE, THAT SUCH OTHER PARTY WOULD NOT, IN THE EVENT OF LITIGATION, SEEK TO ENFORCE THE FOREGOING WAIVER AND (B) ACKNOWLEDGES THAT IT HAS BEEN INDUCED TO ENTER INTO THIS AGREEMENT AND THE TRANSACTIONS CONTEMPLATED BY THIS AGREEMENT, AS APPLICABLE, BY, AMONG OTHER THINGS, THE MUTUAL WAIVERS AND CERTIFICATIONS IN THIS Section 4.04(b).

Section 4.05. Successors and Assigns. A party's rights and obligations under this Agreement may not be assigned without the prior written consent of the other party. All of the provisions of this Agreement shall be binding upon and inure to the benefit of the parties and their respective successors and permitted assigns. If any party to this Agreement forms or acquires one or more Subsidiaries, such party will cause any such Subsidiary to be bound by the terms of this Agreement, and this Agreement shall apply to any such Subsidiary in the same manner and to the same extent as the current party.

Section 4.06. Intended Third Party Beneficiaries. This Agreement is solely for the benefit of the parties to this Agreement and should not be deemed to confer upon third parties any remedy, claim, liability, reimbursement, claim of action or other right in excess of those existing without this Agreement.

Section 4.07. Legal Enforceability. Any provision of this Agreement which is prohibited or unenforceable in any jurisdiction shall, as to that jurisdiction, be ineffective to the extent of the prohibition or unenforceability without invalidating the remaining provisions. Any prohibition or unenforceability of any provision of this Agreement in any jurisdiction shall not invalidate or render unenforceable the provision in any other jurisdiction.

Section 4.08. Expenses. Unless otherwise expressly provided in this Agreement, each party shall bear any and all expenses that arise from its respective obligations under this Agreement.

Section 4.09. Counterparts. This Agreement may be executed and delivered (including by facsimile transmission) in counterparts, and by the different parties hereto in separate counterparts, each of which when executed shall be deemed to be an original, but all of which taken together shall constitute one and the same agreement.

Section 4.10. Change in Law. If, after the date this Agreement is executed, as a result of an amendment to the Code, the promulgation of proposed, temporary or final regulations, the issuance of a ruling by a Taxing Authority, the decision of any court, or a change in any applicable state or local law, Capital Southwest believes that it is necessary or helpful to amend the provisions of this Agreement in order to preserve the rights and benefits contemplated herein, each of the parties hereto agrees to negotiate in good faith all such amendments and modifications as shall be necessary or appropriate in order to preserve as nearly as possible for the parties hereto the rights and benefits contemplated herein.

Section 4.11. Protective Section 336(e) Election. Pursuant to Treasury Regulation sections 1.336-2(h)(2) and 1.336-2(j), Capital Southwest and CSWI agree that Capital Southwest shall make a protective election under Section 336(e) of the Code and the Treasury Regulations issued thereunder for CSWI and each CSWI Subsidiary for whom such an election may be made with respect to the Share Distribution (the "Protective Section 336(e) Election"). It is intended that the Protective Section 336(e) Election will have no effect unless the Share Distribution is a "qualified stock disposition," as defined in Treasury Regulations section 1.336-1(b)(6), either because (a) the Share Distribution is a transaction described in Treasury Regulations section 1.336-1(b)(5)(i)(B) or (b) Treasury Regulation section 1.336-1(b)(5)(ii) applies to the Share Distribution.

[Remainder of page intentionally left blank; signature page to follow]

IN WITNESS WHEREOF, the Parties have caused this Agreement to be duly executed as of the day and year first above written.

CAPITAL SOUTHWEST CORPORATION

By: /s/ Bowen S. Diehl

Name: Bowen S. Diehl

Title: Chief Investment Officer

CSW INDUSTRIALS, INC.

By: /s/ Joseph B. Armes

Name: Joseph B. Armes

Title: Chief Executive Officer

[Signature Page to Tax Matters Agreement]

Amended And Restated
EMPLOYEE MATTERS AGREEMENT

BY AND BETWEEN

CAPITAL SOUTHWEST CORPORATION

AND

CSW INDUSTRIALS, INC.

DATED AS OF SEPTEMBER 4, 2015

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EMPLOYEE MATTERS AGREEMENT

This Amended and Restated Employee Matters Agreement, dated as of September 14, 2015 (the "Agreement"), is by and between Capital Southwest Corporation, a Texas corporation ("Capital Southwest"), and CSW Industrials, Inc., a Delaware corporation ("CSWI," and together with Capital Southwest, the "Parties").

WHEREAS, the Board of Directors of Capital Southwest (the "Capital Southwest Board") has determined that it is in the best interests of Capital Southwest and its shareholders to separate the CSWI Businesses from Capital Southwest's other businesses;

WHEREAS, in furtherance of the foregoing, the Capital Southwest Board has authorized the distribution to the holders of the issued and outstanding shares of common stock, par value \$0.25 per share, of Capital Southwest (the "Capital Southwest Shares") as of the Record Date of all the issued and outstanding shares of common stock, par value \$0.01 per share, of CSWI (each such share is individually referred to as a "CSWI Share" and collectively referred to as the "CSWI Shares"), respectively, on the basis of one CSWI Share for every share of Capital Southwest Shares (the "Share Distribution");

WHEREAS, in order to effect the Share Distribution, Capital Southwest and CSWI have entered into a Distribution Agreement, dated as of September 8, 2015 (the "Distribution Agreement"); and

WHEREAS, in addition to the matters addressed by the Distribution Agreement, the Parties desire to enter into this Agreement to set forth the terms and conditions of certain employment, compensation and benefit matters.

NOW, THEREFORE, in consideration of the mutual agreements, provisions and covenants contained in this Agreement, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Parties intending to be legally bound, hereby agree as follows:

ARTICLE I

DEFINITIONS

Section 1.1 Definitions. For purposes of this Agreement, the following terms shall have the meanings set forth below. Capitalized terms used in this Agreement but not otherwise defined herein shall have the meanings ascribed to them in the Distribution Agreement.

"Agreement" has the meaning set forth in the preamble to this Agreement and shall include all Schedules hereto and all amendments, modifications, and changes hereto.

"Benefit Plan" means any contract, agreement, policy, practice, program, plan, trust, commitment or arrangement providing for benefits, perquisites or compensation of any nature from an employer to any Employee, or to any family member, dependent, or beneficiary of any such Employee, including pension plans, thrift plans, supplemental pension plans and welfare plans, and contracts, agreements, policies, practices, programs, plans, trusts, commitments, and arrangements providing for terms of employment, fringe benefits, severance benefits, change in control protections or benefits, travel and accident, life, accidental death and dismemberment, disability and accident insurance, tuition reimbursement, travel and reimbursement, vacation, sick, personal or bereavement days, leaves of absences and holidays; provided, however, the term "Benefit Plan" does not include any governmental-sponsored benefits, such as workers' compensation, unemployment or similar plans, programs or policies.

“Capital Southwest” has the meaning set forth in the preamble to this Agreement.

“Capital Southwest Awards” means Capital Southwest Options, Capital Southwest Restricted Stock Awards and Capital Southwest Incentive Awards, collectively.

“Capital Southwest Board” has the meaning set forth in the recitals to this Agreement.

“Capital Southwest Change of Control” has the meaning set forth in Section 3.2(c).

“Capital Southwest Companies” means Capital Southwest and its Subsidiaries other than CSWI and the CSWI Companies.

“Capital Southwest Company Employee” means any employee of a Capital Southwest Company that is not a CSWI Company Employee.

“Capital Southwest Compensation Committee” means the Compensation Committee of the Capital Southwest Board.

“Capital Southwest Equity Plan” means any equity compensation plan sponsored or maintained by Capital Southwest immediately prior to the Distribution Date, including the Capital Southwest Corporation 1999 Stock Option Plan, the Capital Southwest Corporation 2009 Stock Incentive Plan, as amended, and the Capital Southwest Corporation 2010 Restricted Stock Award Stock Plan, as amended.

“Capital Southwest Incentive Awards” means those cash incentive awards listed on Schedule 1.1 which were granted pursuant to a phantom stock option agreement entered into with Capital Southwest that are outstanding as of immediately prior to the Distribution Date.

“Capital Southwest Option” means an option to purchase Capital Southwest Shares granted pursuant to a Capital Southwest Equity Plan that is outstanding as of immediately prior to the Distribution Date.

“Capital Southwest Ratio” means the quotient obtained by dividing the Capital Southwest Share Value by the Post-Separation Capital Southwest Share Value.

“Capital Southwest Restricted Stock Award” means a restricted stock award granted pursuant to a Capital Southwest Equity Plan that is outstanding as of immediately prior to the Distribution Date.

“Capital Southwest Shares” has the meaning set forth in the recitals to this Agreement.

“Capital Southwest Share Value” means the simple average of the volume weighted average per-share price of Capital Southwest Shares trading “regular way with due bills” on NASDAQ during each of the last ten full Trading Sessions immediately prior to the Distribution Date.

“Capital Southwest Welfare Plans” means the group health and welfare insurance benefit plans established by the Capital Southwest Companies pursuant to Section 6.d.

“Capital Southwest 401(k) Plan” means the Capital Southwest Management Corporation Employee Savings Plan, as effective following the Distribution Date.

“COBRA” means the Consolidated Omnibus Budget Reconciliation Act of 1985.

“Code” means the Internal Revenue Code of 1986, as amended.

“CSWI” has the meaning set forth in the preamble to this Agreement.

“CSWI Awards” means CSWI Options and CSWI Restricted Stock Awards, collectively.

“CSWI Benefit Plans” means any Benefit Plan established, sponsored or maintained by CSWI or a CSWI Company.

“CSWI Change of Control” has the meaning set forth in Section 3.2(c).

“CSWI Company Employees” means any employee of CSWI or a CSWI Company and all Transferring Employees.

“CSWI Compensation and Benefit Liability” has the meaning set forth in Section 2.1(a).

“CSWI Equity Plan” means the CSWI 2015 Equity and Incentive Compensation Plan.

“CSWI Option” means an option to purchase CSWI Shares granted by CSWI pursuant to the CSWI Equity Plan in accordance with Section 3.2(b).

“CSWI Shares” has the meaning set forth in the recitals to this Agreement.

“CSWI Ratio” means the quotient obtained by dividing the Capital Southwest Share Value by the CSWI Share Value.

“CSWI Restoration Plan” has the meaning set forth in Section 5.1.

“CSWI Restricted Stock Award” means a restricted stock award granted pursuant to the CSWI Equity Plan in accordance with Section 3.2(a).

“CSWI Share Value” means the simple average of the volume weighted average per-share price of CSWI Shares trading on NASDAQ during each of the first ten full Trading Sessions immediately after the Distribution Date.

“CSWI 401(k) Plan” means the Balco, Inc. Profit Sharing 401(k) Plan as effective on the Distribution Date, which shall include the assets and account balances merged into such plan from the Strathmore Products, Inc. 401(k) Profit Sharing Plan.

“Distribution Agreement” has the meaning set forth in the recitals to this Agreement.

“DOL” means the U.S. Department of Labor.

“Employee” means any Capital Southwest Company Employee or CSWI Company Employee.

“ERISA” means the Employee Retirement Income Security Act of 1974, as amended.

“ESOP” means the CSW Industrials, Inc. Employee Stock Ownership Plan, as effective on the Distribution Date, and as amended from time to time.

“ESOP Asset Transfer Date” has the meaning set forth in Section 4.3(a).

“Executive Compensation Plan” means the executive compensation plan consisting of nonqualified stock options, restricted stock and cash incentive awards adopted by Capital Southwest on August 28, 2014.

“Former Capital Southwest Company Employee” means any individual who as of the Distribution Date is not a Capital Southwest Company Employee or a CSWI Company Employee, but who previously was, as between the Capital Southwest Companies, CSWI and the CSWI Companies, most recently employed by one of the Capital Southwest Companies.

“Former CSWI Company Employee” means any individual who as of the Distribution Date is not a Capital Southwest Company Employee or a CSWI Company Employee, but who previously was, as between the Capital Southwest Companies, CSWI and the CSWI Companies, most recently employed by CSWI or one of the CSWI Companies.

“Former Employee” means any Former Capital Southwest Company Employee or Former CSWI Company Employee.

“IRS” means the U.S. Internal Revenue Service.

“Parties” has the meaning set forth in the preamble to this Agreement.

“PBGC” means the U.S. Pension Benefit Guaranty Corporation.

“Post-Separation Capital Southwest Awards” means Post-Separation Capital Southwest Options and Post-Separation Capital Southwest Restricted Stock Awards, collectively.

“Post-Separation Capital Southwest Option” means a Capital Southwest Option adjusted as of the Distribution Date in accordance with Section 3.2(b).

“Post-Separation Capital Southwest Restricted Stock Award” means a Capital Southwest Restricted Stock Award adjusted as of the Distribution Date in accordance with Section 3.2(a).

“Post-Separation Capital Southwest Share Value” means the simple average of the volume weighted average per-share price of Capital Southwest Shares trading on NASDAQ during each of the first ten full Trading Sessions immediately after the Distribution Date.

“Restoration Plan” means the Capital Southwest and its Affiliates 2009 Restoration of Retirement Income Plan, as amended and restated effective January 1, 2008, and as amended from time to time.

“Retirement Plan” means the Retirement Plan for Employees of Capital Southwest Corporation and its Affiliates, as amended and restated effective April 1, 2011, as amended from time to time.

“Securities Act” means the U.S. Securities Act of 1933.

“Share Distribution” has the meaning set forth in the recitals to this Agreement.

“Share Value Factor” means the quotient obtained by dividing (a) the Capital Southwest Share Value by (b) the sum of (i) the CSWI Share Value and (ii) the Post-Separation Capital Southwest Share Value.

“Trading Session” means the period of time during any given calendar day, commencing with the determination of the opening price on NASDAQ and ending with the determination of the closing price on NASDAQ, in which trading in Capital Southwest Shares or CSWI Shares (as applicable) is permitted on NASDAQ.

“Transferring Employees” has the meaning set forth in Section 2.3(a).

“U.S.” means the United States of America.

“Welfare Plans” means the group health and welfare insurance benefits included on Schedule 1.2.

“Welfare Transition Period” means the period commencing on the Distribution Date and ending on the date that the Capital Southwest Company Employees and (if applicable) the Former Capital Southwest Company Employees begin participation in the newly formed Capital Southwest Welfare Plans; provided, however, that in no event will the Welfare Transition Period continue after December 31, 2015.

“401(k) Plans” means the Capital Southwest 401(k) Plan and the CSWI 401(k) Plan.

Section 1.2 Reference; Interpretation. Unless the context requires otherwise, (a) all references to Sections, Articles or Schedules are to the Sections, Articles or Schedules of or to this Agreement, (b) each accounting term not otherwise defined in this Agreement has the meaning commonly applied to it in accordance with United States generally accepted accounting principles, consistently applied, and as in effect on the date of this Agreement, (c) words in the singular include the plural and vice versa, (d) all references to \$ or dollar amounts will be to lawful currency of the U.S., (e) to the extent the term “day” or “days” is used, it will mean calendar days unless Business Days are specified, (f) the pronoun “his” refers to the masculine, feminine and neuter, the words “herein,” “hereby,” “hereof,” “hereunder” and other words of similar import refer to this Agreement as a whole and not to any particular Section, Article or other subdivision, (g) the term “including” means “including without limitation,” (h) the term “or” will be disjunctive but not exclusive, (i) the term “extent” in the phrase “to the extent” means the degree to which a subject or other thing extends, and such phrase will not mean simply “if,” and (j) any reference to any contract or Law is a reference to it as amended, modified and supplemented from time to time (and, in the case of a Law, to (i) any successor provision and (ii) the rules and regulations promulgated thereunder). This Agreement shall not be construed against either Party as the principal draftsman hereof or thereof.

ARTICLE II

GENERAL PRINCIPLES FOR ALLOCATION OF LIABILITIES

Section 2.1 General Principles. Unless otherwise provided herein, Liabilities in respect of Employees and Former Employees for compensation, wages and employee benefits shall be allocated among Capital Southwest and CSWI according to this Section 2.1.

(a) *Acceptance and Assumption of CSWI Compensation and Benefit Liabilities*. On or prior to the Distribution Date, but in any case prior to the Share Distribution, CSWI shall retain, assume and agree, as applicable, to faithfully perform, discharge and fulfill the following Liabilities in accordance with their respective terms (each of which shall be considered a "CSWI Compensation and Benefit Liability"), regardless of when or where such Liabilities arose or arise, or whether the facts on which they are based occurred prior to or subsequent to the Distribution Date:

(i) any and all wages, salaries, incentive compensation (as the same may be modified by this Agreement), equity compensation (as the same may be modified by Article III of this Agreement), commissions, bonuses and any other employee compensation or benefits payable to or on behalf of any CSWI Company Employee or Former CSWI Company Employee on or after the Distribution Date by any Capital Southwest Company or CSWI Company, in each case arising out of such CSWI Company Employee's or Former CSWI Company Employee's capacity as an Employee or Former Employee of any Capital Southwest Company or CSWI Company, and, without regard to when such wages, salaries, incentive compensation, equity compensation, commissions, bonuses or other employee compensation or benefits are or may have been awarded or earned; provided, however, with respect to any CSWI Company Employees that are Transferring Employees, only wages, salaries, incentive compensation, equity compensation, commissions, bonuses or other employee compensation or benefits payable to or on behalf of such Transferring Employees that have or will be awarded or earned on and after the Distribution Date shall be assumed, performed, discharged and fulfilled by CSWI; provided, further, that any Liability expressly retained by a Capital Southwest Company pursuant to this Agreement will remain a Liability of the applicable capital Southwest Company and will not be a CSWI Compensation and Benefit Liability;

(ii) any and all Liabilities whatsoever with respect to claims made by or with respect to any CSWI Company Employee or Former CSWI Company Employee in connection with any Benefit Plan not retained or assumed by any of the Capital Southwest Companies pursuant to this Agreement, the Distribution Agreement or any other Ancillary Agreement; and

(iii) any and all Liabilities expressly assumed or retained by CSWI or any of the CSWI Companies pursuant to this Agreement.

(b) *Retention of Capital Southwest Compensation and Benefit Liabilities.* Capital Southwest shall retain and agree to faithfully perform, discharge and fulfill any and all Liabilities of Employees for compensation, wages and employee benefits other than the CSWI Compensation and Benefit Liabilities, in accordance with their respective terms.

(c) *Payroll and Related Taxes.* With respect to any Transferring Employee, the Parties shall, or shall cause their respective Subsidiaries to, (i) treat CSWI (or the applicable CSWI Companies) as a “successor employer” and Capital Southwest (or the applicable Capital Southwest Companies) as a “predecessor,” within the meaning of Sections 3121(a)(1) and 3306(b)(1) of the Code, for purposes of Taxes imposed under the United States Federal Insurance Contributions Act, as amended (“FICA”), or the United States Federal Unemployment Tax Act, as amended (“FUTA”), (ii) cooperate with each other to avoid, to the extent possible, the restart of FICA and FUTA upon or following the Distribution Date with respect to each such CSWI Company Employee for the tax year during which the Distribution Date occurs, and (iii) use commercially reasonable efforts to implement the alternate procedure described in Section 5 of Revenue Procedure 2004-53; provided, however, that, to the extent that CSWI (or the applicable CSWI Companies) cannot be treated as a “successor employer” to Capital Southwest (or the applicable Capital Southwest Companies) within the meaning of Sections 3121(a)(1) and 3306(b)(1) of the Code with respect to any Transferring Employee, (x) with respect to the portion of the tax year commencing on January 1, 2015 and ending on the Distribution Date, Capital Southwest will (A) be responsible for all payroll obligations, Tax withholding and reporting obligations for such Transferring Employee and (B) furnish a Form W-2 or similar earnings statement to all such Transferring Employees for such period, and (y) with respect to the remaining portion of such tax year, CSWI will (A) be responsible for all payroll obligations, Tax withholding and reporting obligations regarding such Transferring Employees and (B) furnish a Form W-2 or similar earnings statement to all such Transferring Employees.

(d) *Unaddressed Liabilities.* To the extent that this Agreement does not address particular Liabilities for compensation, wages or employee benefits under any Benefit Plan and the Parties later determine that they should be allocated in connection with the Share Distribution, the Parties shall agree in good faith on the allocation, taking into account the handling of comparable Liabilities under this Agreement.

Section 2.2 Service Credit.

(a) *Service for Eligibility, Vesting and Benefit Purposes.* Except as otherwise provided herein or in any other Ancillary Agreement, CSWI shall, or shall cause the CSWI Companies, respectively, to, recognize each CSWI Company Employee’s and each Former CSWI Company Employee’s full service with any of the Capital Southwest Companies or predecessor entities at or before the Distribution Date, to the same extent that such service was credited by the Capital Southwest Companies for similar purposes prior to the Distribution Date as if such full service had been performed for CSWI or the applicable CSWI Company that is the Employee’s employer after the Distribution Date, for purposes of eligibility, vesting and determination of level of benefits under any Benefit Plan sponsored by CSWI or the applicable CSWI Company.

(b) *Credit for Compensation.* Except as otherwise provided herein or in any other Ancillary Agreement, the compensation paid by Capital Southwest and its Subsidiaries to an Employee shall be credited and recognized for all applicable purposes under the applicable Benefit Plans following the Distribution Date as though it were compensation from CSWI or any of the CSWI Companies, as applicable.

Section 2.3 Transferring Employees.

(a) *Transferring Employees.* Capital Southwest shall, or shall cause the Capital Southwest Companies to, transfer the employment of the employees listed on Schedule 2.3(a) (the “Transferring Employees”) to CSWI immediately prior to the Distribution Date.

(b) *Employment Agreements.* To the extent necessary, Capital Southwest shall, or shall cause the Capital Southwest Companies to, use commercially reasonable efforts to terminate any offers of employment and/or employment agreements entered into between a Transferring Employee and any of the Capital Southwest Companies, effective as of the Distribution Date. CSWI shall, or shall cause the CSWI Companies to, enter into new employment agreements with any Transferring Employees as it deems necessary. Such new employment agreements, if any, shall supersede and replace any offers of employment and/or employment agreements entered into between such Transferring Employee and any of the Capital Southwest Companies.

Section 2.4 Collective Bargaining. CSWI shall, or shall cause the applicable CSWI Company to, retain all collective bargaining agreements (including any national, sector or local collective bargaining agreement) that cover CSWI Company Employees and the Liabilities arising under such collective bargaining agreements.

Section 2.5 Non-U.S. Regulatory Compliance. Prior to the Share Distribution, Capital Southwest may, to the extent necessary, adjust the treatment described in this Agreement with respect to Employees who are located outside of the United States in order to ensure compliance with the applicable Laws of countries outside of the United States or to preserve the Tax benefits provided under local Tax Law.

ARTICLE III

EQUITY, INCENTIVE AND EXECUTIVE COMPENSATION

Section 3.1 Generally. Each Capital Southwest Award that is outstanding as of immediately prior to the Distribution Date shall be adjusted as described below; provided, however, that, effective immediately prior to the Distribution Date, the Capital Southwest Compensation Committee may provide for different adjustments with respect to some or all Capital Southwest Awards to the extent that the Capital Southwest Compensation Committee deems such adjustments necessary and appropriate. Any adjustments made by the Capital Southwest Compensation Committee pursuant to the foregoing sentence shall be deemed incorporated by reference herein as if fully set forth below and shall be binding on the Parties and their respective Affiliates. On or prior to the Distribution Date, the CSWI Equity Plan shall be established, with such terms as are necessary to permit the implementation of the provisions of Section 3.2.

(a) *Restricted Stock.* Each holder of an outstanding Capital Southwest Restricted Stock Award immediately prior to the Distribution Date shall receive, as of the Distribution Date, a CSWI Restricted Stock Award for such number of CSWI Shares as is determined in the same way as if the outstanding Capital Southwest Restricted Stock Award comprised fully vested Capital Southwest Shares as of the Distribution Date. Except as set forth in this Section 3.2, the Post-Separation Capital Southwest Restricted Stock Award and the CSWI Restricted Stock Award issued in accordance with this Section 3.2 both shall be subject to substantially the same terms and conditions (including with respect to vesting) immediately after the Distribution Date as were applicable to the Capital Southwest Restricted Stock Award immediately prior to the Distribution Date (except as otherwise provided herein, including in Section 3.2(c)).

(b) *Stock Options.* Each Capital Southwest Option that is outstanding immediately prior to the Distribution Date, regardless of by whom held, shall be converted as of the Distribution Date into both a Post-Separation Capital Southwest Option and a CSWI Option and shall be subject to substantially the same terms and conditions (including with respect to vesting and expiration) after the Distribution Date as were applicable to such Capital Southwest Option immediately prior to the Distribution Date (except as otherwise provided herein, including in Section 3.2(c)); provided, however, that from and after the Distribution Date:

(i) the number of Capital Southwest Shares subject to such Post-Separation Capital Southwest Option shall be equal to the product obtained by multiplying (A) the number of Capital Southwest Shares subject to the corresponding Capital Southwest Option immediately prior to the Distribution Date by (B) the Share Value Factor, with the resulting number rounded down to the nearest whole share;

(ii) the number of CSWI Shares subject to such CSWI Option shall be equal to the product obtained by multiplying (A) the number of Capital Southwest Shares subject to the corresponding Capital Southwest Option immediately prior to the Distribution Date by (B) the Share Value Factor, with the resulting number rounded down to the nearest whole share;

(iii) the per share exercise price of such Post-Separation Capital Southwest Option shall be equal to the quotient obtained by dividing (A) the per share exercise price of the corresponding Capital Southwest Option immediately prior to the Distribution Date by (B) the Capital Southwest Ratio, with the resulting number rounded up to the nearest cent; and

(iv) the per share exercise price of such CSWI Option shall be equal to the quotient obtained by dividing (A) the per share exercise price of the corresponding Capital Southwest Option immediately prior to the Distribution Date by (B) the CSWI Ratio, with the resulting number rounded up to the nearest cent.

Notwithstanding anything to the contrary in this Section 3.2(b), the exercise price, the number of Capital Southwest Shares and CSWI Shares subject to each Post-Separation Capital Southwest Option and CSWI Option, and the terms and conditions of exercise of such options shall be determined in a manner consistent with the requirements of Section 409A of the Code. For purposes of Section 409A of the Code, the Capital Southwest Share Value shall be treated as the fair market value of a Capital Southwest Share immediately prior to the substitutions described in this Section 3.2(b) and the Post-Separation Capital Southwest Share Value and the CSWI Share Value shall be treated as the fair market value of a Capital Southwest Share and the fair market value of a CSWI Share, respectively, immediately after such substitutions.

(c) *Miscellaneous Award Terms.* With respect to Post-Separation Capital Southwest Awards and CSWI Awards, (i) employment with or service to the Capital Southwest Companies shall be treated as employment with and service to CSWI with respect to CSWI Awards held by Capital Southwest Company Employees and (ii) employment with or service to CSWI or a CSWI Company shall be treated as employment with or service to Capital Southwest with respect to Post-Separation Capital Southwest Awards held by CSWI Company Employees. In addition, none of the Share Distribution or any employment action described in Section 2.3 shall constitute a termination of employment for any Employee for purposes of any Post-Separation Capital Southwest Award or any CSWI Award. After the Distribution Date, for any award adjusted under this Section 3.2, any reference to a “change in control,” “change of control” or similar definition in an award agreement, employment agreement or Capital Southwest Equity Plan applicable to such award (A) with respect to Post-Separation Capital Southwest Awards, shall be deemed to refer to a “change in control,” “change of control” or similar definition as set forth in the applicable award agreement, employment agreement or Capital Southwest Equity Plan (a “Capital Southwest Change of Control”) and (B) with respect to CSWI Awards, shall be deemed to refer to a “Change in Control” as defined in the CSWI Equity Plan (a “CSWI Change of Control”). Without limiting the foregoing, with respect to provisions related to vesting of awards, a Capital Southwest Change of Control shall be treated as a CSWI Change of Control for purposes of CSWI Awards held by Capital Southwest Company Employees and a CSWI Change of Control shall be treated as a Capital Southwest Change of Control for purposes of Post-Separation Capital Southwest Awards held by CSWI Company Employees.

(d) *Tax Reporting and Withholding.*

(i) Except as otherwise provided in this Section 3.2(d), after the Distribution Date, Post-Separation Capital Southwest Awards, regardless of by whom held, shall be settled by Capital Southwest, and CSWI Awards, regardless of by whom held, shall be settled by CSWI.

(ii) Upon the vesting or exercise, as applicable, of CSWI Awards, CSWI shall be solely responsible for ensuring (A) the satisfaction of all applicable Tax withholding requirements on behalf of each CSWI Company Employee and (B) the collection and remittance of employee withholding Taxes to the Capital Southwest Companies with respect to each Capital Southwest Company Employee (with Capital Southwest Companies being responsible for remittance of the applicable employee Taxes and payment and remittance of the applicable employer Taxes relating to Capital Southwest Company Employees to the applicable Governmental Authority).

(iii) Upon the vesting or exercise, as applicable, of Post-Separation Capital Southwest Awards, Capital Southwest shall be solely responsible for ensuring (A) the satisfaction of all applicable Tax withholding requirements on behalf of each Capital Southwest Company Employee and (B) the collection and remittance of employee withholding Taxes to CSWI or the CSWI Companies with respect to each CSWI Company Employee (with CSWI or the CSWI Companies being responsible for remittance of the applicable employee Taxes and payment and remittance of the applicable employer Taxes relating to CSWI Company Employees to the applicable Governmental Authority).

(iv) Following the Distribution Date, CSWI will be responsible for all income Tax reporting in respect of Post-Separation Capital Southwest Awards and CSWI Awards held by CSWI Company Employees, and Capital Southwest shall be responsible for all income Tax reporting in respect of Post-Separation Capital Southwest Awards and CSWI Awards held by Capital Southwest Company Employees.

(v) Following the Distribution Date, if any Post-Separation Capital Southwest Award held by a CSWI Company Employee shall fail to become vested, such Post-Separation Capital Southwest Award shall be forfeited to Capital Southwest, and if any CSWI Award held by a Capital Southwest Company Employee shall fail to become vested, such CSWI Award shall be forfeited to CSWI.

(e) *Registration and Other Regulatory Requirements.* CSWI agrees to file Forms S-1, S-3 and S-8 registration statements, as applicable, with respect to, and to cause to be registered pursuant to the Securities Act, the CSWI Shares authorized for issuance under the CSWI Equity Plan, as required pursuant to the Securities Act, before the date of issuance of any CSWI Shares pursuant to the CSWI Equity Plan. The Parties shall take such additional actions as are deemed necessary or advisable to effectuate the foregoing provisions of this [Section 3.2\(e\)](#), including compliance with securities Laws and other legal requirements associated with equity compensation awards in affected non-U.S. jurisdictions. Capital Southwest agrees to facilitate the adoption and approval of the CSWI Equity Plan consistent with the requirements of Treasury Regulations Section 1.162-27(f)(4)(iii).

Section 3.3 Capital Southwest Incentive Awards.

(a) *Awards Granted Prior to the Share Distribution.* Capital Southwest will use commercially reasonable efforts to enter into an agreement with each holder of a Capital Southwest Incentive Award that is outstanding immediately prior to the Distribution Date to cause the “Phantom Share Value” (as defined in the Capital Southwest Incentive Award) for purposes of any future exercise of such award to be determined based upon the net asset value of Capital Southwest as of the last day of the fiscal quarter ending immediately prior to the Distribution Date. After the Distribution Date, Capital Southwest shall retain all Liabilities associated with the Capital Southwest Incentive Awards held by Capital Southwest Company Employees or Transferring Employees, including any replacement awards issued to any Capital Southwest Company Employees pursuant to [Section 3.3\(b\)](#), and CSWI shall assume all Liabilities associated with the Capital Southwest Incentive Awards held by CSWI Company Employees who are not Transferring Employees, as well as any replacement awards issued to CSWI Company Employees (including Transferring Employees) pursuant to [Section 3.3\(b\)](#). Employment with or service to CSWI or a CSWI Company shall be treated as employment with or service to Capital Southwest with respect to Capital Southwest Incentive Awards held by CSWI Company Employees following the Distribution Date. In addition, none of the Share Distribution or any employment action described in [Section 2.3](#) shall constitute a termination of employment for any Employee for purposes of any Capital Southwest Incentive Award.

(b) *Replacement Awards.* Capital Southwest and CSWI shall use commercially reasonable efforts to agree with each holder of Capital Southwest Incentive Awards to enter into a new agreement regarding acceptable replacement awards to be issued by Capital Southwest, if such holder is a Capital Southwest Company Employee, or CSWI, if such holder is a CSWI Company Employee, effective as of the Distribution Date. Each such replacement award shall be subject to substantially the same terms and conditions with respect to vesting and the time and manner of payment as applied to the applicable Capital Southwest Incentive Award immediately prior to the Distribution Date to the extent necessary to comply with Section 409A of the Code.

(c) *Tax Reporting and Withholding.*

(i) Upon the vesting or exercise, as applicable, of Capital Southwest Incentive Awards, CSWI shall be solely responsible for ensuring (A) the satisfaction of all applicable Tax withholding requirements on behalf of each CSWI Company Employee (excluding Transferring Employees), (B) the collection and remittance of employee withholding Taxes to the applicable Governmental Authority with respect to each CSWI Company Employee (excluding Transferring Employees), and (C) the remittance of employee withholding Taxes received from Capital Southwest to the applicable Governmental Authority with respect to each Transferring Employee, and Capital Southwest shall be solely responsible for ensuring (A) the satisfaction of all applicable Tax withholding requirements on behalf of each Capital Southwest Company Employee and each Transferring Employee, (B) the collection and remittance of employee withholding Taxes to the applicable Governmental Authority with respect to each Capital Southwest Company Employee, and (c) the collection and remittance of employee withholding Taxes to CSWI with respect to each Transferring Employee.

(ii) Upon the vesting or exercise, as applicable, of any replacement award issued pursuant to Section 3.3(b), CSWI shall be solely responsible for ensuring (A) the satisfaction of all applicable Tax withholding requirements on behalf of each CSWI Company Employee (including Transferring Employees) and (B) the collection and remittance of employee withholding Taxes to the applicable Governmental Authority with respect to each CSWI Company Employee, and Capital Southwest shall be solely responsible for ensuring (A) the satisfaction of all applicable Tax withholding requirements on behalf of each Capital Southwest Company Employee and (B) the collection and remittance of employee withholding Taxes to the applicable Governmental Authority with respect to each Capital Southwest Company Employee.

(iii) Following the Distribution Date, CSWI will be responsible for all income Tax reporting in respect of Capital Southwest Incentive Awards and any replacement awards issued pursuant to Section 3.3(b) held by CSWI Company Employees, and Capital Southwest shall be responsible for all income Tax reporting in respect of Capital Southwest Incentive Awards and any replacement awards issued pursuant to Section 3.3(b) held by Capital Southwest Company Employees.

ARTICLE IV

QUALIFIED RETIREMENT PLANS

Section 4.1 The Retirement Plan.

(a) *CSWI Assumption.* As of the Distribution Date, CSWI will take all actions necessary to assume sponsorship of the Retirement Plan and be substituted as the party to any trust and/or custodian agreement related thereto. Prior to the Distribution Date, Capital Southwest shall take all actions necessary to transfer the sponsorship of the Retirement Plan to CSWI, to be effective as of the Distribution Date. The Retirement Plan shall make payments to Capital Southwest Company Employees and Former Employees with vested rights thereunder in accordance with the terms of the Retirement Plan as in effect from time to time.

(b) *No Loss of Unvested Benefits; Distributions.* The Transferring Employees will not lose their unvested accrued benefits (if any) under the Retirement Plan, which shall be assumed by CSWI as provided herein. No Transferring Employee shall be entitled to a distribution of his or her benefit under the Retirement Plan as a result of such transfer of employment. Capital Southwest Company Employees and Former Employees shall be entitled to a distribution of their vested benefits (if any) under the Retirement Plan, following the Share Distribution, in accordance with the terms of the Retirement Plan, in effect from time to time.

(c) *PBGC Notice.* Capital Southwest shall file all applicable notices with the PBGC as required under Section 4043 of ERISA that are triggered as a result of the transfer of sponsorship of the Retirement Plan to CSWI, either alone or in combination with any other event or circumstance.

Section 4.2 401(k) Plans.

(a) *Capital Southwest 401(k) Plan.* Prior to the Distribution Date, Capital Southwest will take all actions necessary to cause Capital Southwest Management Corporation to establish the Capital Southwest 401(k) Plan to be effective following the Distribution Date. Media Recovery, Inc. shall retain sponsorship of the Media Recovery, Incorporated Employee Savings Plan following the Distribution Date, and such plan will be merged into the Capital Southwest 401(K) Plan as soon as administratively practical following the Distribution Date.

(b) *CSWI 401(k) Plan.* As of the Distribution Date, CSWI will take all actions necessary to assume sponsorship of the CSWI 401(k) Plan and be substituted as the party to any trust and/or custodian agreement related thereto. Prior to the Distribution Date, Capital Southwest shall take all actions necessary to cause the applicable CSWI Company to transfer sponsorship of the CSWI 401(k) Plan to CSWI, to be effective as of the Distribution Date.

(a) *Treatment of the ESOP.* As of the Distribution Date, CSWI will assume sponsorship of the ESOP and will be substituted as the party to any trust and/or custodian agreement related thereto. Prior to the Distribution Date, Capital Southwest shall take all actions necessary to cause the applicable CSWI Companies to transfer sponsorship of the ESOP to CSWI, to be effective as of the Distribution Date. As soon as administratively practicable following the Distribution Date, CSWI shall cause a transfer of the plan assets of the Capital Southwest Company Employees who have an account balance under the ESOP as of the Distribution Date, valued as of the date such assets are transferred, from the trust maintained with respect to the ESOP to the trust maintained with respect to the Capital Southwest 401(k) Plan, and Capital Southwest will cause the trust maintained with respect to the Capital Southwest 401(k) Plan to accept such transfer of assets (the date on which such transfer occurs is referred to as the “ESOP Asset Transfer Date”). On and after the Distribution Date and until the ESOP Asset Transfer Date, the ESOP shall make payments to Employees and Former Employees with respect to their vested benefits thereunder in accordance with the terms of the ESOP, as in effect from time to time. On and after the ESOP Asset Transfer Date, the Capital Southwest 401(k) Plan shall make payments to Capital Southwest Company Employees with respect to their vested benefits transferred from the ESOP, in accordance with the terms of the Capital Southwest 401(k) Plan, as in effect from time to time, and the ESOP shall make payments to CSWI Company Employees and Former Employees with respect to their vested benefits under the ESOP in accordance with the terms of the ESOP, as in effect from time to time.

(b) *CSWI Shares in the ESOP.* CSWI Shares distributed in connection with the Share Distribution in respect of Capital Southwest Shares held in the ESOP shall be allocated to the applicable Employees’ and Former Employees’ account under the ESOP.

(c) *No Loss of Unvested Benefits; No Distributions.* The Transferring Employees will not lose their unvested benefits (if any) under the ESOP, which shall be assumed by CSWI as provided herein. No Transferring Employee shall be entitled to a distribution of his or her benefit under the ESOP as a result of such transfer of employment nor shall any Capital Southwest Company Employee be entitled to a distribution of his or her benefit that is transferred from the ESOP to the Capital Southwest 401(k) Plan as a result of the Share Distribution.

ARTICLE V

NONQUALIFIED DEFERRED COMPENSATION PLANS

Section 5.1 The Restoration Plan. Capital Southwest shall retain sponsorship of the Restoration Plan. Effective as of the Distribution Date, all CSWI Company Employees shall cease active participation in the Restoration Plan. CSWI shall take all actions necessary to establish a non-qualified deferred compensation plan containing substantially the same terms as the Restoration Plan, effective as of the Distribution Date (the “CSWI Restoration Plan”). All Liabilities with respect to benefits accrued under the Restoration Plan on behalf of CSWI Company Employees shall be transferred to the CSWI Restoration Plan and assumed by CSWI. All CSWI Company Employees who participated in the Restoration Plan immediately prior to the Distribution Date shall become active participants in the CSWI Restoration Plan effective on the Distribution Date. After the Distribution Date, Capital Southwest shall make payments to Capital Southwest Company Employees and Former Employees with vested benefits under the Restoration Plan in accordance with the terms of the Restoration Plan, as in effect from time to time, and CSWI shall make payments to CSWI Company Employees under the CSWI Restoration Plan in accordance with the terms of the CSWI Restoration Plan, as in effect from time to time.

Section 5.2 The Executive Compensation Plan. Capital Southwest shall retain the cash incentive awards granted under the Executive Compensation Plan, and from and after the Distribution Date, all Liabilities with respect to such cash incentive awards shall remain Liabilities of Capital Southwest. Capital Southwest shall pay such cash incentive awards to Employees who are entitled to payment thereunder in the time and manner provided under the Executive Compensation Plan. After the Distribution Date, any reference to a “change in control,” “change of control” or similar definition in a cash incentive award agreement entered pursuant to the Executive Compensation Plan shall be deemed to refer to a Capital Southwest Change of Control for purposes of awards held by Capital Southwest Company Employees and to either a CSWI Change of Control or Capital Southwest Change in Control for purposes of such awards held by CSWI Company Employees.

ARTICLE VI

WELFARE PLANS

Section 6.1 CSWI Assumption. Prior to the Distribution Date, CSWI shall take all actions necessary to assume sponsorship of the Welfare Plans and any insurance policies related thereto, and from and after the Distribution Date, all assets and Liabilities thereunder shall be assets and Liabilities of CSWI. Prior to the Distribution Date, Capital Southwest shall take all actions necessary to transfer the sponsorship of the Welfare Plans and assign any insurance policies related thereto to CSWI, to be effective as of the Distribution Date. Strathmore Products, Inc. shall retain sponsorship of the health and welfare plans sponsored by Strathmore Products, Inc.

Section 6.2 Establishment of Capital Southwest Health and Welfare Plans. Effective as soon as administratively possible following the Distribution Date but in no event later than December 31, 2015, Capital Southwest shall establish the Capital Southwest Welfare Plans, and the Capital Southwest Company Employees and (if applicable) the Former Capital Southwest Company Employees shall cease participation in the Welfare Plans and shall be eligible to participate in the newly formed Capital Southwest Welfare Plans. All assets and Liabilities under the Capital Southwest Welfare Plans shall be assets and Liabilities of Capital Southwest or one of its Subsidiaries.

Section 6.3 Welfare Transition Period. During the Welfare Transition Period, Capital Southwest Company Employees and (if applicable) Former Capital Southwest Company Employees will continue to participate in the Welfare Plans at the same level such Capital Southwest Company Employees and (if applicable) such Former Capital Southwest Company Employees participated in the Welfare Plans immediately prior to the Distribution Date. During the Welfare Transition Period, Capital Southwest shall (A) pay CSWI for the employer portion of insurance premiums and flexible spending account contributions for all Capital Southwest Company Employees and (if applicable) Former Capital Southwest Company Employees participating in the Welfare Plans, (B) collect the employee portion of such premiums and contributions from such Capital Southwest Company Employees and (if applicable) such Former Capital Southwest Company Employees and (C) remit the employee portion of such premiums and contributions to CSWI.

Section 6.4 COBRA. CSWI will be responsible for complying with, and providing coverage pursuant to, the health care continuation requirements of COBRA and the corresponding provisions of the Welfare Plans with respect to any Employee and any Former Employee who incurs a qualifying event under COBRA before, as of, or after the Distribution Date; provided, however, that Capital Southwest will be responsible for complying with, and providing coverage pursuant to, the health care continuation requirements of COBRA and the corresponding provisions of the Capital Southwest Welfare Plans with respect to any Capital Southwest Company Employee or any Former Capital Southwest Company Employee who incurs a qualifying event under COBRA on or after January 1, 2016. The Parties agree that the consummation of the transactions contemplated by the Distribution Agreement shall not constitute a COBRA qualifying event for any purpose of COBRA.

Section 6.5 Vacation, Holidays and Leaves of Absence. Without limiting the generality of Section 2.1, effective as of the Distribution Date, CSWI shall assume all Liabilities with respect to vacation, holiday, annual leave of absence, and required payments related thereto, for each Transferring Employee. Capital Southwest or one of its Subsidiaries shall retain all Liabilities with respect to vacation, holiday, annual leave of absence, and required payments related thereto, for each Capital Southwest Company Employee and each Former Capital Southwest Company Employee, and CSWI or one of the CSWI Companies shall retain all Liabilities with respect to vacation, holiday, annual leave of absence, and required payments related thereto, for each CSWI Company Employee (excluding the Transferring Employees) and each Former CSWI Company Employee.

Section 6.6 Severance and Unemployment Compensation. Without limiting the generality of Section 2.1, effective as of the Distribution Date, CSWI shall assume any and all Liabilities to, or relating to, the Transferring Employees in respect of severance and unemployment compensation with respect to Liabilities that are triggered by events occurring after the Distribution Date. Capital Southwest or one of its Subsidiaries shall be responsible for any and all Liabilities to, or relating to, the Capital Southwest Company Employees and Former Capital Southwest Company Employees in respect of severance and unemployment compensation, regardless of whether the event giving rise to the Liability occurred before, at or after the Distribution Date, and CSWI or one of the CSWI Companies shall be responsible for any and all Liabilities to, or relating to, the CSWI Company Employees (excluding the Transferring Employees) and Former CSWI Company Employees in respect of severance and unemployment compensation, regardless whether the event giving rise to the Liability occurred before, at or after the Distribution Date.

Section 6.7 Workers' Compensation. With respect to claims for workers' compensation, (a) CSWI or a CSWI Company shall be responsible for claims in respect of CSWI Company Employees (excluding the Transferring Employees) and Former CSWI Company Employees, whether occurring before, at or after the Distribution Date, and (b) Capital Southwest or one of its Subsidiaries shall be responsible for all claims in respect of Capital Southwest Company Employees and Former Capital Southwest Company Employees, whether occurring before, on or after the Distribution Date. CSWI shall be responsible for any and all Liabilities with respect to claims for workers' compensation by the Transferring Employees occurring after the Distribution Date, and Capital Southwest shall retain all Liabilities with respect to claims for workers' compensation by the Transferring Employees occurring on or prior to the Distribution Date. Notwithstanding anything contained herein to the contrary, to the extent any claims occurring on or before the Distribution Date are covered by any insurance contract, such claims shall continue to be paid, administered and processed under such insurance contract.

ARTICLE VII

NON-U.S. EMPLOYEES

Section 7.1 Treatment of Non-U.S. Employees. CSWI Company Employees and Former CSWI Company Employees who are residents outside of the United States or otherwise are subject to non-U.S. Law and their related benefits and Liabilities shall be treated in the same manner as the CSWI Company Employees and Former CSWI Company Employees, respectively, who are residents of the United States and are not subject to non-U.S. Law. Notwithstanding anything in this Agreement to the contrary, all actions taken with respect to non-U.S. Employees or U.S. Employees working in non-U.S. jurisdictions shall be subject to and accomplished in accordance with applicable Law in the custom of the applicable jurisdictions.

ARTICLE VIII

MISCELLANEOUS

Section 8.1 At-Will Status. Nothing in this Agreement shall create any obligation on the part of the Parties or any of their Subsidiaries to (i) continue the employment of any Employee or permit the return from a leave of absence for any period after the date of this Agreement (except as required by applicable Law) or (ii) change the employment status of any Employee from “at-will,” to the extent that such Employee is an “at-will” employee under applicable Law.

Section 8.2 Severance. The Parties acknowledge and agree that the Share Distribution and the assignment, transfer or continuation of the employment of the Employees as contemplated by this Agreement shall not be deemed an involuntary termination of employment entitling any Capital Southwest Company Employee or CSWI Company Employee to severance payments or benefits.

Section 8.3 Change in Control. The Parties acknowledge and agree that neither the consummation of the Share Distribution nor any transaction contemplated by this Agreement, the Distribution Agreement or any other Ancillary Agreement shall be deemed a “change of control,” “change in control,” or term of similar import for purposes of any Benefit Plan sponsored or maintained by any of the Capital Southwest Companies, CSWI or any of the CSWI Companies.

(a) *Sharing of Information.* Subject to any limitations imposed by applicable Law, each Party will, and will cause its Subsidiaries to, provide to the other Party and such other Party's authorized agents and vendors all information necessary for the Parties to perform their respective duties under this Agreement.

(b) *Transfer of Personnel Records and Authorization.* Subject to any limitation imposed by applicable Law and to the extent that it has not done so before the Distribution Date, Capital Southwest shall transfer to CSWI any and all employment records (including any Form I-9, Form W-2 or other IRS forms) with respect to CSWI Company Employees and Former CSWI Company Employees and other records reasonably requested by CSWI to enable CSWI to properly to carry out its obligations under this Agreement. Such transfer of records generally shall occur as soon as administratively practicable at or after the Distribution Date. Pursuant to Section 5.1 and Section 5.2 of the Distribution Agreement, each Party will permit the other reasonable access to Employee records, to the extent reasonably necessary for such accessing Party to carry out its obligations hereunder.

(c) *Access to Records.* To the extent, due to restrictions by applicable Law, any employment records (including any Form I-9, Form W-2 or other IRS forms) with respect to CSWI Company Employees and Former CSWI Company Employees that are not transferred to CSWI pursuant to Section 8.4(b), from and after the Distribution Agreement, Capital Southwest shall provide CSWI access to such records in accordance with Sections 5.1 and 5.2 of the Distribution Agreement.

(d) *Maintenance of Records.* With respect to retaining, destroying, transferring, sharing, copying and permitting access to all Employee-related information, each Party shall, and shall cause its Subsidiaries to, comply with all applicable Laws and internal policies, and shall indemnify and hold harmless the other from and against any and all Losses that arise from a failure (by the indemnifying Party or its Subsidiaries or their respective agents) to so comply with all applicable Laws and internal policies applicable to such information.

(e) *Cooperation.* Each Party shall use commercially reasonable efforts to cooperate and work together to unify, consolidate and share (to the extent permissible under applicable privacy/data protection Laws) all relevant documents, resolutions, government filings, data, payroll, employment and benefit plan information on regular timetables and cooperate as needed with respect to (i) any Action with respect to any employee benefit plan, policy or arrangement contemplated by this Agreement, (ii) efforts to seek a determination letter, private letter ruling or advisory opinion from the IRS or DOL on behalf of any employee benefit plan, policy or arrangement contemplated by this Agreement, and (iii) any filings that are required to be made or supplemented to the IRS, PBGC, DOL or any other Governmental Authority; provided, however, that requests for cooperation must be reasonable and not interfere with daily business operations.

(f) *Confidentiality.* Notwithstanding anything in this Agreement to the contrary, all confidential records and data relating to Employees to be shared or transferred pursuant to this Agreement shall be subject to Section 5.4 of the Distribution Agreement and the requirements of applicable Law.

Section 8.5 Preservation of Rights to Amend. The rights of the Capital Southwest Companies, CSWI and the CSWI Companies to amend, waive, or terminate any Benefit Plan or any other plan, arrangement, agreement, program, or policy referred to herein shall not be limited in any way by this Agreement.

Section 8.6 Fiduciary Matters. Each Party acknowledges that actions required to be taken pursuant to this Agreement may be subject to fiduciary duties or standards of conduct under ERISA or other applicable Law, and no Party shall be deemed to be in violation of this Agreement if it fails to comply with any provisions hereof based upon its good-faith determination (as supported by advice from counsel experienced in such matters) that to do so would violate such a fiduciary duty or standard. Each Party shall be responsible for taking such actions as are deemed necessary and appropriate to comply with its own fiduciary responsibilities and shall fully release and indemnify the other Party for any Liabilities caused by the failure to satisfy any such responsibility.

Section 8.7 Complete Agreement; Construction. This Agreement, including the schedules attached hereto, the Distribution Agreement and the Ancillary Agreements shall constitute the entire agreement between the Parties with respect to the subject matter hereof and shall supersede all previous negotiations, commitments and writings with respect to such subject matter.

Section 8.8 Counterparts. This Agreement may be executed in one or more counterparts, all of which shall be considered one and the same agreement, and shall become effective when one or more such counterparts have been signed by each of the Parties and delivered to the other Party. The delivery of an executed Agreement by facsimile or other electronic delivery shall be sufficient to bind the Party so delivering such Agreement.

Section 8.9 Survival of Agreements. Except as otherwise contemplated by this Agreement, all covenants and agreements of the Parties contained in this Agreement shall survive the Distribution Date.

Section 8.10 Notices. All notices and other communications hereunder shall be in writing, shall reference this Agreement and shall be hand delivered or mailed by registered or certified mail (return receipt requested) to the Parties at the following addresses (or at such other addresses for a Party as shall be specified by like notice) and will be deemed given on the date on which such notice is received:

To Capital Southwest:

Capital Southwest Corporation
5400 Lyndon B. Johnson Freeway, Suite 1300
Dallas, Texas 75240
Attention: Chief Executive Officer

To CSWI:

CSW Industrials, Inc.
5400 Lyndon B. Johnson Freeway, Suite 1300
Dallas, Texas 75240
Attention: Chief Executive Officer

Section 8.11 Waivers. The failure of any Party to require strict performance by any other Party of any provision in this Agreement will not waive or diminish that Party's right to demand strict performance thereafter of that or any other provision hereof.

Section 8.12 Amendments. This Agreement may not be modified or amended except by an agreement in writing signed by each of the Parties.

Section 8.13 Assignment. This Agreement shall not be assignable, in whole or in part, directly or indirectly, by any Party without the prior written consent of the other Party and any attempt to assign any rights or obligations arising under this Agreement without such consent shall be void; provided, however, that either Party may assign this Agreement to a purchaser of all or substantially all of the properties and assets of such Party; provided, that no such assignment will relieve the assigning Party of its obligations hereunder.

Section 8.14 Successors and Assigns. The provisions to this Agreement shall be binding upon, inure to the benefit of and be enforceable by the Parties and their respective successors and permitted assigns.

Section 8.15 Termination. This Agreement may be terminated at any time prior to the Share Distribution by and in the sole discretion of Capital Southwest without the approval of CSWI or the shareholders of Capital Southwest. In the event of such termination, no Party shall have any liability of any kind to any other Party or any other Person. After the Share Distribution, this Agreement may not be terminated except by an agreement in writing signed by the Parties.

Section 8.16 Third Party Beneficiaries. This Agreement is solely for the benefit of the Parties and their respective Subsidiaries, Affiliates, successors and assigns and shall not be deemed to confer upon any other Person any remedy, claim, liability, reimbursement, cause of action or other right in excess of those existing without reference to this Agreement. The Parties agree that each CSWI Indemnitee and Capital Southwest Indemnitee who is not a party to this Agreement is an intended third party beneficiary of the indemnification provisions of this Agreement.

Section 8.17 Title and Headings. Titles and headings to Sections herein are inserted for convenience of reference only and are not intended to be a part of or to affect the meaning or interpretation of this Agreement.

Section 8.18 Governing Law. THIS AGREEMENT SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF DELAWARE APPLICABLE TO CONTRACTS MADE AND TO BE PERFORMED IN THE STATE OF DELAWARE.

Section 8.19 Waiver of Jury Trial. The Parties hereby irrevocably waive any and all right to trial by jury in any legal proceeding arising out of or related to this Agreement.

Section 8.20 Specific Performance. From and after the Share Distribution, in the event of any actual or threatened default in, or breach of, any of the terms, conditions and provisions of this Agreement, the Parties agree that the Party to this Agreement who is or is to be thereby aggrieved shall have the right to specific performance and injunctive or other equitable relief of its rights under this Agreement, in addition to any and all other rights and remedies at law or in equity, and all such rights and remedies shall be cumulative. The Parties agree that, from and after the Share Distribution, the remedies at Law for any breach or threatened breach of this Agreement, including monetary damages, are inadequate compensation for any loss, that any defense in any action for specific performance that a remedy at Law would be adequate is hereby waived, and that any requirements for the securing or posting of any bond with such remedy are hereby waived.

Section 8.21 Severability. In the event any one or more of the provisions contained in this Agreement should be held invalid, illegal or unenforceable in any respect, the validity, legality and enforceability of the remaining provisions contained herein and therein shall not in any way be affected or impaired thereby. The Parties shall endeavor in good faith negotiations to replace the invalid, illegal or unenforceable provisions with valid provisions, the economic effect of which comes as close as possible to that of the invalid, illegal or unenforceable provisions.

[Signature page follows]

IN WITNESS WHEREOF, the Parties have caused this Agreement to be duly executed as of the day and year first above written.

CAPITAL SOUTHWEST CORPORATION

By: /s/ Bowen S. Diehl

Name: Bowen S. Diehl

Title: Chief Investment Officer

CSW INDUSTRIALS, INC.

By: /s/ Joseph B. Armes

Name: Joseph B. Armes

Title: Chief Executive Officer

[Signature page to Employee Matters Agreement]

CAPITAL SOUTHWEST CORPORATION

Form of

Amended and Restated Non-Qualified Stock Option Agreement

This Amended and Restated Non-Qualified Stock Option Agreement (this "Agreement") is entered into as of September [], 2015 (the "Effective Date"), between Capital Southwest Corporation (the "Company") and _____ (the "Optionee").

WHEREAS, the Company and Optionee currently are parties to a Non-Qualified Stock Option Agreement, dated August 28, 2014 (the "Prior Agreement"), and the Company and Optionee desire to amend and restate the Prior Agreement; and

WHEREAS, this Agreement shall supersede and completely replace the Prior Agreement as of the Effective Date.

NOW, THEREFORE, in consideration of the mutual covenants contained herein and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

Date of Grant: August 28, 2014

Name of Optionee: [-----]

Number of Shares: [-----] Shares of Common Stock (the "Shares")

Exercise Price Per Share: \$36.16 per Share, which exceeds the Fair Market Value of the Shares as of the Date of Grant as determined in accordance with the Capital Southwest Corporation 2009 Stock Incentive Plan, as amended (the "Plan")

Expiration Date: August 28, 2024

Vesting Schedule: 1/3 exercisable beginning on the Trigger Event Date; an additional 1/3 exercisable beginning on the first anniversary of the Trigger Event Date; and the final 1/3 exercisable beginning on the second anniversary of the Trigger Event Date

The Company hereby awards to the Optionee an option (the "Option") to purchase from the Company, for the exercise price per share set forth above (the "Exercise Price"), the number of shares of Common Stock of the Company set forth above pursuant to the Plan. The Option is not intended by the parties hereto to be, and shall not be treated as, an "incentive stock option" within the meaning of Section 422 of the Internal Revenue Code of 1986, as amended (the "Code"). The Option is not intended to be a Qualified Performance-Based Award under the Plan.

To the extent not controlled by the terms and conditions contained in the Plan, the terms and conditions of the Option granted hereby shall be governed by this Agreement.

1. No Right to Continued Employee Status

Nothing contained in this Agreement shall confer upon Optionee the right to the continuation of his or her Employee status, or to interfere with the right of the Company or other member of the Company Group, as applicable, to terminate such relationship.

2. Vesting of Option

(a) The Option shall vest in accordance with the Vesting Schedule set forth above.

(b) Notwithstanding anything to the contrary, all unvested Options shall automatically vest in full and become exercisable upon the occurrence of any of the following events following the Trigger Event Date: (i) a Change of Control; (ii) a Termination of Service by the Optionee for Good Reason; (iii) a Termination of Service by the Company Group member employing the Optionee without Cause, (iv) a Termination of Service due to the Optionee's Disability; or (v) a Termination of Service due to the Optionee's death. Notwithstanding anything to the contrary, in the event a Change of Control or a Termination of Service for one of the reasons described in this Section 2(b) occurs on or before the Trigger Event Date, the Options shall vest in full and become exercisable on the Trigger Event Date. For purposes hereof,

- i. "Good Reason" means the occurrence of any of the following: (A) a material breach of the Optionee's employment agreement by the employer; (B) a reduction in the Optionee's title or a material reduction in the Optionee's duties, authorities, and/or responsibilities; (C) a material reduction in the Optionee's compensation or benefits; or (D) a requirement by the employer, without the Optionee's consent, that the Optionee relocate to a location greater than thirty-five (35) miles from the Optionee's place of residence; provided, however, such events will not constitute "Good Reason" unless (1) the Optionee gives the employer notice of the existence of an event described above within ninety (90) days following the initial occurrence thereof, (2) the employer does not remedy such event within thirty (30) days of receiving the notice described in the preceding clause (1) and (3) the Optionee terminates employment within twelve (12) months of the end of the cure period described in the preceding clause (2); and
- ii. "Trigger Event" means a transformative transaction intended to increase the market value of the Company equity for the benefit of its shareholders, which may involve, for example, a spinoff of one or more wholly-owned subsidiaries of the Company (collectively, "Spinco"), a going private transaction, a leveraged recapitalization, or termination of the Company's regulated investment company status; and

iii. “Trigger Event Date” means the 90th day following the consummation of the Trigger Event, unless the Trigger Event is a going private transaction, in which case the Trigger Event Date shall be the closing date of such transaction.

(c) Except with respect to the Optionee’s Termination of Service for one of the reasons described in Section 2(b), all unvested Options as of the Optionee’s Termination of Service shall expire and be forfeited immediately upon such Termination of Service.

(d) In the case of a Termination of Service, vested Options (including Options vesting pursuant to Section 2(b)) shall be exercisable during the six (6) months following the later of the date of termination and the Trigger Event Date, subject in the case of a termination for Cause, to the provisions of Section 7(e) of the Plan

3. Exercise; Transferability

(a) Exercise Method. The Option shall be exercised by delivery to the Company of (i) written notice of exercise stating the number of Shares being purchased (in whole shares only) and such other information set forth on the form of Notice of Exercise attached to this Agreement as Exhibit A and (ii) a check or cash in the amount of the Exercise Price of the Shares covered by the notice (or such other consideration as has been approved by the Board of Directors consistent with the Plan). Optionee may also exercise the Option through a cashless exercise in accordance with the Plan and the Company’s rules and procedures governing cashless exercises. Any cashless exercise permitted hereunder will be subject to any applicable limitations or restrictions imposed under the Sarbanes-Oxley Act of 2002.

(b) Transferability. Unless otherwise required by law, the Option shall not be assignable or transferable other than by will, by the laws of descent and distribution, or by a qualified domestic relations order, and may be exercised during the lifetime of the Optionee only by the Optionee (or the Optionee’s guardian or legal representative) or an alternate payee under a qualified domestic relations order.

4. Certain Adjustments

Adjustments to the Option shall be effected in accordance with Section 16(a) of the Plan.

5. Termination of Service

The transfer of Optionee’s employment to Spinco will not constitute a Termination of Service under this Agreement and the Optionee will be considered, for purposes of this Agreement, to be an Employee of the Company Group for so long as Optionee’s employment with Spinco continues, notwithstanding that Spinco ceases to be a subsidiary of the Company.

6. Notices

Any notice required to be given pursuant to this Agreement or the Plan shall be in writing and shall be deemed to be delivered upon receipt or, in the case of notices by the Company, five (5) days after deposit in the U.S. mail, postage prepaid, addressed to Optionee at the address last provided by Optionee for his or her employee records.

7. Modification, Extension and Renewal of Options

The Board or Committee, as described in the Plan, may modify, extend or renew the Option or accept its surrender (to the extent not yet exercised) and authorize the granting of a new option in substitution for it (to the extent not yet exercised), subject at all times to the Plan, the Code, and the applicable laws of the State of Texas. Notwithstanding the foregoing provisions of this Section 7, no modification shall, without the consent of the Optionee, alter to the Optionee's detriment or impair any rights of the Optionee under this Agreement except to the extent permitted under the Plan.

8. Agreement Subject to Plan; Applicable Law

This Agreement is made pursuant to the Plan and shall be interpreted to comply therewith. A copy of the Plan is attached hereto. Any provision of this Agreement inconsistent with the Plan shall be considered void and replaced with the applicable provision of the Plan. This Agreement shall be governed by the laws of the State of Texas and subject to the exclusive jurisdiction of the courts therein. Unless otherwise provided herein, capitalized terms used herein that are defined in the Plan and not defined herein shall have the meanings set forth in the Plan.

COMPANY:

CAPITAL SOUTHWEST CORPORATION

By: _____
Name:
Title:

OPTIONEE:

Name:
Address:

EXHIBIT A

Capital Southwest Corporation

NON-QUALIFIED STOCK OPTION EXERCISE FORM

Date: _____

Attention: _____

The undersigned hereby elects to exercise all or a portion of the Options issued to him/her by Capital Southwest Corporation (the "Company") and dated August 28, 2014 (the "Options") and to purchase _____ shares of common stock of the Company (the "Shares") at an exercise price of _____ Dollars (\$____) per share or an aggregate purchase price of _____ Dollars (\$_____) (the "Exercise Price"). Pursuant to the terms of the Option Agreement the undersigned has delivered the Exercise Price herewith in full in cash or _____.

Please issue a certificate or certificates representing said shares of common stock in the name of the undersigned.

By: _____

Typed Name: _____

Address: _____

CAPITAL SOUTHWEST CORPORATION

Form of

Amended and Restated Restricted Stock Award Agreement

This Amended and Restated Restricted Stock Award Agreement (this "Agreement") is entered into as of September [], 2015 (the "Effective Date"), between Capital Southwest Corporation (the "Company") and _____ (the "Holder").

WHEREAS, the Company and Holder currently are parties to a Restricted Stock Award Agreement, dated August 28, 2014 (the "Prior Agreement"), and the Company and Holder desire to amend and restate the Prior Agreement; and

WHEREAS, this Agreement shall supersede and completely replace the Prior Agreement as of the Effective Date.

NOW, THEREFORE, in consideration of the mutual covenants contained herein and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

Date of Grant:	August 28, 2014
Name of Holder:	[-----]
Number of Shares	[-----] Shares of Common Stock, subject to reduction pursuant to Section 3 below
Fair Market Value	\$[--] per Share
Vesting Schedule:	1/3 on the Trigger Event Date; an additional 1/3 on the first anniversary of the Trigger Event Date; and the final 1/3 on the second anniversary of the Trigger Event Date

The Company hereby awards to the Holder the number of shares of the presently authorized but unissued Common Stock of the Company (the "Restricted Stock") set forth above pursuant to the Capital Southwest Corporation 2010 Restricted Stock Award Plan, as amended (the "Plan"). This Restricted Stock award is not intended to be a Qualified Performance-Based Award under the Plan.

To the extent not controlled by the terms and conditions contained in the Plan, the terms and conditions of the Restricted Stock granted hereby shall be governed by this Agreement.

1. No Right to Continued Employee Status

Nothing contained in this Agreement shall confer upon Holder the right to the continuation of his or her Employee status, or interfere with the right of the Company or other member of the Company Group, as applicable, to terminate such relationship.

2. Vesting of Restricted Stock

(a) The Restricted Stock shall vest in accordance with the Vesting Schedule set forth above.

(b) Notwithstanding anything to the contrary, all unvested Restricted Stock shall automatically vest in full upon the occurrence of any of the following events following the Trigger Event Date: (1) a Change of Control; (2) a Termination of Service by the Holder for Good Reason; (3) a Termination of Service of the Holder by the Company Group member employing the Holder without Cause; (4) a Termination of Service due to the Holder's Disability; or (5) a Termination of Service due to the Holder's death. Notwithstanding anything to the contrary, in the event a Change of Control or a Termination of Service of the Holder for one of the reasons described in this Section 2(b) occurs on or before the Trigger Event Date, the Restricted Stock shall vest in full on the Trigger Event Date. For purposes hereof,

- i. "Good Reason" means the occurrence of any of the following: (A) a material breach of the Holder's employment agreement by the employer; (B) a reduction in Holder's title or a material reduction in Holder's duties, authorities, and/or responsibilities; (C) a material reduction in the Holder's compensation or benefits; or (D) a requirement by the employer, without the Holder's consent, that the Holder relocate to a location greater than thirty-five (35) miles from the Holder's place of residence; provided, however, such events will not constitute "Good Reason" unless (1) the Holder gives the employer notice of the existence of an event described above within ninety (90) days following the initial occurrence thereof, (2) the employer does not remedy such event within thirty (30) days of receiving the notice described in the preceding clause (1) and (3) the Holder terminates employment within twelve (12) months of the end of the cure period described in the preceding clause (2); and
- ii. "Trigger Event" means a transformative transaction intended to increase the market value of the Company equity for the benefit of its shareholders, which may involve, for example, a spinoff of one or more wholly-owned subsidiaries of the Company (collectively, "Spinco"), a going private transaction, a leveraged recapitalization, or termination of the Company's regulated investment company status; and
- iii. "Trigger Event Date" means the 90th day following the consummation of the Trigger Event, unless the Trigger Event is a going private transaction, in which case the Trigger Event Date shall be the closing date of such Transaction.

(c) Except with respect to the Holder's Termination of Service for one of the reasons described in Section 2(b), all unvested Restricted Stock as of the Holder's Termination of Service shall expire and be forfeited immediately upon such Termination of Service.

3. Reduction of Restricted Stock Awarded

The number of shares of Restricted Stock subject to this award shall be reduced by such number of shares of Restricted Stock, if any, as would cause the Equity Award Value to exceed the Total Payout Amount. The number of shares of Restricted Stock subject to this award, as so adjusted, shall vest in accordance with the Vesting Schedule and Section 2 above. For purposes hereof,

(a) "Aggregate Base Value" means the product of (i) \$36.16 and (ii) the Fully Diluted Shares of the Company outstanding as of the Grant Date, i.e., \$557,353,318.

(b) "Aggregate Trigger Event Value" means the sum of (i) the product of (A) the VWAP of one share of Common Stock of the Company over the 20 consecutive trading days immediately preceding the Trigger Event Date and (B) the Fully Diluted Shares of the Company outstanding as of the Trigger Event Date, plus, except as specified in clause (ii), the aggregate value of all dividends and distributions paid on Common Stock of the Company from the Grant Date through the Trigger Event Date and (ii) if the Trigger Event results in a distribution of shares of a newly formed entity to the Company stockholders ("Spinco"), the product of (A) the VWAP of one share of Spinco common stock over the 20 consecutive trading days immediately preceding the Trigger Event Date and (B) the Fully Diluted Shares of Spinco outstanding as of the Trigger Date, provided that if the Trigger Event is a going private transaction, the Aggregate Trigger Event Value shall be the Sale Consideration Value.

(c) "Equity Award Value" means the sum of (i) the Restricted Stock Value and (ii) the Option Award Value.

(d) "Fully Diluted Shares" means, at any time of determination, the number of shares of common stock of the applicable entity outstanding at such time, plus the number of shares of issuable upon exercise or conversion or otherwise pursuant to any in-the-money common stock equivalents of such entity outstanding at such time.

(e) "Option Award Value" means the positive difference, if any, between (i) the sum of (A) the product of (I) the number of shares of Common Stock of the Company underlying the options awarded to the Holder under the nonqualified option grant of even date herewith and (II) the VWAP of one share of Common Stock of the Company over the 20 consecutive trading days immediately preceding the Trigger Event Date and (B) if the Trigger Event results in a distribution of shares of Spinco to the Company shareholders, the product of (I) the number of shares of Spinco common stock that would be distributed upon exercise of such nonqualified option grant and (II) the VWAP of one share of Spinco common stock over the 20 consecutive trading days immediately preceding the Trigger Event Date minus (ii) the aggregate exercise price payable under such nonqualified option grant, provided that if the Trigger Event is a going private transaction, the Option Award Value shall be the Sale Consideration Value payable in respect of the options awarded to the Holder under the nonqualified option grant of even date herewith.

(f) “Restricted Stock Value” means (i) the product of (A) the aggregate number of shares of Restricted Stock granted hereunder and (B) the VWAP of one share of Common Stock of the Company over the 20 consecutive trading days immediately preceding the Trigger Event Date plus, except as specified in clause (ii), the aggregate value of all dividends and distributions, if any, paid on the Restricted Stock awarded hereunder from the Grant Date through the Trigger Event Date and (ii) if the Trigger Event results in a distribution of shares of Spinco, the product of (A) the number of shares of Spinco common stock distributed in respect of the Restricted Stock awarded hereunder and (B) the VWAP of one share of Spinco common stock over the 20 consecutive trading days immediately preceding the Trigger Event Date, provided that if the Trigger Event is a going private transaction, the Restricted Stock Value shall be the Sale Consideration Value payable in respect of the Restricted Stock awarded hereunder.

(g) “Sale Consideration Value” means, in the event the Trigger Event is a going private transaction, the fair market value as of the Trigger Event Date of the aggregate consideration received by the holders of Common Stock and common stock equivalents of the Company in such transaction, as determined in good faith by the board of directors of the Company.

(h) “Total Payout Amount” means (i) two percent (2%) of the positive difference, if any, of (A) the Aggregate Trigger Event Value less (B) the Aggregate Base Value (such difference, the “Equity Value Accretion”), up to \$7.5 million, plus (ii) [--] percent (--%) for any excess Equity Value Accretion over \$7.5 million.

(i) “VWAP” means, for the relevant security, the per share volume-weighted average price as displayed under the heading “Bloomberg VWAP” on the Bloomberg AQR page for the relevant security (or its equivalent successor if such page is not available) in respect of the period from the scheduled open of trading until the scheduled close of trading of the primary trading session over the relevant determination period (or if such volume-weighted average price is unavailable, the market value of one share on each trading day during the relevant determination period, determined, using a volume-weighted average method, by a nationally recognized independent investment banking firm retained for this purpose by the Company). The VWAP will be determined without regard to after hours trading or any other trading outside of the regular trading session trading hours.

4. Forfeiture of Shares

In the event that the Holder has become obligated to return all or a portion of his or her shares of Restricted Stock to the Company due to a forfeiture of such shares pursuant to this Agreement, and the Holder shall fail to deliver the certificates representing such shares in accordance with the terms of this Agreement, the Company may, at its option, in addition to all other remedies it may have, upon written notice to the Holder cancel on its books the certificates representing the shares to be returned to the Company and thereupon all of the rights of the Holder in and to said shares shall terminate. The Company shall not be obligated to give notice to any holder of shares of Restricted Stock if such holder does not appear on the stock transfer ledger of the Company as the registered holder of such shares.

5. Retention of Certificates

The certificate(s) representing the shares of Restricted Stock granted hereby will be stamped or otherwise imprinted with the legend required by the Plan with respect to any applicable restrictions on the sale or transfer of such shares, and the stock transfer records of the Company will reflect stop transfer instructions with respect to such shares. At the election of the Company, the Company may retain the certificate(s) representing the shares of Restricted Stock granted to the Holder pursuant to this Agreement until such time as the vesting restrictions have lapsed and the restrictions on the transfer of such Restricted Stock have terminated or are removed by the Board of Directors. Within a reasonable time thereafter, the Company will deliver to the Holder a new certificate representing such shares, free of the legend referred to herein. The issuance of such certificate shall not affect any restrictions upon the transferability of such shares pursuant to applicable law or otherwise.

6. Restrictions on Transfer

Any shares of Restricted Stock granted hereunder shall not be sold, assigned, transferred, pledged or otherwise encumbered until such shares are fully vested. The spouse of the Holder shall execute a signature page to this Agreement as of the date hereof and agree to be bound in all respects by the terms hereof to the same extent as the Holder. The spouse further agrees that should he/she predecease the Holder or become divorced from the Holder, any of the shares of Restricted Stock which such spouse may own or in which he/she may have an interest shall remain subject to this Agreement.

7. Dividends and Other Distributions

No cash dividends shall be paid with respect to unvested Restricted Stock. The Holder, however, shall have the right to receive any stock and other noncash dividends and distributions made with respect to the Restricted Stock, subject to the vesting of such Restricted Stock. With respect to any unvested shares of Restricted Stock, such dividends or distributions shall likewise be restricted and shall vest on the same schedule as the Restricted Stock as to which the dividends or distributions relate. Any such dividends or distributions shall be retained by the Company and paid to the Holder promptly following vesting of the Restricted Stock to which such dividends or distributions pertain. Upon forfeiture of any shares of Restricted Stock, the dividends and distributions related thereto shall also be forfeited.

8. Voting of Restricted Stock

The Holder shall be entitled to vote shares of Restricted Stock subject to the rules and procedures adopted by the Committee for this purpose.

9. Termination of Service

The transfer of the Holder's employment to Spinco will not constitute a Termination of Service under this Agreement and the Holder will be considered, for purposes of this Agreement, to be an Employee of the Company Group for so long as Holder's employment with Spinco continues, notwithstanding that Spinco ceases to be a subsidiary of the Company.

10. Notices

Any notice required to be given pursuant to this Agreement or the Plan shall be in writing and shall be deemed to be delivered upon receipt or, in the case of notices by the Company, five (5) days after deposit in the U.S. mail, postage prepaid, addressed to the Holder at the address last provided for his or her employee records.

11. Agreement Subject to Plan; Applicable Law

This Agreement is made pursuant to the Plan and shall be interpreted to comply therewith. A copy of the Plan is attached hereto. Any provision of this Agreement inconsistent with the Plan shall be considered void and replaced with the applicable provision of the Plan. This Agreement shall be governed by the laws of the State of Texas and subject to the exclusive jurisdiction of the courts therein. Unless otherwise provided herein, capitalized terms used herein that are defined in the Plan and not defined herein shall have the meanings set forth in the Plan.

COMPANY:

CAPITAL SOUTHWEST CORPORATION

By: _____
Name
Title:

HOLDER:

Name:
Address:

I, the undersigned, being the spouse of the above-named Holder, hereby acknowledge that I have read and understand the foregoing Restricted Stock Agreement under the Capital Southwest Corporation 2010 Restricted Stock Award Plan, and I agree to be bound by the terms thereof.

Name: _____

CAPITAL SOUTHWEST CORPORATION

Form of

Amended and Restated Cash Incentive Award Agreement

This Amended and Restated Cash Incentive Award Agreement (this "Agreement") is entered into as of September [], 2015 (the "Effective Date"), between Capital Southwest Corporation (the "Company"), and _____ (the "Executive").

WHEREAS, the Company and Executive currently are parties to a Cash Incentive Award Agreement, dated August 28, 2014 (the "Prior Agreement"), and the Company and the Executive desire to amend and restate the Prior Agreement; and

WHEREAS, this Agreement shall supersede and completely replace the Prior Agreement as of the Effective Date.

NOW, THEREFORE, in consideration of the mutual covenants contained herein and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

1. Grant of Cash Incentive Award. Subject to the terms of this Agreement, effective as of the Grant Date, the Executive is hereby granted a cash incentive award (the "Cash Incentive Award") in an amount equal to the Excess Award Value. The Cash Incentive Award shall become earned and vested as described in Section 3 and the Earned Cash Incentive Award (as defined in Section 3) shall be paid in accordance with Section 4. The purpose of the Cash Incentive Award is to align the compensation of the Executive with the Company's key strategic objective of increasing the market value of the Company's shares through a transformative transaction for the benefit of the Company's shareholders.

2. Defined Terms. For purposes of this Agreement,

(a) "Aggregate Base Value" means the product of (i) \$36.16 and (ii) the Fully Diluted Shares of the Company outstanding as of the Grant Date, i.e., \$557,353,318.

(b) "Aggregate Trigger Event Value" means the sum of (i) the product of (A) the VWAP of one share of Common Stock of the Company over the 20 consecutive trading days immediately preceding the Trigger Event Date and (B) the Fully Diluted Shares of the Company outstanding as of the Trigger Event Date, plus, except as specified in clause (ii), the aggregate value of all dividends and distributions paid on Common Stock of the Company from the Grant Date through the Trigger Event Date, and (ii) if the Trigger Event results in a distribution of shares of a newly formed entity to the Company stockholders ("Spinco"), the product of (A) the VWAP of one share of Spinco common stock over the 20 consecutive trading days immediately preceding the Trigger Event Date and (B) the Fully Diluted Shares of Spinco outstanding as of the Trigger Event Date, provided that if the Trigger Event is a going private transaction, the Aggregate Trigger Event Value shall be the Sale Consideration Value.

- (c) “Common Stock” means the common stock, par value \$.25 per share, of the Company.
- (d) “Equity Award Value” means the sum of (i) the Restricted Stock Value and (ii) the Option Award Value.
- (e) “Excess Award Value” means the positive difference, if any, between (i) the Total Payout Amount minus (ii) the Equity Award Value.
- (f) “Fully Diluted Shares” means, at any time of determination, the number of shares of common stock of the applicable entity outstanding at such time, plus the number of shares of common stock of such entity issuable upon exercise or conversion or otherwise pursuant to any in-the-money common stock equivalents of such entity outstanding at such time.
- (g) “Grant Date” means August 28, 2014.

(h) “Option Award Value” means the positive difference, if any, between (i) the sum of (A) the product of (I) the number of shares of Common Stock of the Company underlying the options awarded to the Executive under the nonqualified option grant of even date herewith and (II) the VWAP of one share of Common Stock of the Company over the 20 consecutive trading days immediately preceding the Trigger Event Date and (B) if the Trigger Event results in a distribution of shares of Spinco to the Company shareholders, the product of (I) the number of shares of Spinco common stock that would be distributed upon exercise of such nonqualified option grant and (II) the VWAP of one share of Spinco common stock over the 20 consecutive trading days immediately preceding the Trigger Event Date minus (ii) the aggregate exercise price payable under such nonqualified option grant, provided that if the Trigger Event is a going private transaction, the Option Award Value shall be the Sale Consideration Value payable in respect of the options awarded to the Executive under the nonqualified option grant of even date herewith.

(i) “Restricted Stock Value” means (i) the product of (A) the aggregate number of shares of restricted Common Stock of the Company granted to the Executive under the restricted stock award agreement of even date herewith and (B) the VWAP of one share of Common Stock of the Company over the 20 consecutive trading days immediately preceding the Trigger Event Date, plus, except as specified in clause (ii), the aggregate value of all dividends and distributions, if any, paid on the restricted Common Stock of the Company granted to the Executive under the restricted stock award agreement of even date herewith from the Grant Date through the Trigger Event Date and (ii) if the Trigger Event results in a distribution of shares of Spinco to the Company shareholders, the product of (A) the number of shares of Spinco common stock distributed in respect of the restricted Common Stock awarded under the restricted stock award agreement of even date herewith and (B) the VWAP of one share of Spinco common stock over the 20 consecutive trading days immediately preceding the Trigger Event Date, provided that if the Trigger Event is a going private transaction, the Restricted Stock Value shall be the Sale Consideration Value payable in respect of the restricted Common Stock awarded under the Executive’s restricted stock award agreement of even date therewith.

(j) “Sale Consideration Value” means, in the event the Trigger Event is a going private transaction, the fair market value as of the Trigger Event Date of the aggregate consideration received by the holders of Common Stock and common stock equivalents of the Company in such transaction, as determined in good faith by the board of directors of the Company.

(k) “Total Payout Amount” means (i) two percent (2%) of the positive difference, if any, of (A) the Aggregate Trigger Event Value less (B) the Aggregate Base Value (such difference, the “Equity Value Accretion”), up to \$7.5 million, plus (ii) [--] percent (--%) for any excess Equity Value Accretion over \$7.5 million.

(l) “Trigger Event Date” means the 90th day following the consummation of the Trigger Event, unless the Trigger Event is a going private transaction, in which case the Trigger Event Date shall be the closing date of such transaction.

(m) “Trigger Event” means a transformative transaction intended to increase the market value of the Company equity for the benefit of its shareholders, which may involve, for example, a spinoff of one or more wholly-owned subsidiaries of the Company (collectively, “Spinco”), a going private transaction, a leveraged recapitalization, or termination of the Company’s regulated investment company status.

(n) “VWAP” means, for the relevant security, the per share volume-weighted average price as displayed under the heading “Bloomberg VWAP” on the Bloomberg AQR page for the relevant security (or its equivalent successor if such page is not available) in respect of the period from the scheduled open of trading until the scheduled close of trading of the primary trading session over the relevant determination period (or if such volume-weighted average price is unavailable, the market value of one share on each trading day during the relevant determination period, determined, using a volume-weighted average method, by a nationally recognized independent investment banking firm retained for this purpose by the Company). The VWAP will be determined without regard to after hours trading or any other trading outside of the regular trading session trading hours.

3. Award Vesting.

(a) The Cash Incentive Award shall be unearned and unvested unless and until it becomes earned and vested and nonforfeitable in accordance with this Section 3. The Cash Incentive Award shall vest and be earned and payable as follows: (i) 1/3 on the Trigger Event Date; (ii) an additional 1/3 on the first anniversary of the Trigger Event Date; and (iii) the final 1/3 on the second anniversary of the Trigger Event Date. Any portion of the Cash Incentive Award granted pursuant to this Agreement that becomes earned in accordance with this Agreement shall be referred to herein as “Earned Cash Incentive Award.”

(b) Notwithstanding the foregoing, the Cash Incentive Award shall automatically become earned and vested in full upon a Termination of Service following the Trigger Event Date under any of the following circumstances: (i) by the Executive for Good Reason; (ii) by the Company Group member employing the Executive without Cause; (iii) due to the Executive’s Disability; or (iv) due to the Executive’s death. In the event a Termination of Service occurs on or before the Trigger Event Date for one of the reasons described in this Section 3(b), the Cash Incentive Award shall become earned and vested in full upon the Trigger Event Date. For purposes hereof,

- (i) “Cause” means, with respect to the Executive, (A) commission of any act or acts of personal dishonesty intended to result in substantial personal enrichment to the Executive to the detriment of the applicable Company Group member, (B) conviction of, or entering into a plea of nolo contendere to, a felony, (C) the Executive’s repeated failure to perform his or her responsibilities that are demonstrably willful and deliberate, provided that such failures have continued for more than 30 days following written notice from the employer of its intent to terminate his employment based on such failures, (D) intentional, repeated or continuing violation of any of the applicable Company Group member’s policies or procedures that occurs or continues after notice to the Executive that he or she has violated such policy or procedure or (E) any material breach of a written covenant or agreement with the applicable Company Group member or material breach of fiduciary duty to the applicable Company Group member, provided that such breach is not corrected, to the extent correctible, within 30 days following written notice from the employer of its intent to terminate his employment based on such breach;
- (ii) “Disability” shall have the meaning set forth in Section 22(e)(3) of the Internal Revenue Code of 1986, as amended;
- (iii) “Good Reason” means the occurrence of any of the following: (A) a material breach of the Executive’s employment agreement by the employer; (B) a reduction in the Executive’s title or a material reduction in the Executive’s duties, authorities, and/or responsibilities; (C) a material reduction in the Executive’s compensation or benefits; or (D) a requirement by the employer, without the Executive’s consent, that Executive relocate to a location greater than thirty-five (35) miles from the Executive’s place of residence; provided, however, such events will not constitute “Good Reason” unless (1) the Executive gives the employer notice of the existence of an event described above within ninety (90) days following the initial occurrence thereof, (2) the employer does not remedy such event within thirty (30) days of receiving the notice described in the preceding clause (1) and (3) the Executive terminates employment within twelve (12) months of the end of the cure period described in the preceding clause (2); and
- (iv) “Termination of Service” means the termination of employment of the Executive by the Company and all subsidiaries of the Company, including Spinco (the “Company Group”). For purposes of this Agreement, the transfer of the Executive’s employment to Spinco will not constitute a Termination of Service and the Executive will be considered, for purposes of this Agreement, to be a continuing employee of the Company Group for so long as the Executive’s employment with Spinco continues, notwithstanding that Spinco ceases to be a subsidiary of the Company. The Executive’s service shall not be deemed to have terminated because of a change in the entity for which the Executive renders such service, provided that there is no material interruption or termination of the Executive’s service. Furthermore, the Executive’s service with the Company Group shall not be deemed to have terminated if the Executive takes any military leave, sick leave, or other bona fide leave of absence approved by the Company or Spinco, as applicable.

(c) Except with respect to a Termination of Service for one of the reasons described in Section 3(b), any portion of the Cash Incentive Award that remains unvested and unearned as of the Termination of Service of the Executive shall expire and be forfeited immediately upon such Termination of Service and the Executive shall have no further rights with respect to any remaining portion of the Cash Incentive Award.

4. Settlement and Payment. The Earned Cash Incentive Award shall be paid as promptly as practicable following the date such amount becomes vested and earned, and in any event not later than 60 days following such date.

5. Withholding. All payments under this Agreement are subject to withholding of all applicable taxes.

6. Transferability. The Cash Incentive Award is not transferable except as designated by the Executive by will or by the laws of descent and distribution.

7. Heirs and Successors. If any benefits deliverable to the Executive under this Agreement have not been delivered at the time of the Executive's death, such rights shall be delivered to the Executive's estate.

8. Administration. The authority to administer and interpret this Agreement shall be vested in the compensation committee of the board of directors of the Company. Any interpretation of the Agreement by the committee and any decision made by it with respect to the Agreement is final and binding on all persons. Notwithstanding anything herein to the contrary, the Company reserves the right, in its sole discretion, to terminate the Cash Incentive Award or to reduce the Total Payout Amount at any time prior to the occurrence of a Trigger Event.

9. Notices. Any notice required or permitted under this Agreement shall be deemed given when delivered personally, or when deposited in a United States Post Office, postage prepaid, addressed, as appropriate, to Company at its principal offices, to the Executive at the Executive's address set forth below or, in either case, such other address as one party may designate in writing to the other.

10. Governing Law. The validity, construction and effect of this Agreement shall be determined in accordance with the laws of the State of Texas and applicable federal law.

11. Amendments. This Agreement may not be amended or modified other than by a writing executed by both parties.

12. Award Not Contract of Employment. The award granted hereunder does not constitute a contract of employment or continued service, and the grant of the award will not give the Executive the right to be retained in the employ or service of the Company or other member of the Company Group, unless such right or claim has specifically accrued under the terms of this Agreement.

13. Severability. If a provision of this Agreement is held invalid by a court of competent jurisdiction, the remaining provisions will nonetheless be enforceable according to their terms. Further, if any provision is held to be overbroad as written, that provision shall be amended to narrow its application to the extent necessary to make the provision enforceable according to applicable law and enforced as amended.

14. Section 409A Rules. To the fullest extent possible, amounts and other benefits payable under this Agreement are intended to comply with or be exempt from the provisions of section 409A of the Internal Revenue Code of 1986, as amended. This Agreement will be interpreted and administered to the extent possible in a manner consistent with the foregoing statement of intent; provided, however, that the Company does not guarantee the tax treatment of the award granted hereunder.

IN WITNESS WHEREOF, the parties hereto have executed this Cash Incentive Award Agreement as of the date first above written.

COMPANY:

CAPITAL SOUTHWEST CORPORATION

By: _____
Name: _____
Title: _____

EXECUTIVE:

By: _____
Name: _____
Address: _____



Lincoln Centre Tower I
5400 Lyndon B. Johnson Freeway, Suite 1300
Dallas, Texas 75240
Telephone 972.233.8242
Fax 972.233.7362

CAPITAL SOUTHWEST ANNOUNCES RECORD AND DISTRIBUTION DATES FOR SPIN-OFF

DALLAS (September 8, 2015) – Capital Southwest Corporation (NASDAQ: CSWC) (“Capital Southwest”) announced today that its Board of Directors has approved the spin-off of its industrial products, coatings, sealants and adhesives and specialty chemicals businesses into CSW Industrials, Inc. (“CSWI”).

The Capital Southwest Board of Directors has approved the distribution of all of the outstanding shares of CSWI common stock to Capital Southwest’s shareholders on a pro rata basis. The distribution will be made to Capital Southwest shareholders of record as of 5:00 p.m. Eastern time on September 18, 2015 (the “Record Date”). The shares will be distributed effective September 30, 2015.

In the distribution, shareholders of Capital Southwest will receive one share of CSWI common stock for every share of Capital Southwest common stock held as of the Record Date.

Following the share distribution, CSWI will be a separate publicly traded company independent from Capital Southwest, and Capital Southwest will not retain any CSWI common stock. Capital Southwest’s common stock will continue to be listed on NASDAQ under the symbol “CSWC.” CSWI’s common stock will be listed on NASDAQ under the symbol “CSWI.”

As previously announced, following the spin-off, Joseph B. Armes, Capital Southwest’s current Chairman and Chief Executive Officer, will continue to serve as Capital Southwest’s Chairman and will serve as CSWI’s Chairman and Chief Executive Officer, and Bowen S. Diehl, Capital Southwest’s Senior Vice President and Chief Investment Officer, will serve as Capital Southwest’s Chief Executive Officer.

Beginning on or shortly before September 18, 2015 through September 30, 2015, there will be two markets in Capital Southwest shares:

- a “regular-way” market in which Capital Southwest shares will trade with the right to receive shares of CSWI common stock on the distribution date; and
- an “ex-distribution” market in which Capital Southwest shares will trade without the right to receive shares of CSWI common stock on the distribution date.

During this time period, shares of CSWI common stock will begin trading on a “when-issued” basis. On the first trading day following the distribution date, all shares of Capital Southwest and CSWI common stock will be traded only on a “regular-way” market.

No action is required by Capital Southwest shareholders in order to receive shares of CSWI common stock in the distribution. An information statement containing details of the share distribution and information about CSWI will be mailed to Capital Southwest shareholders prior to the distribution date.

The share distribution is conditioned on CSWI's registration statement being declared effective by the SEC, NASDAQ's authorization to list CSWI's shares on NASDAQ and other conditions described in the registration statement.

The share distribution is also conditioned on Capital Southwest's receipt of an opinion from a nationally recognized accounting firm that the share distribution should meet the requirements necessary to be tax free to Capital Southwest and holders of Capital Southwest's common stock under Sections 355 and 368(a)(1)(D) of the Internal Revenue Code, except, in the case of Capital Southwest's shareholders, with respect to any cash received in lieu of fractional shares of CSWI's common stock. Capital Southwest shareholders are urged to consult their own tax advisors as to the specific tax consequences of the share distribution to them, including the application and effect of state, local or non-U.S. tax laws and of changes in applicable tax laws.

About Capital Southwest Corporation

Capital Southwest is a Dallas-based publicly traded business development company ("BDC"), with approximately \$775 million in assets. On December 2, 2014, Capital Southwest announced its intent to separate into two public companies through the spin-off of certain of its assets into a diversified industrial growth company, CSWI, and to refocus the BDC on lending to strong middle market companies. As a result, Capital Southwest is currently active in the market executing its new investment strategy concentrating on investments ranging from \$5 million to \$20 million in senior "unitranche" debt, second lien and subordinated debt, as well as equity co-investments in support of the acquisition and growth of middle market companies. The control companies that will be contributed by Capital Southwest to CSWI in connection with the spin-off are actively seeking growth through add-on acquisitions. Since Capital Southwest's formation in 1961, it has always sought to invest in companies with strong management teams and sound financial performance. As a public company, Capital Southwest is fortunate to have the flexibility to be creative in its financing structures and to invest to support the growth of its portfolio companies over long periods of time.

Forward-Looking Statements

This press release contains forward-looking statements that are based on management's current expectations, assumptions and beliefs about the share distribution. Forward-looking statements can often be identified by words such as "plans," "expects," "will," similar expressions, and variations or negatives of these words. These forward-looking statements include, but are not limited to, statements regarding the anticipated timing of the share distribution and the listing and trading of CSWI common stock. They are not guarantees of future results and are subject to risks, uncertainties and assumptions that could cause actual results to differ materially from those expressed in any forward-looking statement.

The share distribution is contingent upon the satisfaction of a number of conditions, including the effectiveness of the Form 10 that has been filed with the SEC. Additional risks and uncertainties related to the proposed share distribution include the ability of Capital Southwest and CSWI to obtain all necessary consents and approvals and satisfy all other conditions to the share distribution. Readers should not place undue reliance on any forward-looking statements and are encouraged to review CSWI's registration statement on Form 10, including its preliminary information statement, filed with the SEC, for a more complete discussion of the risks and other factors that could affect any forward-looking statements. Except as required by the federal securities laws, Capital Southwest does not undertake any obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events, changing circumstances or any other reason after the date of this press release.
