

CAPITAL SOUTHWEST CORP  
Form 10-Q  
November 07, 2018  
UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2018

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from .....to .....

Commission File Number: 814-00061

CAPITAL SOUTHWEST CORPORATION  
(Exact name of registrant as specified in its charter)

Texas 75-1072796  
(I.R.S.  
(State or other jurisdiction of incorporation Employer  
or organization) 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: (214) 238-5700

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Edgar Filing: CAPITAL SOUTHWEST CORP - Form 10-Q

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company  Emerging growth company   
(Do not check if a smaller reporting company)

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

17,043,194 shares of Common Stock, \$0.25 value per share, as of November 5, 2018.

---

## TABLE OF CONTENTS

	Page
<b><u>PART I</u></b> <b><u>FINANCIAL INFORMATION</u></b>	
<u>Item 1.</u> <u>Consolidated Financial Statements</u>	<u>3</u>
<u>Consolidated Statements of Assets and Liabilities as of September 30, 2018 (Unaudited) and March 31, 2018</u>	<u>3</u>
<u>Consolidated Statements of Operations (Unaudited) for the three and six months ended September 30, 2018 and 2017</u>	<u>4</u>
<u>Consolidated Statements of Changes in Net Assets (Unaudited) for the six months ended September 30, 2018 and 2017</u>	<u>5</u>
<u>Consolidated Statements of Cash Flows (Unaudited) for the six months ended September 30, 2018 and 2017</u>	<u>6</u>
<u>Consolidated Schedule of Investments as of September 30, 2018 (Unaudited) and March 31, 2018</u>	<u>7</u>
<u>Notes to Consolidated Financial Statements (Unaudited)</u>	<u>21</u>
<u>Consolidated Schedule of Investments in and Advances to Affiliates (Unaudited) for the six months ended September 30, 2018</u>	<u>62</u>
<u>Item 2.</u> <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>65</u>
<u>Item 3.</u> <u>Quantitative and Qualitative Disclosures About Market Risk</u>	<u>81</u>
<u>Item 4.</u> <u>Controls and Procedures</u>	<u>82</u>
<b><u>PART II</u></b> <b><u>OTHER INFORMATION</u></b>	
<u>Item 1.</u> <u>Legal Proceedings</u>	<u>83</u>
<u>Item 1A.</u> <u>Risk Factors</u>	<u>83</u>
<u>Item 2.</u> <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>83</u>
<u>Item 3.</u> <u>Defaults Upon Senior Securities</u>	<u>83</u>
<u>Item 4.</u> <u>Mine Safety Disclosures</u>	<u>83</u>
<u>Item 5.</u> <u>Other Information</u>	<u>83</u>
<u>Item 6.</u> <u>Exhibits</u>	<u>84</u>
<u>Signatures</u>	<u>85</u>

## PART I – FINANCIAL INFORMATION

## Item 1. Consolidated Financial Statements

CAPITAL SOUTHWEST CORPORATION AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF ASSETS AND LIABILITIES

(In thousands, except shares and per share data)

	September 30, 2018 (Unaudited)	March 31, 2018
<b>Assets</b>		
Investments at fair value:		
Non-control/Non-affiliate investments (Cost: \$287,656 and \$200,981, respectively)	\$ 294,065	\$ 199,949
Affiliate investments (Cost: \$66,038 and \$51,648, respectively)	65,018	53,198
Control investments (Cost: \$91,425 and \$82,768, respectively)	132,518	139,948
Total investments (Cost: \$445,119 and \$335,397, respectively)	491,601	393,095
Cash and cash equivalents	10,193	7,907
Receivables:		
Dividends and interest	8,307	5,219
Escrow	—	119
Other	509	447
Income tax receivable	109	109
Deferred tax asset	2,060	2,050
Debt issuance costs (net of accumulated amortization of \$1,440 and \$1,041, respectively)	2,476	2,575
Other assets	1,252	5,969
Total assets	\$ 516,507	\$ 417,490
<b>Liabilities</b>		
Notes (Par value: \$75,676 and \$57,500, respectively)	\$ 73,407	\$ 55,305
Credit facility	127,000	40,000
Other liabilities	5,363	6,245
Dividends payable	—	4,525
Accrued restoration plan liability	2,889	2,937
Deferred income taxes	—	190
Total liabilities	208,659	109,202
Commitments and contingencies (Note 11)		
<b>Net Assets</b>		
Common stock, \$0.25 par value: authorized, 25,000,000 shares; issued, 18,682,706 shares at September 30, 2018 and 18,501,298 shares at March 31, 2018	4,671	4,625
Additional paid-in capital	263,680	260,713
Net investment income in excess of (less than) distributions	(5,383 )	6,147
Accumulated undistributed net realized gain	22,143	3,231
Unrealized appreciation of investments, net of income taxes	46,674	57,509
Treasury stock - at cost, 2,339,512 shares	(23,937 )	(23,937 )
Total net assets	307,848	308,288
Total liabilities and net assets	\$ 516,507	\$ 417,490

Edgar Filing: CAPITAL SOUTHWEST CORP - Form 10-Q

Net asset value per share (16,343,194 shares outstanding at September 30, 2018 and 16,161,786 shares outstanding at March 31, 2018)	\$ 18.84	\$ 19.08
--	----------	----------

The accompanying Notes are an integral part of these Consolidated Financial Statements.

3

---

CAPITAL SOUTHWEST CORPORATION AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

(In thousands, except shares and per share data)

	Three Months Ended		Six Months Ended	
	September 30,		September 30,	
	2018	2017	2018	2017
Investment income:				
Interest income:				
Non-control/Non-affiliate investments	\$7,049	\$ 5,136	\$13,081	\$ 9,438
Affiliate investments	1,799	141	3,251	281
Control investments	384	—	543	—
Dividend income:				
Non-control/Non-affiliate investments	2	30	25	60
Affiliate investments	44	—	82	—
Control investments	3,112	3,058	6,126	6,103
Interest income from cash and cash equivalents	5	5	9	12
Fees and other income	200	139	585	339
Total investment income	12,595	8,509	23,702	16,233
Operating expenses:				
Compensation	1,963	1,606	3,873	3,244
Spin-off compensation plan	—	173	—	345
Share-based compensation	482	384	957	752
Interest	3,109	911	5,482	1,649
Professional fees	407	481	895	960
Net pension expense	39	41	79	81
General and administrative	793	842	1,618	1,551
Total operating expenses	6,793	4,438	12,904	8,582
Income before taxes	5,802	4,071	10,798	7,651
Income tax (benefit) expense	256	134	635	278
Net investment income	\$5,546	\$ 3,937	\$10,163	\$ 7,373
Realized gain				
Non-control/Non-affiliate investments	\$17	\$ 210	\$217	\$ 834
Affiliate investments	77	—	77	—
Control investments	—	—	18,619	—
Total net realized gain on investments before income tax	94	210	18,913	834
Change in unrealized appreciation of investments				
Non-control/Non-affiliate investments	1,877	(1,747 )	6,409	(4,166 )
Affiliate investments	(868 )	(322 )	(1,539 )	(654 )
Control investments	(124 )	6,445	(16,087 )	10,495
Income tax (provision) benefit	63	120	382	205
Total net change in unrealized appreciation of investments, net of tax	948	4,496	(10,835 )	5,880
Net realized and unrealized gains on investments	\$1,042	\$ 4,706	\$8,078	\$ 6,714
Net increase in net assets from operations	\$6,588	\$ 8,643	\$18,241	\$ 14,087

Edgar Filing: CAPITAL SOUTHWEST CORP - Form 10-Q

Pre-tax net investment income per share - basic and diluted	\$0.36	\$ 0.25	\$0.67	\$ 0.48
Net investment income per share – basic and diluted	\$0.34	\$ 0.25	\$0.63	\$ 0.46
Net increase in net assets from operations – basic and diluted	\$0.40	\$ 0.54	\$1.12	\$ 0.88
Weighted average shares outstanding – basic	16,318,737	16,010,231	16,249,892	16,009,968
Weighted average shares outstanding – diluted	16,323,477	16,077,837	16,254,365	16,075,193

The accompanying Notes are an integral part of these Consolidated Financial Statements.

CAPITAL SOUTHWEST CORPORATION AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

(Unaudited)  
(In thousands)

	Six Months Ended September 30,	
	2018	2017
Operations:		
Net investment income	\$10,163	\$7,373
Net realized gain on investments	18,913	834
Net change in unrealized appreciation of investments, net of tax	(10,835 )	5,879
Net increase in net assets from operations	18,241	14,086
Dividends to shareholders	(21,694 )	(7,193 )
Spin-Off Compensation Plan, net of tax of \$ - and \$117, respectively	—	(227 )
Capital share transactions:		
Change in pension plan funded status	23	24
Exercise of employee stock options	2,033	—
Share-based compensation expense	957	752
(Decrease) increase in net assets	(440 )	7,442
Net assets, beginning of period	308,288	285,072
Net assets, end of period	\$307,848	\$292,514

The accompanying Notes are an integral part of these Consolidated Financial Statements.



Table of ContentsCAPITAL SOUTHWEST CORPORATION AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS(Unaudited)  
(In thousands)

	Six Months Ended September 30,	
	2018	2017
Cash flows from operating activities		
Net increase in net assets from operations	\$18,241	\$14,086
Adjustments to reconcile net increase in net assets from operations to net cash used in operating activities:		
Purchases and originations of investments	(167,697)	(69,170 )
Proceeds from sales and repayments of debt investments in portfolio companies	52,638	40,390
Proceeds from sales and return of capital of equity investments in portfolio companies	24,884	15
Payment of accreted original issue discounts	306	819
Depreciation and amortization	708	368
Net pension benefit	(26 )	(24 )
Realized gain on investments before income tax	(18,913 )	(834 )
Net change in unrealized appreciation of investments	11,217	(5,675 )
Accretion of discounts on investments	(687 )	(383 )
Payment-in-kind interest and dividends	(136 )	(142 )
Stock option and restricted awards expense	957	752
Deferred income taxes	(201 )	(182 )
Changes in other assets and liabilities:		
Increase in dividend and interest receivable	(3,088 )	(572 )
(Increase) decrease in other receivables	(62 )	166
Decrease in other assets	4,669	3,029
Increase in taxes payable	443	—
(Decrease) increase in other liabilities	(1,324 )	8,002
Net cash used in operating activities	(78,071 )	(9,355 )
Cash flows from financing activities		
Borrowings under credit facility	117,000	31,000
Repayments of credit facility	(30,000 )	—
Debt issuance costs paid	(539 )	(155 )
Proceeds from notes	18,081	—
Dividends to shareholders	(26,219 )	(10,547 )
Proceeds from exercise of employee stock options	2,034	—
Net cash provided by financing activities	80,357	20,298
Net increase in cash and cash equivalents	2,286	10,943
Cash and cash equivalents at beginning of period	7,907	22,386
Cash and cash equivalents at end of period	\$10,193	\$33,329
Supplemental cash flow disclosures:		
Cash paid for income taxes	\$11	\$255
Cash paid for interest	4,553	1,236
Supplemental disclosure of noncash financing activities:		
Dividend declared, not yet paid	\$—	\$3,838
Spin-off Compensation Plan distribution accrued, not yet paid	—	344

The accompanying Notes are an integral part of these Consolidated Financial Statements.

Table of ContentsCAPITAL SOUTHWEST CORPORATION AND SUBSIDIARIES  
CONSOLIDATED SCHEDULE OF INVESTMENTS

(Unaudited)

September 30, 2018

Portfolio Company <sup>1</sup>	Type of Investment <sup>2, 15</sup>	Industry	Current Interest Rate <sup>3</sup>	Maturity	Principal	Cost	Fair Value <sup>4</sup>
Non-control/Non-affiliate Investments <sup>5</sup>							
AAC HOLDINGS, INC.	First Lien	Healthcare services	L+6.75% (Floor 1.00%)/Q, Current Coupon 9.09%	6/30/2023	\$9,203,125	\$9,011,322	\$9,341,172
ADAMS PUBLISHING GROUP, LLC	First Lien	Media, marketing & entertainment	L+7.50% (Floor 1.00%)/Q, Current Coupon 9.84%	7/2/2023	14,625,000	14,341,499	14,341,499
	Delayed Draw Term Loan <sup>10</sup>		L+7.50% (Floor 1.00%)	7/2/2023	—	(32,890 )	—
						14,308,609	14,341,499
AG KINGS HOLDINGS INC. <sup>8</sup>	First Lien	Food, agriculture & beverage	L+10.02% (Floor 1.00%)/M, Current Coupon 12.34%	8/8/2021	9,307,692	9,187,528	8,981,923
ALLIANCE SPORTS GROUP, L.P.	Senior subordinated debt	Consumer products & retail	11.00%	2/1/2023	10,100,000	9,930,869	9,898,000
	3.88% membership interest		—	—	—	2,500,000	2,500,000
						12,430,869	12,398,000
AMERICAN TELECONFERENCING SERVICES, LTD.	First Lien	Telecommunications	L+6.50% (Floor 1.00%)/Q, Current Coupon 8.84%	12/8/2021	6,200,508	6,080,114	6,002,866
	Second Lien		L+9.50% (Floor 1.00%)/Q, Current	6/6/2022	2,005,714	1,947,264	1,895,400

Edgar Filing: CAPITAL SOUTHWEST CORP - Form 10-Q

			Coupon 11.83%				8,027,378	7,898,266
			L+9.50%					
			(Floor 1.00%)/M,					
AMWARE FULFILLMENT LLC	First Lien	Distribution	Current Coupon 11.90%	5/21/2019	13,115,555	13,007,029	12,735,204	

7

---

Table of ContentsCAPITAL SOUTHWEST CORPORATION AND SUBSIDIARIES  
CONSOLIDATED SCHEDULE OF INVESTMENTS

(Unaudited)

September 30, 2018

Portfolio Company <sup>1</sup>	Type of Investment <sup>2, 15</sup>	Industry	Current Interest Rate <sup>3</sup>	Maturity	Principal Cost	Fair Value <sup>4</sup>
ASC ORTHO MANAGEMENT COMPANY, LLC <sup>13</sup>	First Lien	Healthcare services	L+7.50% (Floor 1.00%)/Q, Current Coupon 9.81%	8/31/2023	9,319,688	8,359,971
	Second Lien		13.25% PIK	12/1/2023	3,106,566	2,732,029
	Revolving Loan <sup>10</sup>		L+7.50% (Floor 1.00%)	8/31/2023	—	29,491
	2,042 Common Units <sup>9</sup>		—	—	—	750,000
						12,886,229
BINSWANGER HOLDING CORP.	First Lien	Distribution	L+8.00% (Floor 1.00%)/M, Current Coupon 10.32%	3/9/2022	12,315,528	8,333,123
	900,000 shares of common stock			—	—	—
						13,033,123
BLASCHAK COAL CORP.	Second Lien	Commodities & mining	L+10.00%/Q, 1.00% PIK, Current Coupon 13.34%	7/30/2023	8,500,000	3,288,342
CALIFORNIA PIZZA KITCHEN, INC.	First Lien	Restaurants	L+6.00% (Floor 1.00%)/M, Current Coupon 8.39%	8/23/2022	4,900,000	3,665,437
CAPITAL PAWN HOLDINGS, LLC	First Lien	Consumer products & retail	L+9.50%/Q, Current Coupon 10.84%	7/8/2020	11,922,366	5,354,139
CLICKBOOTH.COM, LLC	First Lien	Media, marketing & entertainment	L+8.50% (Floor 1.00%)/Q, Current Coupon 10.84%	12/5/2022	17,171,867	8,713,309
	Revolving Loan <sup>10</sup>			L+8.50% (Floor 1.00%)	12/5/2022	—
						16,854,595

Table of ContentsCAPITAL SOUTHWEST CORPORATION AND SUBSIDIARIES  
CONSOLIDATED SCHEDULE OF INVESTMENTS

(Unaudited)

September 30, 2018

Portfolio Company <sup>1</sup>	Type of Investment <sup>2, 15</sup>	Industry	Current Interest Rate <sup>3</sup>	Maturity	Principal <sup>6</sup>	Cost <sup>7</sup>	Fair Value <sup>4</sup>
DANFORTH ADVISORS, LLC <sup>13</sup>	First Lien	Business services	L+7.25% (Floor 2.00%)/Q, Current Coupon 9.63%	9/28/2023	7,250,000	105,185	105,185
	Revolving Loan <sup>10</sup>		L+7.25% (Floor 2.00%)	9/28/2023	—	19,967	—
	875 Class A equity units <sup>9</sup>		—	—	—	875,000	875,000
DEEPWATER CORROSION SERVICES, INC.	127,004 shares of Series A convertible preferred stock	Energy services (upstream)	—	—	—	8,000,000	8,004,000
DELPHI INTERMEDIATE HEALTHCO, LLC	First Lien	Healthcare services	L+7.50% (Floor 1.00%)/Q, Current Coupon 9.84%	10/3/2022	7,312,500	250,271	1166,250
	First Lien		L+7.50 (Floor 1.00%)/Q, Current Coupon 9.81%	10/3/2022	4,937,500	891,947	838,750
						12,142,128	2005,000
DIGITAL RIVER, INC.	First Lien	Software & IT services	L+6.25% (Floor 1.00%)/Q, Current Coupon 8.59%	2/12/2021	6,285,443	275,486	285,443
DUNN PAPER, INC.	Second Lien	Paper & forest products	L+8.75% (Floor 1.00%)/M, Current Coupon 10.99%	8/26/2023	3,000,000	953,204	1033,750
ELITE SEM, INC. <sup>8</sup>	First Lien	Media, marketing & entertainment	L+8.50% (Floor 1.00%)/M, Current Coupon 10.82%	2/1/2022	14,000,000	687,120	1063,000
	1,443 Preferred units; 1,443 Class A Common units		12% PIK	—	—	1,951,327	113,000
						15,638,516	776,000

Table of ContentsCAPITAL SOUTHWEST CORPORATION AND SUBSIDIARIES  
CONSOLIDATED SCHEDULE OF INVESTMENTS

(Unaudited)

September 30, 2018

Portfolio Company <sup>1</sup>	Type of Investment <sup>2, 15</sup>	Industry	Current Interest Rate <sup>3</sup>	Maturity	Principal <sup>4</sup>	Cost	Fair Value <sup>4</sup>
ENVIRONMENTAL PEST SERVICE MANAGEMENT COMPANY, LLC	First Lien	Consumer services	L+7.25%/Q, Current Coupon 9.59%	6/22/2023	16,250,000	16,250,000	16,250,000
	Delayed Draw Term Loan <sup>10</sup>		L+7.25%/Q, Current Coupon 9.58%	6/22/2023	303,000	234,594	299,667
							16,212,964
FAST SANDWICH, LLC	First Lien	Restaurants	L+9.00% (Floor 1.00%)/Q, Current Coupon 11.34%	5/23/2023	3,279,337	2,276,732	3,230,184
	Revolving Loan <sup>10</sup>		L+9.00% (Floor 1.00%)	—	—	0	64,154
							3,163,589
GAUGE AMERICAN NUTS OPERATIONS LLC <sup>13</sup>	First Lien	Food, agriculture and beverage	L+8.50% (Floor 1.00%)/Q, Current Coupon 10.84%	4/10/2023	17,456,270	13,297,113	21,132,911
	First Lien - Term Loan B		L+8.50% (Floor 1.00%)/Q, Current Coupon 10.84%	10/10/2018	656,250	655,593	655,593
	Delayed Draw Term Loan <sup>10</sup>		L+8.50% (Floor 1.00%)	4/10/2023	—	0	8,906
	3,000,000 units of Class A common stock <sup>9</sup>				—	—	3,000,000
							20,779,598
LGM PHARMA, LLC <sup>13</sup>	First Lien	Healthcare products	L+8.50% (Floor 1.00%)/M, Current Coupon 10.60%	11/15/2022	9,925,000	7,548,000	9,925,000
	Delayed Draw Term Loan <sup>10</sup>		L+8.50% (Floor 1.00%)/M, Current Coupon 10.60%	11/15/2022	1,793,500	1,770,433	1,793,500
	110,000 units of Class A common stock <sup>9</sup>				—	—	1,100,000
							12,625,233

Table of ContentsCAPITAL SOUTHWEST CORPORATION AND SUBSIDIARIES  
CONSOLIDATED SCHEDULE OF INVESTMENTS

(Unaudited)

September 30, 2018

Portfolio Company <sup>1</sup>	Type of Investment <sup>2, 15</sup>	Industry	Current Interest Rate <sup>3</sup>	Maturity	Principal Cost	Fair Value <sup>4</sup>
LIGHTING RETROFIT INTERNATIONAL, LLC	First Lien	Environmental services	L+9.25% (Floor 1.00%)/Q, Current Coupon 11.65%	6/30/2022	14,250,007,358	13,950,750
			396,825 shares of Series B preferred stock; 25,603 shares of Series C preferred stock	—	—	525,603
RESEARCH NOW GROUP, INC.	Second Lien	Business services	L+9.50% (Floor 1.00%)/M, Current Coupon 11.74%	12/20/2025	10,500,000,434	10,198,125
			L+8.75% (Floor 1.00%)/Q, Current Coupon 10.83%	11/23/2023	3,500,000,943	3,535,000
JVMC HOLDINGS CORP. <sup>14</sup>	First Lien	Financial services	L+8.02% (Floor 1.00%)/M, Current Coupon 10.26%	5/5/2022	7,036,257,130	7,101,563
TAX ADVISORS GROUP, LLC <sup>13</sup>	Senior subordinated debt	Financial services	10.00% / 2.00% PIK	12/23/2022	4,600,000,784	4,600,000
			143.3 Class A units <sup>9</sup>	—	—	541,176
VISTAR MEDIA INC.	First Lien			2/16/2022	7,975,000,591	8,054,750



Edgar Filing: CAPITAL SOUTHWEST CORP - Form 10-Q

	Media, marketing & entertainment	L+10.00% (Floor 1.00%)/M, Current Coupon 12.40%					
	Warrants (Expiration - February 17, 2027)		—	—	—	886,000	2,711,000
						8,261,591	10,765,750
Total Non-control/Non-affiliate Investments Affiliate Investments <sup>6</sup>						\$287,655,830	\$294,064,798
CHANDLER SIGNS, LLC <sup>13</sup>	Senior subordinated debt 1,500,000 units of Class A-1 common stock <sup>9</sup>	Business services	12.00% / 1.00% PIK	7/4/2021	4,534,448	\$4,380,993	\$4,384,610
			—	—	—	1,500,000	1,495,000
						5,980,993	5,879,610

Table of ContentsCAPITAL SOUTHWEST CORPORATION AND SUBSIDIARIES  
CONSOLIDATED SCHEDULE OF INVESTMENTS

(Unaudited)

September 30, 2018

Portfolio Company <sup>1</sup>	Type of Investment <sup>2, 15</sup>	Industry	Current Interest Rate <sup>3</sup>	Maturity	Principal <sup>6</sup>	Cost <sup>7</sup>	Fair Value <sup>4</sup>
DYNAMIC COMMUNITIES, LLC <sup>13</sup>	First Lien	Business services	L+8.00% (Floor 1.00%)/M, Current Coupon 10.39%	7/17/2023	11,200,000	9,983,905	9,983,905
	Revolving Loan <sup>10</sup>		L+8.00% (Floor 1.00%)	7/17/2023	—	(4,792)	—
	2,000,000 Preferred Units <sup>9</sup>		—	—	—	2,000,000	2,000,000
							12,979,113
ITA HOLDINGS GROUP, LLC <sup>13</sup>	First Lien	Transportation & logistics	L+9.00% (Floor 1.00%)/Q, Current Coupon 11.34%	2/14/2023	9,381,250	11,498,005	9,905,950
	First Lien - Term Loan B		L+9.00% (Floor 1.00%)/Q, Current Coupon 11.34%	2/14/2023	1,987,500	1,949,810	1,908,050
	Revolving Loan <sup>10</sup>		L+9.00% (Floor 1.00%)/Q, Current Coupon 11.33%	2/14/2023	763,500	28,516	732,960
	Delayed Draw Term Loan		L+9.00% (Floor 1.00%)/Q, Current Coupon 11.34%	2/14/2023	1,490,625	1,462,510	1,431,000
	9.25% Class A Membership Interest <sup>9</sup>		—	—	—	1,500,000	1,058,000
SIMR, LLC	First Lien	Healthcare services	L+9.00% (Floor 2.00%)/M, Current Coupon 11.33%	9/7/2023	11,688,000	14,569,634	14,569,634
	5,724,000 Class B Common Units		—	—	—	5,724,000	5,724,000
							17,180,963

Table of ContentsCAPITAL SOUTHWEST CORPORATION AND SUBSIDIARIES  
CONSOLIDATED SCHEDULE OF INVESTMENTS

(Unaudited)

September 30, 2018

Portfolio Company <sup>1</sup>	Type of Investment <sup>2, 15</sup>	Industry	Current Interest Rate <sup>3</sup>	Maturity	Principal Cost	Fair Value <sup>4</sup>
ZENFOLIO INC.	First Lien	Business services	L+9.00% (Floor 1.00%)/Q, Current Coupon 11.34%	7/17/2022	13,365,000	13,244,715
	Revolving Loan <sup>10</sup>		L+9.00% (Floor 1.00%)	7/17/2022	(15,170)	—
	190 shares of common stock		—	—	1,900,000	1,593,000
					15,044,702	14,837,715
Total Affiliate Investments Control Investments <sup>7</sup>					\$66,038,065	\$65,018,153
I-45 SLF LLC <sup>9, 10, 11</sup>	80% LLC equity interest	Multi-sector holdings	—	—	—	\$66,326,146
	800,000 shares of Series A convertible preferred stock				800,000	6,622,641
MEDIA RECOVERY, INC. <sup>11</sup>	4,000,002 shares of common stock	Industrial products	—	—	—	38,204,359
					5,415,000	44,827,000
PRISM SPECTRUM HOLDINGS, LLC <sup>13</sup>	First Lien	Environmental services	L+9.50% (Floor 2.25%)/M, Current Coupon 11.82%	2/6/2023	13,461,432	13,340,327
	Revolving Loan <sup>10</sup>		L+9.50% (Floor 2.25%)/M, Current Coupon 11.82%	2/6/2023	1,500,000	1,486,500
	96,498.32 Class A units <sup>9</sup>		—	—	—	6,538,522
					21,210,331	21,365,349

Total Control Investments	\$91,425,331	\$132,518,495
TOTAL INVESTMENTS <sup>12</sup>	\$445,119,226	\$491,601,446

<sup>1</sup> All debt investments are income-producing, unless otherwise noted. Equity investments are non-income producing, unless otherwise noted.

<sup>2</sup> All of the Company's investments, unless otherwise noted, are encumbered as security for the Company's senior secured credit facility.

Table of Contents

The majority of investments bear interest at a rate that may be determined by reference to London Interbank Offered Rate ("LIBOR" or "L") or Prime ("P") and reset daily (D), monthly (M), quarterly (Q), or semiannually (S). For each the  
3 Company has provided the spread over LIBOR or Prime and the current contractual interest rate in effect at  
September 30, 2018. Certain investments are subject to a LIBOR or Prime interest rate floor. Certain investments, as  
noted, accrue payment-in-kind ("PIK") interest.

The Company's investment portfolio is comprised entirely of debt and equity securities of privately held companies  
4 for which quoted prices falling within the categories of Level 1 and Level 2 inputs are not available. Therefore, the  
Company values all of its portfolio investments at fair value, as determined in good faith by the Board of Directors,  
using significant unobservable Level 3 inputs. Refer to Note 4 for further discussion.

Non-Control/Non-Affiliate investments are generally defined by the Investment Company Act of 1940 (the "1940  
5 Act") as investments that are neither control investments nor affiliate investments. At September 30, 2018,  
approximately 59.8% of the Company's investment assets were non-control/non-affiliate investments. The fair value  
of these investments as a percent of net assets is 95.5%.

Affiliate investments are generally defined by the 1940 Act as investments in which between 5% and 25% of  
6 the voting securities are owned and the investments are not classified as control investments. At  
September 30, 2018, approximately 13.2% of the Company's investment assets were affiliate investments.

The fair value of these investments as a percent of net assets is 21.1%.

Control investments are generally defined by the 1940 Act as investments in which more than 25% of the voting  
7 securities are owned. At September 30, 2018, approximately 27.0% of the Company's investment assets were control  
investments. The fair value of these investments as a percent of net assets is 43.0%.

8 The investment is structured as a first lien last out term loan.

Indicates assets that are considered "non-qualifying assets" under section 55(a) of the 1940 Act. Qualifying assets  
9 must represent at least 70% of total assets at the time of acquisition of any additional non-qualifying assets. As of  
September 30, 2018, approximately 17.0% of the Company's investment assets are non-qualifying assets.

10 The investment has an unfunded commitment as of September 30, 2018. Refer to Note 11 - Commitments and  
Contingencies for further discussion.

11 Income producing through dividends or distributions.

As of September 30, 2018, the cumulative gross unrealized appreciation for federal income tax purposes is  
12 approximately \$49.0 million; cumulative gross unrealized depreciation for federal income tax purposes is \$2.7  
million. Cumulative net unrealized appreciation is \$46.2 million, based on a tax cost of \$445.4 million.

ASC Ortho Management Company, LLC common units, Danforth Advisors, LLC common units, Gauge American  
Nuts Operations LLC Class A common stock, LGM Pharma, LLC Class A common stock, Tax Advisors Group,  
13 LLC Class A units, Chandler Signs, LP Class A-1 common stock, Dynamic Communities, LLC Preferred units,  
ITA Holdings Group, LLC membership interest, and Prism Spectrum Holdings LLC Class A units are held through  
a wholly-owned taxable subsidiary.

14 The investment is structured as a first lien first out term loan.

The Company generally acquires its investments in private transactions exempt from registration under the  
15 Securities Act of 1933, as amended (the "Securities Act"). These investments are generally subject to certain  
limitations on resale, and may be deemed "restricted securities" under the Securities Act.

The accompanying Notes are an integral part of these Consolidated Financial Statements.

Table of Contents

CAPITAL SOUTHWEST CORPORATION AND SUBSIDIARIES  
CONSOLIDATED SCHEDULE OF INVESTMENTS  
March 31, 2018

Portfolio Company <sup>1</sup>	Type of Investment <sup>2</sup>	Industry	Current Interest Rate <sup>3</sup>	Maturity	Principal	Cost	Fair Value <sup>4</sup>
Non-control/Non-affiliate Investments <sup>5</sup>							
AAC HOLDINGS, INC.	First Lien	Healthcare services	L+6.75% (Floor 1.00%), Current Coupon 8.52%	6/30/2023	\$9,321,875	\$9,110,902	\$9,485,008
AG KINGS HOLDINGS INC. <sup>8</sup>	First Lien	Food, agriculture & beverage	L+9.40% (Floor 1.00%), Current Coupon 11.21%	8/8/2021	9,650,000	9,507,562	9,437,700
ALLIANCE SPORTS GROUP, L.P.	Senior subordinated debt	Consumer products & retail	11.00%	2/1/2023	10,100,000	9,916,216	9,807,100
	membership interest		—	—	—	2,500,000	1,996,000
						12,416,216	11,803,100
AMERICAN TELECONFERENCING SERVICES, LTD.	First Lien	Telecommunications	L+6.50% (Floor 1.00%), Current Coupon 8.29%	12/8/2021	6,378,173	6,238,734	6,376,578
	Second Lien		L+9.50% (Floor 1.00%), Current Coupon 11.20%	6/6/2022	2,005,714	1,941,047	1,918,806
						8,179,781	8,295,384
AMWARE FULFILLMENT LLC <sup>17</sup>	First Lien	Distribution	L+12.00% (Floor 1.00%), Current Coupon 14.02%	5/21/2019	13,478,333	13,284,488	12,939,200
	First Lien	Distribution		3/9/2022	13,036,418	12,817,614	12,899,536

BINSWANGER HOLDING CORP.			L+8.00% (Floor 1.00%), Current Coupon 10.02%					
	900,000 shares of common stock			—	—	—	900,000	874,000
							13,717,614	13,773,536
CALIFORNIA PIZZA KITCHEN, INC.	First Lien	Restaurants	L+6.00% (Floor 1.00%), Current Coupon 7.88%	8/23/2022	4,925,000	4,886,550	4,836,350	
CAPITAL PAWN HOLDINGS, LLC	First Lien	Consumer products & retail	L+9.50%, Current Coupon 11.19%	7/8/2020	12,922,365	12,669,652	12,767,297	

Table of Contents

CAPITAL SOUTHWEST CORPORATION AND SUBSIDIARIES  
CONSOLIDATED SCHEDULE OF INVESTMENTS  
March 31, 2018

Portfolio Company <sup>1</sup>	Type of Investment <sup>2</sup>	Industry	Current Interest Rate <sup>3</sup>	Maturity	Principal	Cost	Fair Value <sup>4</sup>
CLICKBOOTH.COM, LLC	First Lien	Media, marketing & entertainment	L+8.50% (Floor 1.00%), Current Coupon 10.19%	12/5/2022	17,390,625	15,608,607	14,797,442
	Revolving Loan <sup>15</sup>		L+8.50% (Floor 1.00%)	12/5/2022	—	(18,719)	—
DEEPWATER CORROSION SERVICES, INC.	127,004 shares of Series A convertible preferred stock	Energy services (upstream)	—	—	—	8,000,000	6,290,000
DELPHI INTERMEDIATE HEALTHCO, LLC	First Lien	Healthcare services	L+7.50% (Floor 1.00%), Current Coupon 9.27%	10/3/2022	7,406,275	6,336,872	6,531,926
DIGITAL RIVER, INC.	First Lien	Software & IT services	L+6.50% (Floor 1.00%), Current Coupon 8.61%	2/12/2021	6,285,463	4,273,465	5,285,443
DUNN PAPER, INC.	Second Lien	Paper & forest products	L+8.75% (Floor 1.00%), Current Coupon 10.63%	8/26/2023	3,000,000	2,949,631	1,000,000
LGM PHARMA, LLC <sup>13</sup>	First Lien	Healthcare products	L+8.50% (Floor 1.00%), Current Coupon 10.17%	11/15/2022	9,975,000	7,874,481	9,055,050
	Delayed Draw Term Loan <sup>18</sup>		L+8.50% (Floor 1.00%), Current Coupon 10.29%	11/15/2022	1,300,000	74,815	297,400
	110,000 units of Class A common stock <sup>9</sup>		—	—	—	1,100,000	1,000,000
LIGHTING RETROFIT INTERNATIONAL, LLC	First Lien	Environmental services	L+9.25% (Floor 1.00%), Current Coupon	6/30/2022	14,625,000	12,162,126	11,750,361



Edgar Filing: CAPITAL SOUTHWEST CORP - Form 10-Q

			10.94%				
		396,825 shares of Series B preferred stock		—	—	—	500,000,000
							14,987,147,375
PRE-PAID LEGAL SERVICES, INC.	Second Lien	Consumer services	L+9.00% (Floor 1.25%), Current Coupon 10.88%	7/1/2020	5,000,000	967,663,000	10,000,000
RESEARCH NOW GROUP, INC.	Second Lien	Business services	L+9.50% (Floor 1.00%), Current Coupon 11.28%	12/20/2025	10,500,000	78,996,175	10,500,000

Table of Contents

CAPITAL SOUTHWEST CORPORATION AND SUBSIDIARIES  
CONSOLIDATED SCHEDULE OF INVESTMENTS  
March 31, 2018

Portfolio Company <sup>1</sup>	Type of Investment <sup>2</sup>	Industry	Current Interest Rate <sup>3</sup>	Maturity	Principal	Fair Value <sup>4</sup>
RESTAURANT TECHNOLOGIES, INC.	Second Lien	Business services	L+8.75% (Floor 1.00%), Current Coupon 10.69%	11/23/2023	3,500,000	3,493,000
JVMC HOLDINGS CORP. <sup>14</sup>	First Lien	Financial services	L+8.02% (Floor 1.00%), Current Coupon 9.90%	5/5/2022	7,218,756	7,215,141
TAX ADVISORS GROUP, LLC <sup>13</sup>	Senior subordinated debt	Financial services	10.00% / 2.00% PIK	12/23/2022	4,600,000	4,600,000
	143.3 Class A units <sup>9</sup>		—	—	541,176	886,000
					5,059,060	5,486,000
VISTAR MEDIA INC.	First Lien	Media, marketing & entertainment	L+10.00% (Floor 1.00%), Current Coupon 12.02%	2/16/2022	8,112,500	8,193,625
	Warrants (Expiration - February 17, 2027)		—	—	886,000	1,682,000
					8,320,072	9,875,625
WASTEWATER SPECIALTIES, LLC	First Lien <sup>16</sup>	Industrial services	L+12.25% (Floor 1.00%), Current Coupon 13.90%	4/18/2022	9,863,582	10,011,536
Total Non-control/Non-affiliate Investments					\$ 200,981,062	\$ 199,949,348
Affiliate Investments <sup>6</sup>						
CHANDLER SIGNS, LLC <sup>13</sup>	Senior subordinated	Business services	12.00% / 1.00% PIK	7/4/2021	4,511,259	\$ 4,375,922

Edgar Filing: CAPITAL SOUTHWEST CORP - Form 10-Q

	debt						
	1,500,000						
	units of Class						
	A-1 common						
	stock <sup>9</sup>	—	—	—	1,500,000	1,934,000	
					5,950,704	6,309,922	
			L+9.90%				
			(Floor				
			1.00%),				
			Current				
			Coupon				
			12.10%				
ELITE SEM, INC. <sup>8</sup>	First Lien	Media, marketing & entertainment		2/1/2022	17,500,000	17,500,000	17,500,000
	1,089						
	Preferred		12% PIK	—	—	1,235,651	1,879,000
	units					18,339,184	19,379,000

Table of Contents

CAPITAL SOUTHWEST CORPORATION AND SUBSIDIARIES  
CONSOLIDATED SCHEDULE OF INVESTMENTS  
March 31, 2018

Portfolio Company <sup>1</sup>	Type of Investment <sup>2</sup>	Industry	Current Interest Rate <sup>3</sup>	Maturity	Principal	Cost	Fair Value <sup>4</sup>
ITA HOLDINGS GROUP, LLC <sup>13</sup>	First Lien	Transportation & logistics	L+8.50% (Floor 1.00%, Current Coupon 10.32%)	2/14/2023	9,500,000	9,313,995	9,313,995
	Revolving Loan <sup>19</sup>		L+8.50% (Floor 1.00%)	2/14/2023	—	(9,748)	—
	Delayed Draw Term Loan		L+8.50% (Floor 1.00%, Current Coupon 10.32%)	2/14/2023	1,500,000	1,470,378	1,470,378
	9.25% Class A Membership Interest <sup>9</sup>		—	—	—	1,500,000	1,500,000
						12,274,625	12,284,373
ZENFOLIO INC.	First Lien	Business services	L+9.00% (Floor 1.00%), Current Coupon 10.69%	7/17/2022	13,432,500	13,200,549	13,325,040
	Revolving Loan <sup>15</sup>		L+9.00% (Floor 1.00%)	7/17/2022	—	(17,174)	—
	190 shares of common stock		—	—	—	1,900,000	1,900,000
						15,083,375	15,225,040
Total Affiliate Investments Control Investments <sup>7</sup>						\$51,647,888	\$53,198,335
I-45 SLF LLC <sup>9, 10, 11</sup>	80% LLC equity interest	Multi-sector holdings	—	—	—	\$64,800,000	\$67,113,368
MEDIA RECOVERY, INC. <sup>11</sup>	800,000 shares of Series A convertible preferred stock	Industrial products	—	—	—	800,000	6,370,748
			—	—	—	4,615,000	36,751,252

Edgar Filing: CAPITAL SOUTHWEST CORP - Form 10-Q

4,000,002 shares  
of common stock

5,415,000 43,122,000

Table of Contents

CAPITAL SOUTHWEST CORPORATION AND SUBSIDIARIES  
CONSOLIDATED SCHEDULE OF INVESTMENTS  
March 31, 2018

Portfolio Company <sup>1</sup>	Type of Investment <sup>2</sup>	Industry	Current Interest Rate <sup>3</sup>	Maturity	Principal	Fair Value <sup>4</sup>
PRISM SPECTRUM HOLDINGS, LLC <sup>13</sup>	First Lien	Environmental services	L+9.50% (Floor 2.25%), Current Coupon 11.75%	2/6/2023	4,325,247,522	4,240,522
	Revolving Loan <sup>20</sup>		L+9.50% (Floor 2.25%), Current Coupon 11.75%	2/6/2023	500,490,290	490,290
	57.25 Class A units <sup>9</sup>		—	—	1,691,674 6,422,486	1,691,674 6,422,486
TITANLINER, INC.	1,189,609 shares of Series B convertible preferred stock	Energy services (upstream)	6% PIK	—	2,925,960	11,362,000
	339,277 shares of Series A convertible preferred stock		—	—	3,204,222	11,928,000
Total Control Investments					6,130,182 \$82,767,668	23,290,000 \$139,947,854
TOTAL INVESTMENTS <sup>12</sup>					\$335,396,618	\$393,095,537

<sup>1</sup> All debt investments are income-producing, unless otherwise noted. Equity investments are non-income producing, unless otherwise noted.

<sup>2</sup> All of the Company's investments, unless otherwise noted, are encumbered as security for the Company's senior secured credit facility.

The majority of investments bear interest at a rate that may be determined by reference to London Interbank Offered Rate ("LIBOR" or "L") or Prime ("P") and reset daily, monthly, quarterly, or semiannually. For each the Company has provided the spread over LIBOR or Prime and the current contractual interest rate in effect at March 31, 2018.

<sup>3</sup> Certain investments are subject to a LIBOR or Prime interest rate floor. Certain investments, as noted, accrue payment-in-kind ("PIK") interest.

Investments are carried at fair value in accordance with the Investment Company Act of 1940 (the "1940 Act") and Financial Accounting Standards Board ("FASB") Accounting Standard Codification ("ASC") 820, Fair Value

<sup>4</sup> Measurements and Disclosures. We determine in good faith the fair value of our Investment portfolio pursuant to a valuation policy in accordance with ASC 820 and a valuation process approved by our Board of Directors. See Note 4 to the consolidated financial statements.

<sup>5</sup> Non-Control/Non-Affiliate investments are generally defined by the 1940 Act as investments that are neither control investments nor affiliate investments. At March 31, 2018, approximately 50.9% of the Company's investment assets

were non-control/non-affiliate investments. The fair value of these investments as a percent of net assets is 64.9%.

6 Affiliate investments are generally defined by the 1940 Act as investments in which between 5% and 25% of the voting securities are owned and the investments are not classified as control investments. At March 31, 2018, approximately 13.5% of the Company's investment assets were affiliate investments. The fair value of these investments as a percent of net assets is 17.3%.

19

---

Table of Contents

Control investments are generally defined by the 1940 Act as investments in which more than 25% of the voting securities are owned or maintains greater than 50% of the board representation. At March 31, 2018, approximately 35.6% of the Company's investment assets were control investments. The fair value of these investments as a percent of net assets is 45.4%.

<sup>8</sup> The investment is structured as a first lien last out term loan.

Indicates assets that are considered "non-qualifying assets" under section 55(a) of the 1940 Act. Qualifying assets must represent at least 70% of total assets at the time of acquisition of any additional non-qualifying assets. As of March 31, 2018, approximately 18.0% of the Company's investment assets are non-qualifying assets.

<sup>9</sup> The investment has approximately \$3.2 million unfunded commitment as of March 31, 2018.

<sup>10</sup> Income producing through dividends or distributions.

As of March 31, 2018, the cumulative gross unrealized appreciation for federal income tax purposes is approximately \$62.4 million; cumulative gross unrealized depreciation for federal income tax purposes is \$4.9 million. Cumulative net unrealized appreciation is \$57.5 million, based on a tax cost of \$335.6 million.

ITA Holdings Group, LLC membership interest, LGM Pharma, LLC Class A common stock, Prism Spectrum Holdings LLC Class A units, Tax Advisors Group, LLC Class A units and Chandler Signs, LP Class A-1 common stock are held through a wholly-owned taxable subsidiary.

<sup>13</sup> The investment is structured as a first lien first out term loan.

<sup>14</sup> The investment has approximately \$2.0 million unfunded commitment as of March 31, 2018.

<sup>15</sup> As of March 31, 2018, the investment is paying default interest at a rate of 3.0% per annum.

<sup>16</sup> As of March 31, 2018, the investment is paying default interest at a rate of 2.5% per annum.

<sup>17</sup> The investment has approximately \$0.9 million unfunded commitment as of March 31, 2018.

<sup>18</sup> The investment has approximately \$2.0 million unfunded commitment as of March 31, 2018.

<sup>19</sup> The investment has approximately \$1.5 million unfunded commitment as of March 31, 2018.

The accompanying Notes are an integral part of these Consolidated Financial Statements.



Table of Contents

Notes to Consolidated Financial Statements

1. ORGANIZATION AND BASIS OF PRESENTATION

References in this Quarterly Report on Form 10-Q to “we,” “our,” “us,” “CSWC,” or the “Company” refer to Capital Southwest Corporation, unless the context requires otherwise.

Organization

Capital Southwest Corporation is an internally managed investment company that specializes in providing customized financing to middle market companies in a broad range of industry segments located primarily in the United States. Our common stock currently trades on The Nasdaq Global Select Market under the ticker symbol “CSWC.”

CSWC was organized as a Texas corporation on April 19, 1961. On March 30, 1988, CSWC elected to be regulated as a business development company (“BDC”) subject to the provisions of the 1940 Act, as amended by the Small Business Incentive Act of 1980. In order to comply with the 1940 Act requirements for a BDC, we must, among other things, generally invest at least 70% of our assets in eligible portfolio companies and limit the amount of leverage we incur.

We have elected, and intend to qualify annually, to be treated as a regulated investment company (“RIC”) under Subchapter M of the U.S. Internal Revenue Code of 1986 (the “Code”). As such, we generally will not have to pay corporate-level U.S. federal income tax on any ordinary income or capital gains that we distribute to our shareholders as dividends. To continue to maintain our RIC treatment, we must meet specified source-of-income and asset diversification requirements and distribute annually at least 90% of our net ordinary income and realized net short-term capital gains in excess of realized net long-term capital losses, if any. Depending on the level of taxable income earned in a tax year, we may choose to carry forward taxable income in excess of current year distributions into the next year and pay a 4% excise tax on such income. Any such carryover taxable income must be distributed through a dividend declared prior to filing the final tax return related to the year that generated such taxable income.

Capital Southwest Management Corporation (“CSMC”), a wholly-owned subsidiary of CSWC, is the management company for CSWC. CSMC generally incurs all normal operating and administrative expenses, including, but not limited to, salaries and related benefits, rent, equipment and other administrative costs required for its day-to-day operations.

CSWC also has a direct wholly-owned subsidiary that has been elected to be a taxable entity (the “Taxable Subsidiary”). The primary purpose of the Taxable Subsidiary is to permit CSWC to hold certain interests in portfolio companies that are organized as limited liability companies, or LLCs (or other forms of pass-through entities) and still allow us to satisfy the RIC tax requirement that at least 90% of our gross income for federal income tax purposes must consist of qualifying investment income. The Taxable Subsidiary is taxed at normal corporate tax rates based on its taxable income.

We focus on investing in companies with histories of generating revenues and positive cash flow, established market positions and proven management teams with strong operating discipline. We target senior debt, subordinated debt and equity investments in lower middle market (“LMM”) companies, as well as first and second lien syndicated loans in upper middle market (“UMM”) companies. Our target LMM companies typically have annual earnings before interest, taxes, depreciation and amortization (“EBITDA”) between \$3.0 million and \$15.0 million, and our LMM investments generally range in size from \$5.0 million to \$25.0 million. Our UMM investments generally include syndicated first and second lien loans in companies with EBITDA generally greater than \$50.0 million and typically range in size from \$5.0 million to \$15.0 million. We make available significant managerial assistance to the companies in which we invest as we believe that providing managerial assistance to an investee company is critical to its business

development activities.

#### Basis of Presentation

The consolidated financial statements have been prepared in accordance with Generally Accepted Accounting Principles in the United States of America (“U.S. GAAP”). We meet the definition of an investment company and follow the accounting and reporting guidance in the Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) Topic 946 – Financial Services – Investment Companies (“ASC 946”). Under rules and regulations applicable to investment companies, we are generally precluded from consolidating any entity other than another investment

21

---

## Table of Contents

company, subject to certain exceptions. One of the exceptions to this general principle occurs if the investment company has an investment in an operating company that provides services to the investment company. Accordingly, the consolidated financial statements include CSMC, our management company, and the Taxable Subsidiary.

The consolidated financial statements are presented in conformity with U.S. GAAP for interim financial information and pursuant to the requirements for reporting on Form 10-Q and Article 10 of Regulation S-X. Accordingly, certain disclosures accompanying annual consolidated financial statements prepared in accordance with U.S. GAAP are omitted. In the opinion of our management, the unaudited consolidated financial results included herein contain all adjustments, consisting solely of normal recurring accruals, considered necessary for the fair presentation of consolidated financial statements for the interim periods included herein. The results of operations for the three and six months ended September 30, 2018 are not necessarily indicative of the operating results to be expected for the full fiscal year. Also, the unaudited consolidated financial statements and notes should be read in conjunction with the audited consolidated financial statements and notes thereto for the fiscal years ended March 31, 2018 and 2017. Consolidated financial statements prepared on a U.S. GAAP basis require management to make estimates and assumptions that affect the amounts and disclosures reported in the consolidated financial statements and accompanying notes. Such estimates and assumptions could change in the future as more information becomes known, which could impact the amounts reported and disclosed herein.

### Portfolio Investment Classification

We classify our investments in accordance with the requirements of the 1940 Act. Under the 1940 Act, "Control Investments" are generally defined as investments in which we own more than 25% of the voting securities; "Affiliate Investments" are generally defined as investments in which we own between 5% and 25% of the voting securities, and the investments are not classified as "Control Investments"; and "Non-Control/Non-Affiliate Investments" are generally defined as investments that are neither "Control Investments" nor "Affiliate Investments."

Under the 1940 Act, a BDC must meet certain requirements, including investing at least 70% of our assets in qualifying assets. As of September 30, 2018, the Company has 83.7% of our assets in qualifying assets. The principal categories of qualifying assets relevant to our business are:

- (1) Securities purchased in transactions not involving any public offering from the issuer of such securities, which issuer (subject to certain limited exceptions) is an eligible portfolio company, or from any person who is, or has been during the preceding 13 months, an affiliated person of an eligible portfolio company, or from any other person, subject to such rules as may be prescribed by the Securities and Exchange Commission ("SEC").
- (2) Securities of any eligible portfolio company that we control.
- (3) Securities purchased in a private transaction from a U.S. issuer that is not an investment company or from an affiliated person of the issuer, or in transactions incident thereto, if the issuer is in bankruptcy and subject to reorganization or if the issuer, immediately prior to the purchase of its securities was unable to meet its obligations as they came due without material assistance other than conventional lending or financing arrangements.
- (4) Securities of an eligible portfolio company purchased from any person in a private transaction if there is no readily available market for such securities and we already own 60% of the outstanding equity of the eligible portfolio company.
- (5) Securities received in exchange for or distributed on or with respect to securities described in (1) through (4) above, or pursuant to the exercise of warrants or rights relating to such securities.
- (6) Cash, cash equivalents, U.S. government securities or high-quality debt securities maturing in one year or less from the time of investment.

Additionally, in order to qualify as a RIC for U.S. federal income tax purposes, we must, among other things meet the following tests:

- (1) Continue to maintain our election as a BDC under the 1940 Act at all times during each taxable year.



## Table of Contents

(2) Derive in each taxable year at least 90% of our gross income from dividends, interest, payments with respect to certain securities, loans, gains from the sale of stock or other securities, net income from certain "qualified publicly traded partnerships," or other income derived with respect to our business of investing in such stock or securities (the "90% Income Test").

(3) Diversify our holdings in accordance with two Diversification Tests: (a) Diversify our holdings such that at the end of each quarter of the taxable year at least 50% of the value of our assets consists of cash, cash equivalents, U.S. Government securities, securities of other RICs, and such other securities if such other securities of any one issuer do not represent more than 5% of the value of our assets or more than 10% of the outstanding voting securities of the issuer; and (b) Diversify our holdings such that no more than 25% of the value of our assets is invested in the securities, other than U.S. government securities or securities of other RICs, (i) of one issuer, (ii) of two or more issuers that are controlled, as determined under applicable Code rules, by us and that are engaged in the same or similar or related trades or businesses or (iii) of certain "qualified publicly traded partnerships" (collectively, the "Diversification Tests").

The two Diversification Tests must be satisfied quarterly. If a RIC satisfies the tests for one quarter, and then, due solely to fluctuations in market value, fails to meet one of the tests in the next quarter, it retains RIC status. A RIC that fails to meet the Diversification Tests as a result of a nonqualified acquisition may be subject to excess taxes unless the nonqualified acquisition is disposed of and the tests are satisfied within 30 days of the close of the quarter in which the tests are failed.

For the quarter ended September 30, 2018, we satisfied all RIC tests and have 17.3% in nonqualified assets according to measurement criteria established in Section 851(d) of the Code.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following is a summary of significant accounting policies followed in the preparation of the consolidated financial statements of CSWC.

**Fair Value Measurements** We account for substantially all of our financial instruments at fair value in accordance with ASC Topic 820 – Fair Value Measurements and Disclosures ("ASC 820"). ASC 820 defines fair value, establishes a framework used to measure fair value and requires disclosures for fair value measurements, including the categorization of financial instruments into a three-level hierarchy based on the transparency of valuation inputs. ASC 820 requires disclosure of the fair value of financial instruments for which it is practical to estimate such value. We believe that the carrying amounts of our financial instruments such as cash, receivables and payables approximate the fair value of these items due to the short maturity of these instruments. This is considered a Level 1 valuation technique. The carrying value of our credit facility approximates fair value (Level 3 input). See Note 4 below for further discussion regarding the fair value measurements and hierarchy.

**Investments** Investments are stated at fair value and are reviewed and approved by our Board of Directors as described in the Notes to the Consolidated Schedule of Investments and Notes 3 and 4 below. Investments are recorded on a trade date basis.

**Net Realized Gains or Losses and Net Change in Unrealized Appreciation or Depreciation** Realized gains or losses are measured by the difference between the net proceeds from the sale or redemption of an investment or a financial instrument and the cost basis of the investment or financial instrument, without regard to unrealized appreciation or depreciation previously recognized, and includes investments written-off during the period net of recoveries and realized gains or losses from in-kind redemptions. Net change in unrealized appreciation or depreciation reflects the net change in the fair value of the investment portfolio and financial instruments and the reclassification of any prior period unrealized appreciation or depreciation on exited investments and financial instruments to realized gains or losses.

**Cash and Cash Equivalents** Cash and cash equivalents, which consist of cash and highly liquid investments with an original maturity of three months or less at the date of purchase, are carried at cost, which approximates fair value. Cash may be held in a money market fund from time to time, which is a Level 1 security. Cash and cash equivalents includes deposits at financial institutions. We deposit our cash balances in financial institutions and, at times, such balances may be in excess of the Federal Deposit Insurance Corporation (“FDIC”) insurance limits. At September 30, 2018 and March 31, 2018, cash balances totaling \$9.1 million and \$6.8 million, respectively, exceeded FDIC insurance limits, subjecting us to

## Table of Contents

risk related to the uninsured balance. All of our cash deposits are held at large established high credit quality financial institutions and management believes that the risk of loss associated with any uninsured balances is remote.

**Segment Information** We operate and manage our business in a singular segment. As an investment company, we invest in portfolio companies in various industries and geographic areas as discussed in Note 3.

**Consolidation** As permitted under Regulation S-X and ASC 946, we generally do not consolidate our investment in a portfolio company other than an investment company subsidiary or a controlled operating company whose business consists of providing services to CSWC. Accordingly, we consolidated the results of CSWC's wholly-owned Taxable Subsidiary and CSWC's wholly-owned management company, CSMC. All intercompany balances have been eliminated upon consolidation.

**Use of Estimates** The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates. We have identified investment valuation and revenue recognition as our most critical accounting estimates.

**Interest and Dividend Income** Interest and dividend income is recorded on an accrual basis to the extent amounts are expected to be collected. Dividend income is recognized on the date dividends are declared by the portfolio company or at the point an obligation exists for the portfolio company to make a distribution. Discounts/premiums received to par on loans purchased are capitalized and accreted or amortized into income over the life of the loan using the effective interest method. In accordance with our valuation policy, accrued interest and dividend income is evaluated quarterly for collectability. When we do not expect the debtor to be able to service all of its debt or other obligations, we will generally establish a reserve against interest income receivable, thereby placing the loan or debt security on non-accrual status, and cease to recognize interest income on that loan or debt security until the borrower has demonstrated the ability and intent to pay contractual amounts due. If a loan or debt security's status significantly improves regarding its ability to service debt or other obligations, it will be restored to accrual basis. As of September 30, 2018 and March 31, 2018, we did not have any investments on non-accrual status or past due its contractual payment obligation.

To maintain RIC tax treatment, non-cash sources of income such as accretion of interest income may need to be paid out to shareholders in the form of distributions, even though CSWC may not have collected the interest income. For the three and six months ended September 30, 2018, approximately 3.0% and 2.9%, respectively, of CSWC's total investment income was attributable to non-cash interest income for the accretion of discounts associated with debt investments, net of any premium reduction. For the three and six months ended September 30, 2017, approximately 2.3% and 2.4%, respectively, of CSWC's total investment income was attributable to non-cash interest income for the accretion of discounts associated with debt investments, net of any premium reduction.

**Payment-in-Kind Interest** The Company currently holds, and expects to hold in the future, some investments in its portfolio that contain payment-in-kind ("PIK") interest and dividend provisions. The PIK interest and dividends, computed at the contractual rate specified in each loan agreement, are added to the principal balance of the loan, rather than being paid to the Company in cash, and are recorded as interest and dividend income. Thus, the actual collection of PIK interest and dividends may be deferred until the time of debt principal repayment or disposition of the equity investment. PIK interest and dividends, which are non-cash sources of income, are included in the Company's taxable income and therefore affect the amount the Company is required to distribute to stockholders to maintain its qualification as a RIC for U.S. federal income tax purposes, even though the Company has not yet collected the cash. Generally, when current cash interest and/or principal payments on a loan become past due, or if the Company otherwise does not expect the borrower to be able to service its debt and other obligations, the Company will place the investment on non-accrual status and will generally cease recognizing PIK interest and dividend income on that loan

for financial reporting purposes until all principal and interest have been brought current through payment or due to a restructuring such that the interest and dividend income is deemed to be collectible. The Company writes off any accrued and uncollected PIK interest and dividends when it is determined that the PIK interest and dividends are no longer collectible. As of September 30, 2018 and March 31, 2018, we did not have any investments on non-accrual status and have not written off any accrued and uncollected PIK interest and dividends. For both the three and six months ended September 30, 2018, approximately 0.7% of CSWC's total investment income was attributable to non-cash PIK interest and dividend income. For the three and six months ended September 30,



Table of Contents

2017, approximately 0.8% and 0.9%, respectively, of CSWC's total investment income was attributable to non-cash PIK interest and dividend income.

**Debt Issuance Costs** Debt issuance costs include commitment fees and other costs related to CSWC's senior secured credit facility and its notes (as discussed further in Note 5). The costs in connection with the credit facility have been capitalized and are amortized into interest expense over the term of the credit facility. The costs in connection with the notes are a direct deduction from the related debt liability and amortized into interest expense over the term of the notes.

**Federal Income Taxes** CSWC has elected and intends to comply with the requirements of the Code necessary to qualify as a RIC. By meeting these requirements, we will not be subject to corporate federal income taxes on ordinary income or capital gains timely distributed to shareholders. In order to qualify as a RIC, the company is required to timely distribute to its shareholders at least 90% of investment company taxable income, as defined by the Code, each year. Investment company taxable income generally differs from net income for financial reporting purposes due to temporary and permanent differences in the recognition of income and expenses. Investment company taxable income generally excludes net unrealized appreciation or depreciation, as investment gains and losses are not included in investment company taxable income until they are realized.

Depending on the level of taxable income or capital gains earned in a tax year, we may choose to carry forward taxable income or capital gains in excess of current year distributions into the next year and pay a 4% excise tax on such income. Any such carryover taxable income or capital gains must be distributed through a dividend declared on or prior to the later of (1) the filing of the U.S. federal income tax return for the applicable fiscal year and (2) the fifteenth day of the ninth month following the close of the year in which such taxable income was generated.

In lieu of distributing our net capital gains for a year, we may decide to retain some or all of our net capital gains. We will be required to pay a 21% corporate-level federal income tax on any such retained net capital gains. We may elect to treat such retained capital gain as a deemed distribution to shareholders. Under such circumstances, shareholders will be required to include their share of such retained capital gain in income, but will receive a credit for the amount of corporate-level U.S. federal income tax paid with respect to their shares. As an investment company that qualifies as a RIC, federal income taxes payable on security gains that we elect to retain are accrued only on the last day of our tax year, December 31. Any net capital gains actually distributed to shareholders and properly reported by us as capital gain dividends are generally taxable to the shareholders as long-term capital gains. See Note 6 for further discussion.

CSMC, a wholly-owned subsidiary of CSWC, and the Taxable Subsidiary are not RICs and are required to pay taxes at the corporate rate of 21% as of September 30, 2018. For tax purposes, CSMC and the Taxable Subsidiary have elected to be treated as taxable entities, and therefore are not consolidated for tax purposes and are taxed at normal corporate tax rates based on taxable income and, as a result of their activities, may generate income tax expense or benefit. The taxable income, or loss, of each of CSMC and the Taxable Subsidiary may differ from its book income, or loss, due to temporary book and tax timing differences and permanent differences. This income tax expense, or benefit, if any, and the related tax assets and liabilities, are reflected in our consolidated financial statements.

Management evaluates tax positions taken or expected to be taken in the course of preparing the Company's consolidated financial statements to determine whether the tax positions are "more-likely-than-not" to be sustained by the applicable tax authority. Tax positions with respect to tax at the CSWC level not deemed to meet the "more-likely-than-not" threshold would be recorded as an expense in the current year. Management's conclusions regarding tax positions will be subject to review and may be adjusted at a later date based on factors including, but not limited to, on-going analyses of tax laws, regulations and interpretations thereof. The Company has concluded that it does not have any uncertain tax positions that meet the recognition of measurement criteria of ASC 740, Income

Taxes, ("ASC 740") for the current period. Also, we account for interest and, if applicable, penalties for any uncertain tax positions as a component of income tax expense. No interest or penalties expense was recorded during the three and six months ended September 30, 2018 and 2017.

**Deferred Taxes** Deferred tax assets and liabilities are recorded for losses or income at our taxable subsidiaries using statutory tax rates. A valuation allowance is provided against deferred tax assets when it is more likely than not that some portion or all of the deferred tax asset will not be realized. ASC 740 requires the effects of changes in tax rates and laws on deferred tax balances to be recognized in the period in which the legislation was enacted. See Note 6 for further discussion.

Table of Contents

**Stock-Based Compensation** We account for our stock-based compensation using the fair value method, as prescribed by ASC Topic 718, Compensation – Stock Compensation. Accordingly, we recognize stock-based compensation cost on a straight-line basis for all share-based payments awards granted to employees. The fair value of stock options are determined on the date of grant using the Black-Scholes pricing model and are expensed over the requisite service period of the related stock options. For restricted stock awards, we measure the grant date fair value based upon the market price of our common stock on the date of the grant. For restricted stock awards, we amortize this fair value to share-based compensation expense over the vesting term. We recognize forfeitures as they occur. We issue new shares upon the exercise of stock options. The unvested shares of restricted stock awarded pursuant to CSWC’s equity compensation plans are participating securities and are included in the basic and diluted earnings per share calculation. On October 26, 2010, we received an exemptive order from the SEC permitting us to issue restricted stock to our executive officers and certain key employees (the “Original Order”). On August 22, 2017, we received an exemptive order that supersedes the Original Order (the “Exemptive Order”) and, in addition to the relief granted under the Original Order, allows us to withhold shares to satisfy tax withholding obligations related to the vesting of restricted stock granted pursuant to the 2010 Restricted Stock Award Plan (the “2010 Plan”) and to pay the exercise price of options to purchase shares of our common stock granted pursuant to the 2009 Stock Incentive Plan (the “2009 Plan”).

At the three and six months ended September 30, 2018, weighted-average basic shares were adjusted for the dilutive effect of stock-based awards of 4,739 and 4,473, respectively. At the three and six months ended September 30, 2017, weighted-average basic shares were adjusted for the dilutive effect of stock-based awards of 67,606 and 65,225, respectively. For individual cash incentive awards, the option value of the individual cash incentive awards is calculated based on the changes in net asset value (“NAV”) of our Company. In connection with the Share Distribution, we entered into an Employee Matters Agreement (the “Employee Matters Agreement”) with CSW Industrials, Inc. (“CSWI”). Under the Employee Matters Agreement, the value of individual cash incentive awards was determined based upon the NAV of CSWC as of June 30, 2015. See Note 9 for further discussion.

**Shareholder Distributions** Distributions to common shareholders are recorded on the ex-dividend date. The amount of distributions, if any, is determined by the Board of Directors each quarter and is generally based upon the earnings estimated by management. Net realized capital gains, if any, are generally distributed, although the Company may decide to retain such capital gains for investment.

**Presentation** Presentation of certain amounts in the Consolidated Financial Statements for the prior year comparative consolidated financial statements is updated to conform to the current period presentation.

**Recently Issued or Adopted Accounting Standards** In February 2016, the FASB issued ASU 2016-02, Leases, which requires lessees to recognize on the balance sheet a right-of-use asset, representing its right to use the underlying asset for the lease term, and a lease liability for all leases with terms greater than 12 months. The guidance also requires qualitative and quantitative disclosures designed to assess the amount, timing, and uncertainty of cash flows arising from leases. The standard requires the use of a modified retrospective transition approach, which includes a number of optional practical expedients that entities may elect to apply. In July 2018, the FASB issued ASU 2018-10, Codification Improvements to Topic 842, Leases, which affects narrow aspects of the guidance issued in the amendments in ASU 2016-02. The new guidance is effective for annual periods beginning after December 15, 2018, and interim periods therein. Early application is permitted. While we continue to assess the effect of adoption, we currently believe the single change relates to the recognition of a new right-of-use asset and lease liability on our consolidated balance sheet for our office space operating lease. We currently have one operating lease for office space and do not expect a significant change in our leasing activity between now and adoption.

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606). ASU 2014-09 supersedes the revenue recognition requirements under SAC Topic 605, Revenue Recognition, and most

industry-specific guidance throughout the Industry Topics of the ASC. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which an entity expects to be entitled in exchange for those goods or services. Under the new guidance, an entity is required to perform the following five steps: (1) identify the contract(s) with a customer; (2) identify the performance obligations in the contract; (3) determine the transaction price; (4) allocate the transaction price to the performance obligations in the contract, and (5) recognize revenue when (or as) the entity satisfies a performance obligation. The new guidance will

Table of Contents

significantly enhance comparability of revenue recognition practices across entities, industries, jurisdictions and capital markets. Additionally, the guidance requires improved disclosures as to the nature, amount, timing and uncertainty of revenue that is recognized. In May 2016, the FASB issued ASU No. 2016-12, Revenue from Contracts with Customers (Topic 606)—Narrow-Scope Improvements and Practical Expedients. This ASU clarified guidance on assessing collectability, presenting sales tax, measuring noncash consideration, and certain transition matters. The new guidance is effective for the annual reporting period beginning after December 15, 2017, including interim periods within that reporting period. The Company adopted ASU 2014-09 effective April 1, 2018 and determined that its material financial contracts are excluded from the scope of ASU 2014-09. As a result of the scope exception for financial contracts, the Company's management has determined that there were no material changes to the recognition timing and classification of revenues and expenses; additionally, the adoption of ASU 2014-09 did not have a significant impact on pretax income or on the consolidated financial statement disclosures.

In August 2016, the FASB issued ASU 2016-15, Statement of Cash Flows (Topic 230), which is intended to reduce the existing diversity in practice in how certain cash receipts and cash payments are presented and classified in the statement of cash flows. The guidance is effective for annual periods beginning after December 15, 2017, and interim periods therein. The Company adopted ASU 2016-15 effective April 1, 2018 and the adoption did not have a material impact on the Company's consolidated financial statements.

In August 2018, the FASB issued ASU 2018-13, Fair Value Measurement (Topic 820): Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement, which changes the fair value measurement disclosure requirements of ASC 820. The key provisions include new, eliminated and modified disclosure requirements. The new guidance is effective for fiscal years beginning after December 15, 2019, including interim periods therein. Early application is permitted. CSWC is currently evaluating the impact the adoption of this new accounting standard will have on its consolidated financial statements, but the impact of the adoption is not expected to be material.

In August 2018, the SEC issued the Final Rule Release No. 33-10532, Disclosure Update and Simplification, amending certain disclosure requirements that were redundant, duplicative, overlapping, outdated or superseded. The amendments are intended to facilitate the disclosure of information to investors and simplify compliance. This final rule is effective on November 5, 2018. The Company is currently evaluating the impact of adopting this SEC Release on its consolidated financial statements.

Table of Contents

## 3. INVESTMENTS

The following table shows the composition of the investment portfolio, at fair value and cost (with corresponding percentage of total portfolio investments) as of September 30, 2018 and March 31, 2018:

		Percentage of	Percentage of		Percentage of		
	Fair Value	Total Portfolio	Net Assets	Cost	Total Portfolio		
	(dollars in millions)						
September 30, 2018:							
First lien loans <sup>1</sup>	\$287,808	58.5	%	93.5	%	\$286,246	64.3 %
Second lien loans	30,026	6.1		9.8		29,529	6.6
Subordinated debt	18,883	3.8		6.1		18,937	4.3
Preferred equity	24,150	4.9		7.8		15,777	3.5
Common equity & warrants	64,408	13.2		20.9		29,830	6.7
I-45 SLF LLC <sup>2</sup>	66,326	13.5		21.5		64,800	14.6
	\$491,601	100.0	%	159.6	%	\$445,119	100.0 %
March 31, 2018:							
First lien loans	\$197,110	50.1	%	63.9	%	\$194,820	58.1 %
Second lien loans	23,229	5.9		7.5		23,092	6.9
Subordinated debt	18,783	4.8		6.1		18,885	5.6
Preferred equity	36,545	9.3		11.9		16,666	5.0
Common equity & warrants	50,315	12.8		16.3		17,134	5.1
I-45 SLF LLC <sup>2</sup>	67,113	17.1		21.8		64,800	19.3
	\$393,095	100.0	%	127.5	%	\$335,397	100.0 %

<sup>1</sup>Included in first lien loans are loans structured as first lien last out loans. These loans may in certain cases be subordinated in payment priority to other senior secured lenders. As of September 30, 2018 and March 31, 2018, the fair value of the first lien last out loans are \$23.0 million and \$26.9 million, respectively.

<sup>2</sup>I-45 SLF LLC is a joint venture between CSWC and Main Street Capital. This entity primarily invests in syndicated senior secured loans to the UMM. The portfolio companies held by I-45 SLF LLC represent a diverse set of industry classifications, which are similar to those in which CSWC invests directly. See Note 15 for further discussion.

Table of Contents

The following tables show the composition of the investment portfolio by industry, at fair value and cost (with corresponding percentage of total portfolio investments) as of September 30, 2018 and March 31, 2018:

	Fair Value	Percentage of Total Portfolio	Percentage of Net Assets	Cost	Percentage of Total Portfolio
	(dollars in millions)				
September 30, 2018:					
I-45 SLF LLC <sup>1</sup>	\$66,326	13.5	% 21.5	% \$64,800	14.6 %
Media, Marketing, & Entertainment	59,064	12.0	19.2	55,063	12.4
Business Services	55,415	11.3	18.0	55,231	12.4
Healthcare Services	51,443	10.5	16.7	51,221	11.5
Industrial Products	44,827	9.1	14.6	5,415	1.2
Environmental Services	35,827	7.3	11.6	35,863	8.1
Food, Agriculture & Beverage	29,471	6.0	9.5	29,967	6.7
Distribution	26,064	5.3	8.5	26,040	5.9
Consumer Products and Retail	24,130	4.9	7.8	24,166	5.4
Consumer Services	16,371	3.3	5.3	16,213	3.6
Transportation & Logistics	14,136	2.9	4.6	14,852	3.3
Healthcare Products	12,818	2.6	4.2	12,625	2.8
Financial Services	12,346	2.5	4.0	12,043	2.7
Energy Services (Upstream)	9,804	2.0	3.2	8,000	1.8
Commodities & Mining	8,334	1.7	2.7	8,334	1.9
Restaurants	8,008	1.6	2.6	8,029	1.8
Telecommunications	7,898	1.6	2.6	8,028	1.8
Software & IT Services	6,285	1.3	2.0	6,276	1.4
Paper & Forest Products	3,034	0.6	1.0	2,953	0.7
	\$491,601	100.0	% 159.6	% \$445,119	100.0 %

Table of Contents

		Percentage of	Percentage of		Percentage of
	Fair Value	Total Portfolio	Net Assets	Cost	Total Portfolio
	(dollars in millions)				
March 31, 2018:					
I-45 SLF LLC <sup>1</sup>	\$67,113	17.1	%	21.8	%
Media, Marketing, & Entertainment	46,697	11.9		15.1	
Industrial Products	43,122	11.0		14.0	
Business Services	34,846	8.9		11.3	
Energy Services (Upstream)	27,919	7.1		9.1	
Distribution	26,713	6.8		8.7	
Consumer Products and Retail	24,570	6.2		7.9	
Environmental Services	21,160	5.4		6.9	
Healthcare Services	16,751	4.3		5.4	
Financial Services	12,701	3.2		4.1	
Healthcare Products	12,353	3.1		4.0	
Transportation & Logistics	12,284	3.1		4.0	
Industrial Services	10,012	2.5		3.2	
Food, Agriculture & Beverage	9,438	2.4		3.1	
Telecommunications	8,295	2.1		2.7	
Software & IT Services	6,285	1.6		2.0	
Consumer Services	5,000	1.3		1.6	
Restaurants	4,836	1.2		1.6	
Paper & Forest Products	3,000	0.8		1.0	
	\$393,095	100.0	%	127.5	%

<sup>1</sup>I-45 SLF LLC is a joint venture between CSWC and Main Street Capital. This entity primarily invests in syndicated senior secured loans to the UMM. The portfolio companies in I-45 SLF LLC include multi-sector holdings, which are similar to those in which CSWC invests directly. See Note 15 for further discussion.



Table of Contents

The following tables summarize the composition of the investment portfolio by geographic region of the United States, at fair value and cost (with corresponding percentage of total portfolio investments), as of September 30, 2018 and March 31, 2018:

		Percentage of	Percentage of		Percentage of		
	Fair Value	Total Portfolio	Net Assets	Cost	Total Portfolio		
	(dollars in millions)						
September 30, 2018:							
Northeast	\$128,741	26.2	%	41.8	%	\$125,065	28.1 %
Southwest	119,668	24.3		38.9		78,734	17.7
Southeast	116,609	23.7		37.9		115,956	26.0
I-45 SLF LLC <sup>1</sup>	66,326	13.5		21.5		64,800	14.6
West	43,640	8.9		14.1		44,148	9.9
Midwest	16,617	3.4		5.4		16,416	3.7
	\$491,601	100.0	%	159.6	%	\$445,119	100.0 %
March 31, 2018:							
Southwest	\$131,753	33.5	%	42.7	%	\$79,713	23.8 %
Southeast	84,969	21.6		27.6		84,290	25.1
Northeast	72,205	18.4		23.4		69,739	20.8
I-45 SLF LLC <sup>1</sup>	67,113	17.1		21.8		64,800	19.3
West	23,554	6.0		7.6		23,425	7.0
Midwest	13,501	3.4		4.4		13,430	4.0
	\$393,095	100.0	%	127.5	%	\$335,397	100.0 %

<sup>1</sup>I-45 SLF LLC is a joint venture between CSWC and Main Street Capital. This entity primarily invests in syndicated senior secured loans to the UMM. The portfolio companies held by I-45 SLF LLC represent a diverse set of industry classifications, which are similar to those in which CSWC invests directly. See Note 15 for further discussion.

#### 4. FAIR VALUE MEASUREMENTS

##### Investment Valuation Process

The valuation process is led by the finance department in conjunction with the investment team. The process includes a monthly review of each investment by our executive officers and investment teams. Recommended valuations of each portfolio security are prepared quarterly by the finance department using updated financial and other operational information collected by the investment teams. Each investment valuation is then subject to review by the executive officers and investment teams. In conjunction with the internal valuation process, we have also engaged multiple independent consulting firms specializing in financial due diligence, valuation, and business advisory services to provide third-party valuation reviews of certain investments. The third-party valuation firms provide a range of values for selected investments, which is presented to CSWC's executive officers and Board of Directors.

CSWC also uses a standard internal investment rating system in connection with its investment oversight, portfolio management, and investment valuation procedures for its debt portfolio. This system takes into account both quantitative and qualitative factors of the portfolio company and the investments held therein.

## Table of Contents

There is no single standard for determining fair value in good faith, as fair value depends upon the specific circumstances of each individual investment. While management believes our valuation methodologies are appropriate and consistent with market participants, the recorded fair values of our investments may differ significantly from fair values that would have been used had an active market for the securities existed. In addition, changes in the market environment and other events that may occur over the life of the investments may cause the gains or losses ultimately realized on these investments to be different than the valuations currently assigned. The Board of Directors has the ultimate responsibility for reviewing and approving, in good faith, the fair value of CSWC's investments in accordance with the 1940 Act.

### Fair Value Hierarchy

CSWC has established and documented processes for determining the fair values of portfolio company investments on a recurring basis in accordance with the 1940 Act and ASC 820. As required by ASC 820, when the inputs used to measure fair value fall within different levels of the hierarchy, the level within which the fair value measurement is categorized is based on the lowest level input that is significant to the fair value measurement in its entirety. For example, a Level 3 fair value measurement may include inputs that are observable (Levels 1 and 2) and unobservable (Level 3). Therefore, unrealized appreciation and depreciation related to such investments categorized within the Level 3 tables below may include changes in fair value that are attributable to both observable inputs (Levels 1 and 2) and unobservable inputs (Level 3). CSWC conducts reviews of fair value hierarchy classifications on a quarterly basis. We also use judgment and consider factors specific to the investment in determining the significance of an input to a fair value measurement.

The three levels of valuation inputs established by ASC 820 are as follows:

Level 1: Investments whose values are based on unadjusted quoted prices in active markets for identical assets or liabilities.

Level 2: Investments whose values are based on quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.

Level 3: Investments whose values are based on unobservable inputs that are significant to the overall fair value measurement.

As of September 30, 2018 and March 31, 2018, 100% of the CSWC investment portfolio consisted of debt and equity instruments of privately held companies for which inputs falling within the categories of Level 1 and Level 2 are generally not available. Therefore, CSWC determines the fair value of its investments (excluding investments for which fair value is measured at NAV) in good faith using Level 3 inputs, pursuant to a valuation policy and process that is established by the management of CSWC, with assistance from multiple third-party valuation advisors, which is subsequently approved by our Board of Directors.

### Investment Valuation Inputs

ASC 820 defines fair value in terms of the price that would be received upon the sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date excluding transaction costs. Under ASC 820, the fair value measurement also assumes that the transaction to sell an asset occurs in the principal market for the asset or, in the absence of a principal market, the most advantageous market for the asset. The principal market is the market in which the reporting entity would sell or transfer the asset with the greatest volume and level of activity for the asset. In determining the principal market for an asset or liability under ASC 820, it is assumed that the reporting entity has access to the market as of the measurement date.

The Level 3 inputs to CSWC's valuation process reflect our best estimate of the assumptions that would be used by market participants in pricing the investment in a transaction in the principal or most advantageous market for the asset.

## Table of Contents

The fair value determination of each portfolio investment categorized as Level 3 required one or more of the following unobservable inputs:

- Financial information obtained from each portfolio company, including unaudited statements of operations and balance sheets for the most recent period available as compared to budgeted numbers;
- Current and projected financial condition of the portfolio company;
- Current and projected ability of the portfolio company to service its debt obligations;
- Type and amount of collateral, if any, underlying the investment;
- Current financial ratios (e.g., fixed charge coverage ratio, interest coverage ratio and net debt/EBITDA ratio) applicable to the investment;
- Current liquidity of the investment and related financial ratios (e.g., current ratio and quick ratio);
- Indicative dealer quotations from brokers, banks, and other market participants;
- Market yields on other securities of similar risk;
- Pending debt or capital restructuring of the portfolio company;
- Projected operating results of the portfolio company;
- Current information regarding any offers to purchase the investment;
- Current ability of the portfolio company to raise any additional financing as needed;
- Changes in the economic environment which may have a material impact on the operating results of the portfolio company;
- Internal occurrences that may have an impact (both positive and negative) on the operating performance of the portfolio company;
- Qualitative assessment of key management;
- Contractual rights, obligations or restrictions associated with the investment; and
- Other factors deemed relevant.

CSWC uses several different valuation approaches depending on the security type including the Market Approach, the Income Approach, the Enterprise Value Waterfall Approach, and the NAV Valuation Method.

### Market Approach

Market Approach is a qualitative and quantitative analysis of the aforementioned unobservable inputs. It is a combination of the Enterprise Value Waterfall Approach and Income Approach as described in detail below. For debt investments recently originated (within a quarterly reporting period) or where the value has not departed significantly from its cost, we generally rely on our cost basis or recent transaction price to determine the fair value, unless a material event has occurred since origination.

### Income Approach

In valuing debt securities, CSWC typically uses an Income Approach model, which considers some or all of the factors listed above. Under the Income Approach, CSWC develops an expectation of the yield that a hypothetical market participant would require when purchasing each debt investment (the “Required Market Yield”). The Required Market Yield is calculated in a two-step process. First, using quarterly market data we estimate the current market yield of similar debt securities. Next, based on the factors described above, we modify the current market yield for each security to produce a

## Table of Contents

unique Required Market Yield for each of our investments. The resulting Required Market Yield is the significant Level 3 input to the Income Approach model. If, with respect to an investment, the unobservable inputs have not fluctuated significantly from the date the investment was made or have not fluctuated significantly from CSWC's expectations on the date the investment was made, and there have been no significant fluctuations in the market pricing for such investments, we may conclude that the Required Market Yield for that investment is equal to the stated rate on the investment. In instances where CSWC determines that the Required Market Yield is different from the stated rate on the investment, we discount the contractual cash flows on the debt instrument using the Required Market Yield in order to estimate the fair value of the debt security.

In addition, under the Income Approach, CSWC also determines the appropriateness of the use of third-party broker quotes, if any, as a significant Level 3 input in determining fair value. In determining the appropriateness of the use of third-party broker quotes, CSWC evaluates the level of actual transactions used by the broker to develop the quote, whether the quote was an indicative price or binding offer, the depth and consistency of broker quotes, the source of the broker quotes, and the correlation of changes in broker quotes with underlying performance of the portfolio company and other market indices. To the extent sufficient observable inputs are available to determine fair value, CSWC may use third-party broker quotes or other independent pricing to determine the fair value of certain debt investments.

Fair value measurements using the Income Approach model can be sensitive to significant changes in one or more of the inputs. A significant increase (decrease) in the Required Market Yield for a particular debt security may result in a lower (higher) fair value for that security. A significant increase (decrease) in a third-party broker quote for a particular debt security may result in a higher (lower) value for that security.

### Enterprise Value Waterfall Approach

In valuing equity securities (including warrants), CSWC estimates fair value using an Enterprise Value Waterfall valuation model. CSWC estimates the enterprise value of a portfolio company and then allocates the enterprise value to the portfolio company's securities in order of their relative liquidation preference. In addition, CSWC assumes that any outstanding debt or other securities that are senior to CSWC's equity securities are required to be repaid at par. Additionally, we may estimate the fair value of non-performing debt securities using the Enterprise Value Waterfall approach as needed.

To estimate the enterprise value of the portfolio company, CSWC uses a weighted valuation model based on public comparable companies, observable transactions and discounted cash flow analyses. A main input into the valuation model is a measure of the portfolio company's financial performance, which generally is either earnings before interest, taxes, depreciation and amortization, as adjusted ("Adjusted EBITDA") or revenues. In addition, we consider other factors, including but not limited to (1) offers from third parties to purchase the portfolio company and (2) the implied value of recent investments in the equity securities of the portfolio company. For certain non-performing assets, we may utilize the liquidation or collateral value of the portfolio company's assets in our estimation of its enterprise value.

The significant Level 3 inputs to the Enterprise Value Waterfall model are (1) an appropriate multiple derived from the comparable public companies and transactions, (2) discount rate assumptions used in the discounted cash flow model and (3) a measure of the portfolio company's financial performance, which generally is either Adjusted EBITDA or revenues. Inputs can be based on historical operating results, projections of future operating results or a combination thereof. The operating results of a portfolio company may be unaudited, projected or pro forma financial information and may require adjustments for certain non-recurring items. CSWC also may consult with the portfolio company's senior management to obtain updates on the portfolio company's performance, including information such as industry trends, new product development, loss of customers and other operational issues. Fair value measurements

using the Enterprise Value Waterfall model can be sensitive to significant changes in one or more of the inputs. A significant increase (decrease) in either the multiple, Adjusted EBITDA or revenues for a particular equity security would result in a higher (lower) fair value for that security.

Table of Contents

## NAV Valuation Method

Under the NAV valuation method, for an investment in an investment fund that does not have a readily determinable fair value, CSWC measures the fair value of the investment predominately based on the NAV of the investment fund as of the measurement date. However, in determining the fair value of the investment, we may consider whether adjustments to the NAV are necessary in certain circumstances, based on the analysis of any restrictions on redemption of our investment as of the measurement date, recent actual sales or redemptions of interests in the investment fund, expected future cash flows available to equity holders, or other uncertainties surrounding CSWC's ability to realize the full NAV of its interests in the investment fund.

The following fair value hierarchy tables set forth our investment portfolio by level as of September 30, 2018 and March 31, 2018 (in thousands):

Asset Category	Total	Fair Value Measurements at September 30, 2018 Using	
		Quoted Prices in Active Markets for Identifiable Assets (Level 1)	Significant Unobservable Inputs (Level 2)
First lien loans	\$287,808	\$ —	\$ 287,808
Second lien loans	30,026	—	30,026
Subordinated debt	18,883	—	18,883
Preferred equity	24,150	—	24,150
Common equity & warrants	64,408	—	64,408
Investments measured at net asset value <sup>1</sup>	66,326	—	—
Total Investments	\$491,601	\$ —	\$ 425,275

Asset Category	Total	Fair Value Measurements at March 31, 2018 Using	
		Quoted Prices in Active Markets for Identifiable Assets (Level 1)	Significant Unobservable Inputs (Level 2)
First lien loans	\$197,110	\$ —	\$ 197,110
Second lien loans	23,229	—	23,229
Subordinated debt	18,783	—	18,783
Preferred equity	36,545	—	36,545
Common equity & warrants	50,315	—	50,315
Investments measured at net asset value <sup>1</sup>	67,113	—	—
Total Investments	\$393,095	\$ —	\$ 325,982

<sup>1</sup> Certain investments that are measured at fair value using the NAV per share (or its equivalent) practical expedient have not been categorized in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in Consolidated Statements of Assets and Liabilities. For the investment valued at net asset value per share at September 30, 2018 and March 31, 2018, the redemption restrictions dictate that we cannot withdraw our membership interest without unanimous approval. We

are permitted to sell or transfer our membership interest and must deliver written notice of such transfer to the other member no later than 60 business days prior to the sale or transfer.



Table of Contents

The tables below present the Valuation Techniques and Significant Level 3 Inputs (ranges and weighted averages) used in the valuation of CSWC's debt and equity securities at September 30, 2018 and March 31, 2018. The tables are not intended to be all inclusive, but instead capture the significant unobservable inputs relevant to our determination of fair value.

Type	Valuation Technique	Fair Value at Significant		Range	Weighted Average
		September 30, 2018 (in millions)	Unobservable Inputs		
First lien loans	Income Approach	\$ 234,784	Discount Rate	9.5% - 15.6%	12.2%
			Third Party Broker Quote	96.8 - 101.5	99.4
Second lien loans	Market Approach	53,024	Cost	98.0 - 98.1	98.0
	Income Approach	15,127	Discount Rate	12.1%	12.1%
			Third Party Broker Quote	94.5 - 101.1	97.6
	Market Approach	14,899	Exit Value Cost	101.0 97.5 - 98.1	101.0 97.9
Subordinated debt	Income Approach	18,883	Discount Rate	12.3% - 15.7%	13.1%
Preferred equity	Enterprise Value Waterfall Approach	22,150	EBITDA Multiple	5.1x - 9.3x	7.1x
			Discount Rate	15.0% - 32.0%	24.5%
Common equity & warrants	Market Approach	2,000	Cost	100.0	100.0
	Enterprise Value Waterfall Approach	57,059	EBITDA Multiple	3.6x - 11.3x	8.0x
			Discount Rate	11.9% - 21.6%	19%
	Market Approach	7,349	Cost	100.0	100.0
Total Level 3 Investments		\$ 425,275			

Table of Contents

Type	Valuation Technique	Fair Value at March 31, 2018 (in millions)	Significant Unobservable Inputs	Range	Weighted Average
First lien loans	Income Approach	\$ 181,595	Discount Rate	9.5% - 17.0%	12.8%
			Third Party Broker Quote	98.2 - 101.8	100.3
Second lien loans	Market Approach	15,515	Cost	98.0 - 98.1	98.0
			Income Approach	18,229	Discount Rate
Subordinated debt	Market Approach	5,000	Third Party Broker Quote	93.5 - 100.0	96.0
			Exit Value	100.0	100.0
Preferred equity	Enterprise Value Waterfall Approach	36,545	Discount Rate	12.4%	12.9%
			EBITDA Multiple	-	13.8%
Common equity & warrants	Enterprise Value Waterfall Approach	47,123	Discount Rate	5.1x - 9.3x	6.9x
			EBITDA Multiple	15.0%	32.1%
Total Level 3 Investments	Market Approach	3,192	Discount Rate	6.0x - 8.4x	8.1x
			Cost	15.7%	21.6%
		\$ 325,982			

**Changes in Fair Value Levels**

We monitor the availability of observable market data to assess the appropriate classification of financial instruments within the fair value hierarchy. Changes in economic conditions or model based valuation techniques may require the transfer of financial instruments from one fair value level to another. We recognize the transfer of financial instruments between levels at the end of each quarterly reporting period. During the three and six months ended September 30, 2018 and 2017, we had no transfers between levels.

Table of Contents

The following tables provide a summary of changes in the fair value of investments measured using Level 3 inputs during the six months ended September 30, 2018 and 2017 (in millions):

	Fair Value	Realized & Unrealized Gains (Losses)	Purchases of Investments <sup>1</sup>	Repayments	PIK Interest Earned	Divestitures	Fair Value at 09/30/2018	Unrealized Appreciation (Depreciation)
	3/31/2018						on Investments held at period end	
First lien loans	\$ 197,110	\$ (454 )	\$ 139,096	\$ (19,140 )	\$ —	\$ (28,804 )	\$ 287,808	\$ (437 )
Second lien loans	23,229	391	11,406	(5,000 )	—	—	30,026	392
Subordinated debt	18,783	47	30	—	23	—	18,883	48
Preferred equity	38,541	7,606	2,657	—	113	(24,767 )	24,150	6,158
Common equity & warrants	48,319	893	15,196	—	—	—	64,408	893
Total Investments	\$ 325,982	\$ 8,483	\$ 168,385	\$ (24,140 )	\$ 136	\$ (53,571 )	\$ 425,275	\$ 7,054

	Fair Value	Realized & Unrealized Gains (Losses)	Purchases of Investments <sup>1</sup>	Repayments	PIK Interest Earned	Divestitures	Fair Value at 09/30/2017	Unrealized Appreciation (Depreciation)
	3/31/2017						on Investments held at period end	
First lien loans	\$ 107,817	\$ 612	\$ 45,626	\$ (17,930 )	\$ —	\$ —	\$ 136,125	\$ 380
Second lien loans	47,176	293	55	(15,179 )	—	—	32,345	132
Subordinated debt	12,453	62	14,431	(8,100 )	—	—	18,846	(52 )
Preferred equity	18,323	3,441	500	—	82	—	22,346	3,926
Common equity & warrants	37,716	2,095	4,941	—	60	(15 )	44,797	1,595
Total Investments	\$ 223,485	\$ 6,503	\$ 65,553	\$ (41,209 )	\$ 142	\$ (15 )	\$ 254,459	\$ 5,981

<sup>1</sup> Includes purchases of new investments, as well as discount accretion on existing investments.

Table of Contents

## 5. BORROWINGS

In accordance with the 1940 Act, with certain limitations, the Company is only allowed to borrow amounts such that its asset coverage (i.e., the ratio of assets less liabilities not represented by senior securities to senior securities such as borrowings), calculated pursuant to the 1940 Act, is at least 200% (or, pursuant to the 1940 Act, 150% if certain requirements are met as described in our Annual Report on Form 10-K in the Business Section under “Regulation as a Business Development Company-Senior Securities”) after such borrowing. On April 25, 2018, the Board of Directors unanimously approved the application of the recently modified asset coverage requirements set forth in Section 61(a)(2) of the 1940 Act. As a result, the minimum asset coverage ratio applicable to the Company will be decreased from 200% to 150%, effective April 25, 2019. The Board of Directors also approved a resolution which limits the Company’s issuance of senior securities such that the asset coverage ratio, taking into account any such issuance, would not be less than 166%, effective April 25, 2019. As of September 30, 2018, the Company’s asset coverage was 252%.

The Company had the following borrowings outstanding as of September 30, 2018 and March 31, 2018 (amounts in thousands):

	September 30, 2018	March 31, 2018
Credit Facility	\$ 127,000	\$ 40,000
December 2022 Notes	75,676	57,500
Less: Unamortized debt issuance costs and debt discount	(2,269 )	(2,195 )
Total Notes	73,407	55,305
Total Borrowings	\$ 200,407	\$ 95,305

## Credit Facility

In August 2016, CSWC entered into a senior secured credit facility (as amended, restated, supplemented or otherwise modified from time to time, the “Credit Facility”) to provide additional liquidity to support its investment and operational activities, which included total commitments of \$100 million. The Credit Facility contained an accordion feature that allowed CSWC to increase the total commitments under the facility up to \$150 million from new and existing lenders on the same terms and conditions as the existing commitments. In August 2017, we increased our total commitments by \$15 million through adding an additional lender using the accordion feature.

On November 16, 2017, CSWC entered into Amendment No. 1 (the “Amendment”) to its Credit Facility. Prior to the Amendment, borrowings under the Credit Facility accrued interest on a per annum basis at a rate equal to the applicable LIBOR rate plus 3.25% with no LIBOR floor. CSWC paid unused commitment fees of 0.50% to 1.50% per annum, based on utilization, on the unused lender commitments under the Credit Facility. The Amendment (1) increased the total borrowing capacity under the Credit Facility to \$180 million, with commitments from a diversified group of eight lenders, (2) increased the Credit Facility’s accordion feature that allows for an increase in total commitments of up to \$250 million under the Credit Facility from new and existing lenders on the same terms and conditions as the existing commitments, (3) reduced the interest rate on borrowings from LIBOR plus 3.25% down to LIBOR plus 3.00%, with a further step-down to LIBOR plus 2.75% at the time the Company’s net worth exceeds \$325 million, (4) reduced unused commitment fees from a utilization-based grid of 0.50% to 1.5% down to a range of 0.50% to 1.0% per annum, and (5) extended the Credit Facility’s revolving period that ended on August 30, 2019 through November 16, 2020. Additionally, the final maturity of the Credit Facility was extended from August 30, 2020 to November 16, 2021. On April 16, 2018 and May 11, 2018, CSWC entered into Incremental Assumption

Agreements, which increased the total commitments under the Credit Facility by \$20 million and \$10 million, respectively. The increases were executed in accordance with the accordion feature of the Credit Facility, increasing total commitments from \$180 million to \$210 million.

The Credit Facility contains certain affirmative and negative covenants, including but not limited to: (1) certain reporting requirements, (2) maintaining RIC and BDC status, (3) maintaining a minimum shareholders' equity, (4) maintaining a minimum consolidated net worth, (5) maintaining an asset coverage of not less than 200%, (6) maintaining a consolidated interest coverage ratio of at least 2.5 to 1.0, and (7) at any time the outstanding advances exceed 90% of the borrowing base, maintaining a minimum liquidity of not less than 10% of the covered debt amount.

Table of Contents

The Credit Facility also contains customary events of default, including, without limitation, nonpayment, misrepresentation of representations and warranties in a material respect, breach of covenant, bankruptcy, and change of control, with customary cure and notice provisions. If the Company defaults on its obligations under the Credit Facility, the lenders may have the right to foreclose upon and sell, or otherwise transfer, the collateral subject to their security interests. There are no changes to the covenants or the events of default in the Credit Facility as a result of the Amendment.

The Credit Facility is secured by (1) substantially all of the present and future property and assets of the Company and the guarantors and (2) 100% of the equity interests in the Company's wholly-owned subsidiaries. As of September 30, 2018, substantially all of the Company's assets were pledged as collateral for the Credit Facility.

At September 30, 2018, CSWC had \$127.0 million in borrowings outstanding under the Credit Facility. CSWC recognized interest expense related to the Credit Facility, including unused commitment fees and amortization of deferred loan costs of \$1.8 million and \$3.2 million, respectively, for the three and six months ended September 30, 2018. For the three and six months ended September 30, 2017, CSWC recognized interest expense of \$0.9 million and \$1.6 million, respectively. The weighted average interest rate on the Credit Facility was 5.42% and 5.31%, respectively, for the three and six months ended September 30, 2018. For the three and six months ended September 30, 2017, the weighted average interest rate on the Credit Facility was 4.76% and 4.65%, respectively. Average borrowings for the three and six months ended September 30, 2018 were \$102.5 million and \$80.9 million, respectively. For the three and six months ended September 30, 2017, average borrowings were \$49.7 million and \$37.4 million, respectively. As of September 30, 2018, CSWC was in compliance with all financial covenants under the Credit Facility.

Notes

In December 2017, the Company issued \$57.5 million in aggregate principal amount, including the underwriters' full exercise of their option to purchase additional principal amounts to cover over-allotments, of 5.95% Notes due 2022 (the "December 2022 Notes"). The December 2022 Notes mature on December 15, 2022 and may be redeemed in whole or in part at any time, or from time to time, at the Company's option on or after December 15, 2019. The December 2022 Notes bear interest at a rate of 5.95% per year, payable quarterly on March 15, June 15, September 15 and December 15 of each year, beginning on March 15, 2018. The December 2022 Notes are an unsecured obligation, rank pari passu with our other outstanding and future unsecured unsubordinated indebtedness and are effectively subordinated to all of our existing and future secured indebtedness, including borrowings under our Credit Facility.

On June 11, 2018, the Company entered into an "At-The-Market" ("ATM") debt distribution agreement, pursuant to which it may offer for sale, from time to time, up to \$50 million in aggregate principal amount of December 2022 Notes through B. Riley FBR, Inc., acting as its sales agent (the "2022 Notes Agent"). Sales of the December 2022 Notes may be made in negotiated transactions or transactions that are deemed to be "at the market offerings" as defined in Rule 415 under the Securities Act of 1933, as amended, including sales made directly on The Nasdaq Global Select Market, or similar securities exchanges or sales made through a market maker other than on an exchange at prices related to prevailing market prices or at negotiated prices.

The 2022 Notes Agent receives a commission from the Company equal to up to 2% of the gross sales of any December 2022 Notes sold through the 2022 Notes Agent under the debt distribution agreement. The 2022 Notes Agent is not required to sell any specific principal amount of December 2022 Notes, but will use its commercially reasonable efforts consistent with its sales and trading practices to sell the December 2022 Notes. The December 2022 Notes trade "flat," which means that purchasers in the secondary market will not pay, and sellers will not receive, any accrued and unpaid interest on the December 2022 Notes that is not reflected in the trading price.

During the six months ended September 30, 2018, the Company sold 727,063 December 2022 Notes for an aggregate principal amount of approximately \$18.2 million at a weighted average effective yield of 5.86%. As of September 30, 2018, an aggregate principal amount of approximately \$31.8 million remains available for issuance and sale under the debt distribution agreement.

All issuances of December 2022 Notes rank equally in right of payment and form a single series of notes.

## Table of Contents

As of September 30, 2018, the carrying amount of the December 2022 Notes was \$73.4 million on an aggregate principal amount of \$75.7 million at a weighted average effective yield of 5.93%. As of September 30, 2018, the fair value of the December 2022 Notes was \$77.0 million. The fair value is based on the closing price of the security on The Nasdaq Global Select Market, which is a Level 1 input under ASC 820. The Company recognized interest expense related to the December 2022 Notes, including amortization of deferred issuance costs, of \$1.2 million and \$2.2 million, respectively, for the three and six months ended September 30, 2018. Average borrowings for the three and six months ended September 30, 2018 were \$68.6 million and \$63.2 million, respectively.

The indenture governing the December 2022 Notes contains certain covenants including but not limited to (i) a requirement that the Company comply with the asset coverage requirement of Section 61 of the 1940 Act or any successor provisions thereto, after giving effect to any exemptive relief granted to the Company by the SEC, (ii) a requirement, subject to limited exception, that the Company will not declare any cash dividend, or declare any other cash distribution, upon a class of its capital stock, or purchase any such capital stock, unless, in every such case, at the time of the declaration of any such dividend or distribution, or at the time of any such purchase, the Company has the minimum asset coverage required pursuant to Section 61 of the 1940 Act, or any successor provision thereto, after deducting the amount of such dividend, distribution or purchase price, as the case may be, giving effect to any exemptive relief granted to the Company by the SEC and (iii) a requirement to provide financial information to the holders of the December 2022 Notes and the trustee under the indenture if the Company should no longer be subject to the reporting requirements under the Securities Exchange Act of 1934, as amended, (the "Exchange Act"). The indenture and supplement relating to the December 2022 Notes also provides for customary events of default. As of September 30, 2018, the Company was in compliance with all covenants of the December 2022 Notes.

## 6. INCOME TAXES

We have elected to be treated as a RIC under Subchapter M of the Code and have a tax year end of December 31. In order to qualify as a RIC, we must annually distribute at least 90% of our investment company taxable income, as defined by the Code, to our shareholders in a timely manner. Investment company income generally includes net short-term capital gains but excludes net long-term capital gains. A RIC is not subject to federal income tax on the portion of its ordinary income and capital gains that is distributed to its shareholders, including "deemed distributions" as discussed below. As part of maintaining RIC status, undistributed taxable income and capital gain, which is subject to a 4% non-deductible U.S. federal excise tax, pertaining to a given fiscal year may be distributed up to 12 months subsequent to the end of that fiscal year, provided such dividends are declared on or prior to the later of (1) the filing of the U.S. federal income tax return for the applicable fiscal year and (2) the fifteenth day of the ninth month following the close of the year in which such taxable income was generated. We intend to distribute to our stockholders, after consideration and application of our ability under the Code to carry forward certain excess undistributed taxable income from one tax year into the next tax year, substantially all of our taxable income.

As of September 30, 2018, CSWC qualified to be taxed as a RIC. We intend to meet the applicable qualifications to be taxed as a RIC in future periods. However, the Company's ability to meet certain portfolio diversification requirements of RICs in future years may not be controllable by the Company.

The determination of the tax attributes for CSWC's distributions is made annually, based upon its taxable income for the full year and distributions paid for the full year. Therefore, any determination made on an interim basis is forward-looking based on currently available facts, rules and assumptions and may not be representative of the actual tax attributes of distributions for a full year.

During the quarter ended March 31, 2018, CSWC declared regular dividends in the amount of \$4.5 million, or \$0.28 per share. During the quarter ended June 30, 2018, CSWC declared total dividends of \$14.5 million, or \$0.89 per share, which consisted of regular dividends in the amount of \$4.7 million, or \$0.29 per share, and supplemental



dividends in the amount of \$9.8 million, or \$0.60 per share. During the quarter ended September 30, 2018, CSWC declared total dividends of \$7.2 million, or \$0.44 per share, which consisted of regular dividends in the amount of \$5.6 million, or \$0.34 per share, and supplemental dividends in the amount of \$1.6 million, or \$0.10 per share.

Ordinary dividend distributions from a RIC do not qualify for the 20% maximum tax rate on dividend income from domestic corporations and qualified foreign corporations, except to the extent that the RIC received the income in the

Table of Contents

form of qualifying dividends from domestic corporations and qualified foreign corporations. The tax attributes for distributions will generally include both ordinary income and capital gains, but may also include qualified dividends or return of capital.

The following reconciles net increase in assets resulting from operations to estimated RIC taxable income for the six months ended September 30, 2018 and 2017:

	Six Months Ended	
	September 30,	
	2018	2017
Reconciliation of RIC Taxable Income <sup>1</sup>		
Net increase in net assets from operations	\$ 18,241	\$ 14,087
Net change in unrealized appreciation on investments	10,835	(5,880 )
Income/gain (expense/loss) recognized for tax on pass-through entities	125	1,852
Loss recognized for tax on dispositions	434	—
Net operating loss - management company and taxable subsidiary	33	468
Non-deductible tax expense	393	(31 )
Estimated taxable income before deductions for distributions	\$ 30,061	\$ 10,496

<sup>1</sup> The calculation of taxable income for each period is an estimate and will not be finally determined until the Company files its tax return each year. Final taxable income may be different than this estimate.

A RIC may elect to retain all or a portion of its net capital gains by designating them as a “deemed distribution” to its shareholders and paying a federal tax on the net capital gains for the benefit of its shareholders. Shareholders then report their share of the retained capital gains on their income tax returns as if it had been received and report a tax credit for tax paid on their behalf by the RIC. Shareholders then add the amount of the “deemed distribution” net of such tax to the basis of their shares. As a result of the tax reform legislation enacted on December 22, 2017 (the “Tax Reform”), the federal tax rate for deemed distributions is 21% as of January 1, 2018. For the tax year ended December 31, 2017, we distributed all long-term capital gains and therefore had no deemed distributions to our shareholders or federal taxes incurred related to such items. “Deemed distributions” are generally reclassified from accumulated net realized gains into additional capital after our tax year ends each December 31.

CSMC, a wholly-owned subsidiary of CSWC, is not a RIC and is required to pay taxes at the current corporate rate. For tax purposes, CSMC has elected to be treated as a taxable entity, and therefore is not consolidated for tax purposes and is taxed at normal corporate tax rates based on its taxable income and, as a result of its activities, may generate income tax expense or benefit. The taxable income, or loss, of CSMC may differ from its book income, or loss, due to temporary book and tax timing differences and permanent differences. This income tax expense, or benefit, if any, and the related tax assets and liabilities, are reflected in our consolidated financial statements. CSMC records individual cash incentive award and bonus accruals on a quarterly basis. Deferred taxes related to the changes in the restoration plan, individual cash incentive award and bonus accruals are also recorded on a quarterly basis. A valuation allowance is provided against deferred tax assets when it is more likely than not that some portion or all of the deferred tax asset will not be realized. Establishing a valuation allowance of a deferred tax asset requires management to make estimates related to expectations of future taxable income. Estimates of future taxable income are based on forecasted cash flows from CSMC’s operations. As of both September 30, 2018 and March 31, 2018, CSMC had a deferred tax asset of approximately \$2.1 million. As of September 30, 2018, we believe that we will be able to utilize all \$2.1 million of our deferred tax assets. We will continue to assess our ability to realize our existing deferred tax assets.

Based on our assessment of our unrecognized tax benefits, management believes that all benefits will be realized and they do not contain any uncertain tax positions. As a result of the Tax Reform, the corporate tax rate of CSMC is 21% as of January 1, 2018.

In addition, we have a wholly-owned taxable subsidiary, or the Taxable Subsidiary, which holds a portion of one or more of our portfolio investments that are listed on the Consolidated Schedule of Investments. The Taxable Subsidiary is consolidated for financial reporting purposes in accordance with U.S. GAAP, so that our consolidated financial statements reflect our investments in the portfolio companies owned by the Taxable Subsidiary. The purpose of the Taxable Subsidiary

Table of Contents

is to permit us to hold certain interests in portfolio companies that are organized as limited liability companies, or LLCs (or other forms of pass-through entities) and still satisfy the RIC tax requirement that at least 90% of our gross income for federal income tax purposes must consist of qualifying investment income. Absent the Taxable Subsidiary, a proportionate amount of any gross income of a partnership or LLC (or other pass-through entity) portfolio investment would flow through directly to us. To the extent that our income did not consist of investment income, it could jeopardize our ability to qualify as a RIC and therefore cause us to incur significant amounts of corporate-level U.S. federal income taxes. Where interests in LLCs (or other pass-through entities) are owned by the Taxable Subsidiary, however, the income from those interests is taxed to the Taxable Subsidiary and does not flow through to us, thereby helping us preserve our RIC status and resultant tax advantages. The Taxable Subsidiary is not consolidated for U.S. federal income tax purposes and may generate income tax expense as a result of their ownership of the portfolio companies. The income tax expense, or benefit, and the related tax assets and liabilities, if any, are reflected in our Statement of Operations. As a result of the Tax Reform, the corporate tax rate of the Taxable Subsidiary is 21% as of January 1, 2018.

The income tax expense, or benefit, and the related tax assets and liabilities, generated by CSWC, CSMC and the Taxable Subsidiary, if any, are reflected in CSWC's consolidated financial statements. For the three months ended September 30, 2018, we recognized net income tax expense of \$0.3 million, principally consisting of a provision for current U.S. federal income taxes of \$0.1 million and a \$0.2 million accrual for excise tax on our estimated undistributed taxable income. For the six months ended September 30, 2018, we recognized net income tax expense of \$0.6 million, principally consisting of a provision for current U.S. federal income taxes of \$0.2 million and a \$0.4 million accrual for excise tax on our estimated undistributed taxable income. For the three months ended September 30, 2017, we recognized a net income tax expense of \$0.1 million, principally consisting of a provision for current U.S. federal income taxes of \$0.1 million, a \$0.1 million accrual for excise tax on our estimated undistributed taxable income, and a \$0.1 million benefit relating to the Taxable Subsidiary. For the six months ended September 30, 2017, we recognized a net income tax expense of \$0.3 million, principally consisting of a provision for current U.S. federal income taxes of \$0.3 million.

Regarding the Tax Reform, the Company has completed all accounting and there are no items reported as provisional amounts. However, changes in interpretations, assumptions, and guidance regarding the new tax legislation, as well as the potential for technical corrections to the Tax Reform, could have a material impact on the Company's effective tax rate in future periods. Finally, given the significant complexity of the Tax Reform, current guidance from the U.S. Treasury about implementing the Tax Act and any related guidance from the SEC or the FASB may change, which may require us to refine the Company's estimates in the future.

Although we believe our tax returns are correct, the final determination of tax examinations could be different from what was reported on the returns. In our opinion, we have made adequate tax provisions for years subject to examination. Generally, we are currently open to audit under the statute of limitations by the Internal Revenue Service as well as state taxing authorities for the years ended December 31, 2014 through December 31, 2017.

Table of Contents

7. SHAREHOLDERS' EQUITY

There were no sales of the Company's equity securities for the six months ended September 30, 2018 and 2017.

On October 26, 2010, we received an exemptive order from the SEC permitting us to issue restricted stock to our executive officers and certain key employees, or the Original Order. On August 22, 2017, we received the Exemptive Order that supersedes the Original Order and in addition to the relief granted under the Original Order, allows us to withhold shares to satisfy tax withholding obligations related to the vesting of restricted stock granted pursuant to the 2010 Restricted Stock Award Plan, or the 2010 Plan, and to pay the exercise price of options to purchase shares of our common stock granted pursuant to the 2009 Stock Incentive Plan, or the 2009 Plan. During both the six months ended September 30, 2018 and 2017, the Company did not repurchase any shares in connection with the vesting of restricted stock awards.

Share Repurchase Program

In January 2016, the Company's Board of Directors approved a share repurchase program authorizing the Company to repurchase up to \$10 million of its outstanding common stock in the open market at certain thresholds below its NAV per share, in accordance with guidelines specified in Rules 10b5-1(c)(1)(i)(B) and 10b-18 under the Exchange Act. On March 1, 2016, the Company entered into a share repurchase agreement, which became effective immediately and shall terminate on the earliest of: (1) the date on which a total of \$10 million worth of common shares have been purchased under the plan; (2) the date on which the terms set forth in the purchase instructions have been met; or (3) the date that is one trading day after the date on which insider notifies broker in writing that this agreement shall terminate.

During both the six months ended September 30, 2018 and 2017, the Company did not repurchase any shares of the Company's common stock under the share repurchase program. As of September 30, 2018, the Company has approximately \$9.4 million available for additional repurchases under the program.

8. SPIN-OFF COMPENSATION PLAN

On August 28, 2014, CSWC's Board of Directors adopted a compensation plan (the "Spin-off Compensation Plan") consisting of grants of nonqualified stock options, restricted stock and cash incentive awards to certain officers of the Company at the time. The Spin-off Compensation Plan was intended to align the compensation of the Company's key officers with the Company's strategic objective of increasing the market value of the Company's shares through a transformative transaction for the benefit of the Company's shareholders. Under the Spin-off Compensation Plan, Joseph B. Armes, former Chief Executive Officer of the Company, Kelly Tacke, former Chief Financial Officer of the Company, and Bowen S. Diehl, former Chief Investment Officer and current Chief Executive Officer of the Company, were collectively as a group eligible to receive an amount equal to six percent of the aggregate appreciation in the Company's share price from August 28, 2014 (using a base price of \$36.16 per share) to the date 90 days after the completion of a transformative transaction (the "Trigger Event Date"). The first plan component consisted of nonqualified options awarded to purchase an aggregate of 259,000 shares of common stock at an exercise price of \$36.60 per share. The second plan component consisted of an aggregate of 127,000 shares of restricted stock, which have voting rights but do not have cash dividend rights. See Note 9 for further discussion on the first two components of the Spin-off Compensation Plan. The final plan component consisted of cash incentive payments awarded to each participant in an amount equal to the excess of each awardee's allocable portion of the total payment amount over the aggregate value as of the Trigger Event Date of the awardee's restricted common stock and nonqualified options awarded under the plan.

On September 8, 2015, the Board designated the Share Distribution as a transformative transaction for purposes of the Spin-off Compensation Plan and amended the award agreements granted under the plan to provide for accelerated vesting of the awards held by a participant in the event of a termination of that participant's service effected by the participant for good reason, by the employer without cause, or as a result of the disability or death of the participant. On September 30, 2015, we completed the Share Distribution.

Effective immediately with the Share Distribution, both Joseph B. Armes and Kelly Tacke became employees of CSWI and Bowen Diehl, our President and Chief Executive Officer, continued to be an employee of our Company. The Company entered into the Employee Matters Agreement with CSWI . Under the Employee Matters Agreement, we retained the cash incentive awards granted under the Spin-off Compensation Plan, and all liabilities with respect to the cash incentive

## Table of Contents

awards remained liabilities of CSWC. The equity based awards vesting terms were as follows: (1) one-third on December 29, 2015; (2) one-third on December 29, 2016; and (3) one-third on December 29, 2017, subject to accelerated vesting as described above.

The total value accretion was six percent of the aggregate appreciation in the Company's share price from \$36.16 to the combined volume-weighted average prices of both CSWC and CSWI stock as of December 29, 2015. The cash component of the Spin-off Compensation Plan was the difference between the total value accretion and the aggregate value of the awardee's restricted common stock and non-qualified option awards under the Spin-off Compensation Plan. The total cash liabilities for three participants under the plan totaled \$6.1 million. The final payment of \$1.4 million was fully vested on December 29, 2017, and was subsequently paid out in January 2018. As of September 30, 2018, there is no remaining unrecognized expense related to the Spin-off Compensation Plan.

During the three and six months ended September 30, 2018, we did not recognize any expense related to the Spin-off Compensation Plan. During the three and six months ended September 30, 2017, we recognized the cash component of spin-off compensation expense of \$0.2 million and \$0.3 million, respectively, which represented the cash component of spin-off compensation for our current employee. During the three and six months ended September 30, 2017, we also recorded \$0.2 million and \$0.3 million, respectively, directly to additional capital for the cash component of the spin-off compensation related to one of the two employees who transferred to CSWI.

## 9.EMPLOYEE STOCK BASED COMPENSATION PLANS

### Stock Awards

Pursuant to the Capital Southwest Corporation 2010 Plan, our Board of Directors originally reserved 188,000 shares of restricted stock for issuance to certain of our employees. At our annual shareholder meetings in August 2015 and August 2018, our shareholders approved an increase of an additional 450,000 and 850,000 shares, respectively, to our 2010 Plan. A restricted stock award is an award of shares of our common stock, which generally have full voting and dividend rights but are restricted with regard to sale or transfer. Restricted stock awards are independent of stock grants and are generally subject to forfeiture if employment terminates prior to these restrictions lapsing. Unless otherwise specified in the award agreement, these shares vest in equal annual installments over a four- to five-year period from the grant date and are expensed over the vesting period starting on the grant date.

On August 28, 2014, our Board of Directors amended the 2010 Plan, as permitted pursuant to Section 14 of the 2010 Plan (the "First Amendment to the 2010 Plan"). The First Amendment to the 2010 Plan provides that an award agreement may allow an award to remain outstanding after a spin-off or change in control of one or more wholly-owned subsidiaries of the Company. In addition, on August 28, 2014, the Board of Directors granted 127,000 shares of restricted stock under the Spin-off Compensation Plan. On August 10, 2015, the Second Amendment to the 2010 Plan increased the number of shares of Company common stock available for issuance by 450,000 shares.

On September 30, 2015, we completed the Share Distribution. Each holder of an outstanding Capital Southwest Restricted Stock Award immediately prior to the Share Distribution received, as of the effective date of the Share Distribution, a CSWI Restricted Stock Award for the number of CSWI Shares the holder would have received if the outstanding Capital Southwest Restricted Stock Award was comprised of fully vested Capital Southwest Shares as of the effective date.

The vesting terms for restricted stock awards previously granted under the Spin-off Compensation Plan are as follows: (1) one-third on December 29, 2015; (2) one-third on December 29, 2016; and (3) one-third on December 29, 2017, subject to accelerated vesting as described above. As of September 30, 2018, there is no remaining unrecognized expense related to the Spin-off Compensation Plan.

On August 22, 2017, we received the Exemptive Order from the SEC that supersedes the Original Order and, in addition to the relief granted under the Original Order, allows the Company to withhold shares to satisfy tax withholding obligations related to the vesting of restricted stock granted pursuant to the 2010 Plan. The Third Amendment to the 2010 Plan, which became effective on August 22, 2017, reflects amendments relating to the Exemptive Order.



Table of Contents

On August 2, 2018, the Fourth Amendment to the 2010 Plan increased the number of shares of Company common stock available for issuance by 850,000 shares. The Fourth Amendment also includes revisions regarding change in control provisions, minimum vesting periods, incorporation of a clawback policy and other technical revisions.

The following table summarizes the restricted stock available for issuance for the six months ended September 30, 2018:

Restricted stock available for issuance as of March 31, 2018	9,777
Additional restricted stock approved under the plan	850,000
Restricted stock granted during the six months ended September 30, 2018	—
Restricted stock forfeited during the six months ended September 30, 2018	2,250
Restricted stock available for issuance as of September 30, 2018	862,027

We expense the cost of the restricted stock awards, which is determined to equal the fair value of the restricted stock award at the date of grant on a straight-line basis over the requisite service period. For these purposes, the fair value of the restricted stock award is determined based upon the closing price of our common stock on the date of the grant. Due to the Share Distribution, the Company evaluated (1) the value of the CSWC stock awards prior to the Share Distribution and (2) the combined value of CSWC and CSWI stock awards following the Share Distribution and recorded additional incremental stock based compensation expenses.

For the three months ended September 30, 2018 and 2017, we recognized total share based compensation expense of \$0.4 million and \$0.4 million, respectively, related to the restricted stock issued to our employees and officers. For the six months ended September 30, 2018 and 2017, we recognized total share based compensation expense of \$0.9 million and \$0.7 million, respectively, related to the restricted stock issued to our employees and officers.

As of September 30, 2018, the total remaining unrecognized compensation expense related to non-vested restricted stock awards was \$4.2 million, which will be amortized over the weighted-average vesting period of approximately 2.4 years. Subsequent to the Share Distribution, the compensation expense related to non-vested awards held by employees who are now employed by CSWI is recorded by CSWI.

The following table summarizes the restricted stock outstanding as of September 30, 2018:

Restricted Stock Awards	Number of Shares	Weighted Average Fair Value Per Share at grant date	Weighted Average Remaining Vesting Term (in Years)
Unvested at March 31, 2018	372,163	\$ 15.82	2.9
Granted	—	—	—
Vested	(6,375)	) 19.28	—
Forfeited	(2,250)	) 15.60	—
Unvested at September 30, 2018	363,538	\$ 15.77	2.4

## Stock Options

On July 20, 2009, shareholders approved the 2009 Plan, which provides for the granting of stock options to employees and officers and authorizes the issuance of common stock upon exercise of stock options for up to 560,000 shares. All options are granted at or above market price, generally expire up to 10 years from the date of grant and are generally exercisable on or after the first anniversary of the date of grant in five annual installments.

On August 28, 2014, our Board of Directors amended the 2009 Plan, as permitted pursuant to Section 18 of the 2009 Plan (the "First Amendment to the 2009 Plan"). The First Amendment to the 2009 Plan provides that an award agreement may allow an award to remain outstanding after a spin-off or change in control of one or more wholly-owned subsidiaries

Table of Contents

of the Company. In addition, on August 28, 2014, options to purchase 259,000 shares at \$36.60 per share were granted under the 2009 Plan, as amended. On September 8, 2015, the Board designated the Share Distribution as a transformative transaction for purposes of the 2009 Plan and amended the award agreements granted under the 2009 Plan to provide for accelerated vesting of the awards held by a participant in the event of a termination of that participant's service effected by the participant for good reason, by the employer without cause, or as a result of the disability or death of the participant. A third of these options were vested on each of December 29, 2015, December 29, 2016 and December 29, 2017, respectively, subject to accelerated vesting as described above.

At September 30, 2015, in connection with the Share Distribution, we entered into the Employee Matters Agreement, which provided that each option to acquire CSWC common stock that was outstanding immediately prior to September 30, 2015, would be converted into both an option to acquire post-Share Distribution CSWC common stock and an option to acquire CSWI common stock and would be subject to substantially the same terms and conditions (including with respect to vesting and expiration) after the Share Distribution. Certain adjustments, using volumetric weighted-average prices for the 10-day period immediately prior to and immediately following the distribution, were made to the exercise price and number of shares of CSWC subject to such awards, with the intention of preserving the economic value of the awards immediately prior to the distribution for all CSWC employees. We compared the fair market value of our stock options on the day of the Share Distribution with the combined fair value of our stock options and CSWI stock options the day after the completion of the Share Distribution. The distribution-related adjustments did not have an impact on compensation expense for the three and six months ended September 30, 2018 and 2017.

On August 22, 2017, we received the Exemptive Order from the SEC that supersedes the Original Order and, in addition to the relief granted under the Original Order, allows us to withhold shares of our common stock to satisfy the exercise of options to purchase shares of our common stock granted pursuant to the 2009 Plan.

At September 30, 2018, there are options to acquire 11,950 shares of common stock outstanding. The Compensation Committee does not intend to grant additional options under the 2009 Plan or request shareholders' approval of additional stock options to be added under the 2009 Plan.

The following table summarizes activity in the 2009 Plan as of September 30, 2018, including adjustments in connection with the Share Distribution:

	Number of Shares	Weighted Average Exercise Price	Aggregate Intrinsic Value
2009 Plan			
Balance at March 31, 2017	206,364	\$ 11.12	
Granted	—	—	
Exercised	(10,756	) 11.66	\$ 58,081
Canceled/Forfeited	—	—	
Balance at March 31, 2018	195,608	11.09	
Granted	—	—	
Exercised	(183,658	) 11.07	\$ 1,448,707
Canceled/Forfeited	—	—	
Balance at September 30, 2018	11,950	\$ 11.33	
September 30, 2018 Term	Weighted Average Remaining Contractual	Aggregate Intrinsic Value	

Edgar Filing: CAPITAL SOUTHWEST CORP - Form 10-Q

Outstanding	5.1 years	\$ 91,418
Exercisable	4.8 years	\$ 43,737

47

---

Table of Contents

We recognize compensation cost using the straight-line method for all share-based payments. The fair value of stock options are determined on the date of grant using the Black-Scholes pricing model and are expensed over the requisite service period of the related stock options. Accordingly, for the three months ended September 30, 2018 and 2017, we recognized stock option compensation expense of \$10.5 thousand and \$48.0 thousand, respectively related to the stock options held by our employees and officers. For the six months ended September 30, 2018 and 2017, we recognized stock option compensation expense of \$21.1 thousand and \$0.1 million, respectively, related to the stock options held by our employees and officers. As of September 30, 2018, the total remaining unrecognized compensation cost related to non-vested stock options was \$17.6 thousand, which will be amortized over the weighted-average vesting period of approximately 0.5 years.

At September 30, 2018, the range of exercise prices was \$11.00 to \$11.66 and the weighted-average remaining contractual term of outstanding options was 5.1 years. The total number of shares of common stock exercisable under the 2009 Plan at September 30, 2018 was 5,975 shares with a weighted-average exercise price of \$11.66. During the quarter ended September 30, 2018, 5,975 options became exercisable and 50,000 options were exercised with an average exercise price of \$11.53. During the quarter ended September 30, 2017, 5,975 options became exercisable and no options were exercised.

**Individual Incentive Awards**

On January 16, 2012, our Board of Directors approved the issuance of 104,000 individual cash incentive awards with a baseline for measuring increases in NAV per share of \$36.74 (NAV at December 31, 2011) to provide deferred compensation to certain key employees. Under the individual cash incentive award agreements, awards vest on the fifth anniversary of the award date. Upon exercise of an individual cash incentive award, the Company pays the recipient a cash payment in an amount equal to the NAV per share minus the baseline NAV per share, adjusted for capital gain dividends declared.

In connection with the Share Distribution, we entered into the Employee Matters Agreement with CSWI. Under the Employee Matters Agreement, the individual cash incentive award agreements were amended to provide that the value of each individual cash incentive award was determined based upon the NAV of CSWC as of June 30, 2015. The remaining terms of each individual cash incentive award agreement, including the vesting and payment terms, will remain unchanged. After the effective date of the Share Distribution, CSWC retains all liabilities associated with all individual cash incentive awards granted by CSWC.

There are currently 24,000 individual cash incentive awards outstanding as of September 30, 2018 and the liability for individual cash incentive awards was \$0.1 million at September 30, 2018. During the six months ended September 30, 2018, payments in the amount of \$0.2 million were paid to vested employees. As of September 30, 2018, there is no remaining unrecognized compensation expense related to individual cash incentive awards.

There were no individual cash incentive awards granted during the six months ended September 30, 2018.

		Weighted Average Grant Price Per Share	Weighted Average Remaining Vesting Term (in Years)
Individual Cash Incentive Awards	Number of Shares		
Unvested at March 31, 2018	48,000	\$ 47.03	0.6
Granted	—	—	—
Vested	(24,000 )	43.80	—

Forfeited or expired	—	—	—
Unvested at September 30, 2018	24,000	\$ 50.25	0.5

Table of Contents

## 10. OTHER EMPLOYEE COMPENSATION

We established a 401(k) plan (“401K Plan”) effective October 1, 2015. All full-time employees are eligible to participate in the 401K Plan. The 401K Plan permits employees to defer a portion of their total annual compensation up to the Internal Revenue Service annual maximum based on age and eligibility. We made contributions to the 401K Plan of up to 4.5% of the Internal Revenue Service’s annual maximum eligible compensation, all of which is fully vested immediately. During the three months ended September 30, 2018 and 2017, we made matching contributions of approximately \$25.2 thousand and \$25.7 thousand, respectively. During the six months ended September 30, 2018 and 2017, we made matching contributions of approximately \$87.8 thousand and \$78.3 thousand, respectively.

## 11. COMMITMENTS AND CONTINGENCIES

## Commitments

In the normal course of business, the Company is a party to financial instruments with off-balance sheet risk, consisting primarily of unused commitments to extend financing to the Company’s portfolio companies. Since commitments may expire without being drawn upon, the total commitment amount does not necessarily represent future cash requirements.

The balances of unused commitments to extend financing as of September 30, 2018 and March 31, 2018 were as follows (amounts in thousands):

		September 30, 2018	March 31, 2018
Portfolio Company	Investment Type		
I-45 SLF LLC	Equity Investment	\$ 3,200	\$3,200
Adams Publishing Group, LLC	Delayed Draw Term Loan	1,731	—
ASC Ortho Management Company, LLC	Revolving Loan	1,500	—
Clickbooth.com, LLC	Revolving Loan	2,000	2,000
Danforth Advisors, LLC	Revolving Loan	1,000	—
Dynamic Communities, LLC	Revolving Loan	500	—
Environmental Pest Service Management Company, LLC	Delayed Draw Term Loan	6,697	—
Fast Sandwich, LLC	Revolving Loan	4,150	—
Gauge American Nuts Operations LLC	Delayed Draw Term Loan	1,969	—
ITA Holdings Group, LLC	Revolving Loan	1,237	2,000
LGM Pharma, LLC	Delayed Draw Term Loan	400	900
Prism Spectrum Holdings LLC	Revolving Loan	500	1,500
Zenfolio Inc.	Revolving Loan	2,000	2,000
Total unused commitments to extend financing		\$ 26,884	\$ 11,600

Included within the total revolving and delayed draw loan commitments as of September 30, 2018 were commitments to issue letters of credit through a financial intermediary on behalf of certain portfolio companies. As of September 30, 2018, the Company had \$3.3 million in letters of credit issued and outstanding under these commitments on behalf of portfolio companies. For all of these letters of credit issued and outstanding, the Company would be required to make payments to third parties if the portfolio companies were to default on their related payment obligations. Of these letters of credit, \$3.3 million expire in May 2019. As of September 30, 2018, none of the letters of credit issued and outstanding were recorded as a liability on the Company's balance sheet as such letters of credit are considered in the valuation of the investments in the portfolio company.

## Contingencies





Table of Contents

We may, from time to time, be involved in litigation arising out of our operations in the normal course of business or otherwise. Furthermore, third parties may try to seek to impose liability on us in connection with the activities of our portfolio companies. To our knowledge, we have no currently pending material legal proceedings to which we are party or to which any of our assets are subject.

12. RELATED PARTY TRANSACTIONS

As a BDC, we are obligated under the 1940 Act to make available to our portfolio companies significant managerial assistance. "Making available significant managerial assistance" refers to any arrangement whereby we provide significant guidance and counsel concerning the management, operations, or business objectives and policies of a portfolio company. We are also deemed to be providing managerial assistance to all portfolio companies that we control, either by ourselves or in conjunction with others. The nature and extent of significant managerial assistance provided by us will vary according to the particular needs of each portfolio company. During both the three months ended September 30, 2018 and 2017, we received management and other fees from certain of our portfolio companies totaling \$0.1 million, which were recognized as Fees and other income on the Consolidated Statements of Operations. During both the six months ended September 30, 2018 and 2017, we received management and other fees from certain of our portfolio companies totaling \$0.2 million, which were recognized as Fees and other income on the Consolidated Statement of Operations. Additionally, as of September 30, 2018 and March 31, 2018, we had dividends receivable from I-45 SLF LLC of \$2.3 million and \$2.2 million, respectively, which were included in dividends and interest receivables on the Consolidated Statements of Assets and Liabilities.

13. SUBSEQUENT EVENTS

On October 4, 2018, the Company issued an aggregate of 700,000 shares of the Company's common stock at a net price of \$18.90 per share. Of the 700,000 shares sold, 100,000 shares were sold to certain institutional investors in a direct registered offering and 600,000 shares were sold in a "best efforts" underwritten offering. The total net proceeds of the offerings, before expenses, was approximately \$13.2 million.

Table of Contents

## 14. SUMMARY OF PER SHARE INFORMATION

The following presents a summary of per share data for the three and six months ended September 30, 2018 and 2017 (share amounts presented in thousands).

	Three Months Ended		Six Months Ended	
	September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
Per Share Data:				
Investment income <sup>1</sup>	\$0.77	\$0.53	\$1.46	\$1.01
Operating expenses <sup>1</sup>	(0.41 )	(0.27 )	(0.79 )	(0.53 )
Income taxes <sup>1</sup>	(0.02 )	(0.01 )	(0.04 )	(0.02 )
Net investment income <sup>1</sup>	0.34	0.25	0.63	0.46
Net realized gain <sup>1</sup>	—	0.01	1.16	0.05
Net change in unrealized appreciation of investments, net of tax <sup>1</sup>	0.06	0.28	(0.67 )	0.37
Total increase from investment operations	0.40	0.54	1.12	0.88
Dividends to shareholders	(0.44 )	(0.24 )	(1.33 )	(0.45 )
Spin-off Compensation Plan distribution, net of tax	—	(0.01 )	—	(0.02 )
Exercise of employee stock options <sup>2</sup>	(0.04 )	—	(0.12 )	—
Forfeiture (issuance) of restricted stock <sup>3</sup>	—	(0.01 )	—	(0.01 )
Share based compensation expense	0.03	0.03	0.06	0.05
Other <sup>4</sup>	0.02	(0.01 )	0.03	0.01
(Decrease) increase in net asset value	(0.03 )	0.30	(0.24 )	0.46
Net asset value				
Beginning of period	18.87	17.96	19.08	17.80
End of period	\$18.84	\$18.26	\$18.84	\$18.26
Ratios and Supplemental Data				
Ratio of operating expenses to average net assets <sup>5</sup>	2.21	% 1.53	% 4.19	% 2.98
Ratio of net investment income to average net assets <sup>5</sup>	1.80	% 1.36	% 3.30	% 2.56
Portfolio turnover	2.45	% 5.34	% 17.94	% 13.44
Total investment return <sup>5,6</sup>	7.23	% 8.02	% 19.58	% 4.04
Total return based on change in NAV <sup>5,7</sup>	2.17	% 3.01	% 5.71	% 5.11
Per share market value at the end of the period	\$18.98	\$17.13	\$18.98	\$17.13
Weighted-average common shares outstanding	16,319	16,010	16,250	16,010
Weighted-average fully diluted shares outstanding	16,323	16,078	16,254	16,075
Common shares outstanding at end of period	16,343	16,019	16,343	16,019

<sup>1</sup> Based on weighted average of common shares outstanding for the period.

<sup>2</sup> Net decrease is due to the exercise of employee stock options at prices less than beginning of period NAV.

<sup>3</sup> Reflects impact of the different share amounts as a result of issuance or forfeiture of restricted stock during the period.

Includes the impact of the different share amounts as a result of calculating certain per share data based on the

<sup>4</sup> weighted-average basic shares outstanding during the period and certain per share data based on the shares outstanding as of a period end.

Table of Contents

<sup>5</sup> Not annualized.

Total investment return based on purchase of stock at the current market price on the first day and a sale at the current market price on the last day of each period reported on the table and assumes reinvestment of dividends at prices obtained by CSWC's dividend reinvestment plan during the period. The return does not reflect any sales load that may be paid by an investor.

<sup>7</sup> Total return based on change in NAV was calculated using the sum of ending NAV plus dividends to shareholders and other non-operating changes during the period, as divided by the beginning NAV, and has not been annualized.

## 15. SIGNIFICANT SUBSIDIARIES

## Media Recovery, Inc.

Media Recovery, Inc., dba SpotSee Holdings, through its subsidiary, ShockWatch, provides solutions that currently enable over 3,000 customers and some 200 partners in 62 countries to detect mishandling that causes product damage and spoilage during transport and storage. The ShockWatch product portfolio includes impact, tilt, temperature, vibration, and humidity detection systems and is widely used in the energy, transportation, aerospace, defense, food, pharmaceutical, medical device, consumer goods and manufacturing sectors.

At September 30, 2018, the value of Media Recovery, Inc. represented 8.7% of our total assets. Below is certain selected key financial data from its Balance Sheet at September 30, 2018 and March 31, 2018 and Income Statement for the three and six months ended September 30, 2018 and 2017 (amounts in thousands).

	September 30, 2018	March 31, 2018
Current Assets	\$ 8,544	\$8,391
Non-Current Assets	23,772	24,727
Current Liabilities	3,311	2,559
Non-Current Liabilities	2,299	2,228

	Three months ended		Six months ended	
	September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
Revenue	\$5,488	\$ 6,247	\$11,139	\$ 11,242
Income (loss) from continuing operations	400	628	(32)	920
Net income	400	628	(32)	920

## I-45 SLF LLC

In September 2015, we entered into an LLC agreement with Main Street Capital to form I-45 SLF LLC. I-45 SLF LLC began investing in UMM syndicated senior secured loans during the quarter ended December 31, 2015. The initial equity capital commitment to I-45 SLF LLC totaled \$85.0 million, consisting of \$68.0 million from CSWC and \$17.0 million from Main Street Capital. Approximately \$81.0 million was funded as of September 30, 2018, relating to these commitments, of which \$64.8 million was from CSWC. As of September 30, 2018, CSWC has unfunded equity commitments outstanding of \$3.2 million. CSWC owns 80% of I-45 SLF LLC and has a profits interest of 75.6%, while Main Street Capital owns 20% and has a profits interest of 24.4%. I-45 SLF LLC's Board of Managers

makes all investment and operational decisions for the fund, and consists of equal representation from CSWC and Main Street Capital.

As of September 30, 2018 and March 31, 2018, I-45 SLF LLC had total assets of \$238.2 million and \$233.4 million, respectively. I-45 SLF LLC had approximately \$229.7 million and \$220.8 million of credit investments at fair value as of September 30, 2018 and March 31, 2018, respectively. The portfolio companies in I-45 SLF LLC are in industries similar to those in which CSWC may invest directly. As of September 30, 2018, approximately \$4.9 million of the credit investments were unsettled trades. During the three months ended September 30, 2018, I-45 SLF declared a total dividend of \$3.1 million of which \$2.3 million was paid to CSWC in October 2018.

Table of Contents

Additionally, I-45 SLF LLC closed on a \$75.0 million 5-year senior secured credit facility (the “I-45 credit facility”) in November 2015. This facility includes an accordion feature which will allow I-45 SLF LLC to achieve leverage of approximately 2x debt-to-equity. Borrowings under the facility are secured by all of the assets of I-45 SLF LLC and bear interest at a rate equal to LIBOR plus 2.5% per annum. During the year ended March 31, 2017, I-45 SLF LLC increased debt commitments outstanding by an additional \$90.0 million by adding three additional lenders to the syndicate, bringing total debt commitments to \$165.0 million. In July 2017, the I-45 credit facility was amended to extend the maturity to July 2022. Additionally, the amendment reduced the interest rate on borrowings to LIBOR plus 2.4% per annum. Under the I-45 credit facility, \$147.0 million has been drawn as of September 30, 2018.

Table of Contents

Below is a summary of I-45 SLF LLC's portfolio, followed by a listing of the individual loans in I-45 SLF LLC's portfolio as of September 30, 2018 and March 31, 2018:

## I-45 SLF LLC Loan Portfolio as of September 30, 2018

Portfolio Company	Industry	Investment Type	Maturity Date	Current Interest Rate <sup>1</sup>	Principal	Cost	Fair Value <sup>2</sup>
AAC Holdings, Inc.	Healthcare services	First Lien	6/30/2023	(Floor L+ 6.75% 1.00%)	\$7,471,638	\$7,333,817	\$7,583,712
Allen Media, LLC	Media, marketing & entertainment	First Lien	8/30/2023	(Floor L+6.50% 1.00%)	5,714,286	5,549,563	5,564,286
American Scaffold Holdings, Inc.	Aerospace & defense	First Lien	3/31/2022	(Floor L+6.50% 1.00%)	2,700,000	2,675,570	2,686,500
American Teleconferencing Services, Ltd.	Telecommunications	First Lien	12/8/2021	(Floor L+6.50% 1.00%)	7,084,379	6,791,611	6,858,565
Ansira Holdings, Inc. <sup>3</sup>	Business services	First Lien	12/20/2022	(Floor L+5.75% 1.00%)	4,172,530	4,145,215	4,162,099
		Delayed Draw	12/20/2022	(Floor L+5.75% 1.00%)	63,247	61,450	63,089
ATI Investment Sub, Inc.	Technology products & components	First Lien	6/22/2021	(Floor L+7.25% 1.00%)	2,811,907	2,773,669	2,777,883
ATX Canada Acquisitionco Inc.	Technology products & components	First Lien	6/11/2021	(Floor L+6.00% 1.00%)	4,727,880	4,698,986	4,491,486
BW NHHC Holdco Inc.	Healthcare	First Lien	5/15/2025	L+5.00%	2,992,500	2,949,871	2,949,498
California Pizza Kitchen, Inc.	Restaurants	First Lien	8/23/2022	(Floor L+6.00% 1.00%)	6,864,912	6,833,023	6,693,289
Chloe Ox Parent, LLC (Censeo Health)	Healthcare services	First Lien	10/23/2024	(Floor L+4.50% 1.00%)	5,174,000	5,127,493	5,193,402
CMN.com, LLC	Consumer services	First Lien	11/3/2021	(Floor L+6.00% 1.00%)	8,494,168	8,413,223	8,494,168
Digital River, Inc.	Software & IT services	First Lien	2/12/2021	(Floor L+6.25% 1.00%)	8,002,967	7,996,484	8,002,967
Go Wireless Holdings, Inc.	Retail	First Lien	12/22/2024	(Floor L+6.50% 1.00%)	6,737,500	6,677,109	6,602,750
		First Lien	1/28/2021		1,615,001	1,567,235	1,598,851

Edgar Filing: CAPITAL SOUTHWEST CORP - Form 10-Q

The Hoover Group, Inc.	Energy services (Midstream)			L+7.25% (Floor 1.00%)			
Hunter Defense Technologies, Inc.	Aerospace & defense	First Lien	3/29/2023	L+7.00% (Floor 1.00%)	6,418,750	6,299,706	6,354,563
iEnergizer Limited	Business services	First Lien	5/1/2019	L+6.00% (Floor 1.25%)	8,401,366	8,341,591	8,411,868

54

---

Edgar Filing: CAPITAL SOUTHWEST CORP - Form 10-Q

Table of Contents

Portfolio Company	Industry	Investment Type	Maturity Date	Current Interest Rate <sup>1</sup>	Principal Cost	Fair Value <sup>2</sup>
Imagine! Print Solutions, LLC	Media, marketing & entertainment	Second Lien	6/21/2023	L+8.75% (Floor 1.00%)	3,000,000	2,702,500
InfoGroup Inc.	Software & IT services	First Lien	4/3/2023	L+5.00% (Floor 1.50%)	2,955,000	2,952,547
Integro Parent Inc.	Business services	First Lien	10/31/2022	L+5.75% (Floor 1.00%)	4,863,425	4,876,083
Intermedia Holdings, Inc.	Software & IT services	First Lien	7/21/2025	L+6.00% (Floor 1.00%)	3,857,342	3,875,232
Isagenix International, LLC	Healthcare products	First Lien	6/14/2025	L+5.75% (Floor 1.00%)	2,116,070	2,121,362
JAB Wireless, Inc.	Telecommunications	First Lien	5/2/2023	L+8.00% (Floor 1.00%)	7,960,000	7,886,922
Lift Brands, Inc.	Consumer services	First Lien	4/16/2023	L+7.00% (Floor 1.00%)	4,975,400	4,916,383
LOGIX Holdings Company, LLC	Telecommunications	First Lien	12/22/2024	L+5.75% (Floor 1.00%)	4,505,465	4,638,856
LSF9 Atlantis Holdings, LLC	Telecommunications	First Lien	5/1/2023	L+6.00% (Floor 1.00%)	6,781,570	6,969,336
Lulu's Fashion Lounge, LLC	Consumer products & retail	First Lien	8/28/2022	L+7.00% (Floor 1.00%)	4,204,440	4,288,636
NBG Acquisition, Inc.	Wholesale	First Lien	4/26/2024	L+5.50% (Floor 1.00%)	2,925,000	2,954,250
New Era Technology, Inc. <sup>4</sup>	Software & IT services	First Lien	6/22/2023	L+6.50% (Floor 1.00%)	3,281,767	3,648,949
		Delayed Draw	6/22/2023	L+6.50% (Floor 1.00%)	—	5,113
Nomad Buyer, Inc.	Healthcare services	First Lien	8/1/2025	L+5.00% (Floor 1.00%)	3,000,000	2,995,000
New Media Holdings II LLC	Media, marketing & entertainment	First Lien	7/14/2022	L+6.25% (Floor 1.00%)	8,778,876	8,857,725
Peraton Corp. (fka MHVC Acquisition Corp.)	Aerospace & defense	First Lien	4/29/2024	L+5.25% (Floor 1.00%)	6,426,000	6,802,803



Edgar Filing: CAPITAL SOUTHWEST CORP - Form 10-Q

Pet Supermarket, Inc.	Consumer products & retail	First Lien	7/5/2022	L+5.50% (Floor 1.00%)	4,879,807	4,148	1,006,610
PT Network, LLC <sup>5</sup>	Healthcare products	First Lien	11/30/2021	L+6.50% (Floor 1.00%)	4,369,336	3,343	269,334
		Delayed Draw	11/30/2021	L+6.50% (Floor 1.00%)	—	—	—

55

---

Edgar Filing: CAPITAL SOUTHWEST CORP - Form 10-Q

Table of Contents

Portfolio Company	Industry	Investment Type	Maturity Date	Current Interest Rate <sup>1</sup>	Principal	Fair Value <sup>2</sup>
Solaray, LLC <sup>6</sup>	Consumer services	First Lien	9/8/2023	L+6.50% (Floor 1.00%)	6,276,264	6,276,264
		Delayed Draw	9/8/2023	L+6.50% (Floor 1.00%)	2,082,256	2,080,256
Tacala, LLC	Consumer products & retail	Second Lien	1/30/2026	L+7.00%	3,000,000	3,051,570
Teleguam Holdings, LLC	Telecommunications	Second Lien	4/12/2024	L+8.50% (Floor 1.00%)	2,000,000	2,015,000
Terra Millennium Corporation	Industrial products	First Lien	10/31/2022	L+6.25% (Floor 1.00%)	7,676,162	7,733,589
TestEquity, LLC	Capital equipment	First Lien	4/28/2022	L+5.50% (Floor 1.00%)	4,848,581	4,785,485
TGP Holdings III LLC	Durable consumer goods	Second Lien	9/25/2025	L+8.50% (Floor 1.00%)	2,500,000	2,484,375
Time Manufacturing Acquisition	Capital equipment	First Lien	2/3/2023	L+5.00% (Floor 1.00%)	4,922,588	4,910,225
Turning Point Brands, Inc.	Consumer products & retail	Second Lien	5/7/2024	L+7.00% (Floor 1.00%)	3,000,000	3,060,000
UniTek Global Services, Inc. <sup>7</sup>	Telecommunications	First Lien	8/27/2023	L+5.50% (Floor 1.00%)	2,500,000	2,475,342
		Delayed Draw	8/27/2023	L+5.50% (Floor 1.00%)	— (2,466 )	—
U.S. TelePacific Corp.	Telecommunications	First Lien	5/2/2023	L+5.00% (Floor 1.00%)	6,844,476	6,750,309
VIP Cinema Holdings, Inc.	Hotel, gaming & leisure	First Lien	3/1/2023	L+6.00% (Floor 1.00%)	4,625,000	4,656,797
Wireless Vision Holdings, LLC <sup>8</sup>	Telecommunications	First Lien	9/29/2022	L+8.50% (Floor 1.00%)	7,959,789	7,830,103
YS Garments, LLC	Retail	First Lien	8/9/2024	L+6.00% (Floor 1.00%)	5,000,000	4,950,000
Total Investments					\$228,844,541	\$229,710,819

Represents the interest rate as of September 30, 2018. All interest rates are payable in cash, unless otherwise noted.

The majority of investments bear interest at a rate that may be determined by reference to London Interbank Offered Rate (“LIBOR” or “L”) or Prime (“P”) which reset daily, monthly, quarterly, or semiannually. For each the Company has provided the spread over LIBOR or Prime in effect at September 30, 2018. Certain investments are subject to a LIBOR or Prime interest rate floor.

Represents the fair value determined utilizing a similar process as the Company in accordance with ASC 820.

However, the determination of such fair value is determined by the Board of Managers of I-45 SLF LLC. It is not included in the Company’s Board of Directors’ valuation process described elsewhere herein.

Table of Contents

- <sup>3</sup> The investment has approximately \$0.2 million in an unfunded delayed draw commitment as of September 30, 2018.
- <sup>4</sup> The investment has approximately \$0.3 million in an unfunded delayed draw commitment as of September 30, 2018.
- <sup>5</sup> The investment has approximately \$2.1 million in an unfunded delayed draw commitment as of September 30, 2018.
- <sup>6</sup> The investment has approximately \$0.6 million in an unfunded delayed draw commitment as of September 30, 2018.
- <sup>7</sup> The investment has approximately \$0.5 million in an unfunded delayed draw commitment as of September 30, 2018.
- <sup>8</sup> The investment is structured as a first lien last out term loan.

Table of Contents

## I-45 SLF LLC Loan Portfolio as of March 31, 2018

Portfolio Company	Industry	Investment Type	Maturity Date	Current Interest Rate <sup>1</sup>	Principal	Cost	Fair Value <sup>2</sup>
AAC Holdings, Inc.	Healthcare services	First Lien	6/30/2023	6.75% (Floor L+ 1.00%)	\$7,568,046	\$7,413,688	\$7,700,487
American Scaffold Holdings, Inc.	Aerospace & defense	First Lien	3/31/2022	L+6.50% (Floor L+ 1.00%)	2,775,000	2,746,293	2,761,125
American Teleconferencing Services, Ltd.	Telecommunications	First Lien	12/8/2021	L+6.50% (Floor L+ 1.00%)	7,287,370	6,938,866	7,285,548
Ansira Holdings, Inc. <sup>3</sup>	Business services	First Lien	12/20/2022	L+6.50% (Floor L+ 1.00%)	3,878,182	3,847,470	3,868,486
		Delayed Draw	12/20/2022	L+6.50% (Floor L+ 1.00%)	315,316	310,799	314,527
ATI Investment Sub, Inc.	Technology products & components	First Lien	6/22/2021	L+7.25% (Floor L+ 1.00%)	3,557,227	3,503,722	3,552,781
ATX Canada Acquisitionco Inc.	Technology products & components	First Lien	6/11/2021	L+6.00% (Floor L+ 1.00%)	4,836,742	4,801,504	4,498,170
Beaver-Visitec International Holdings, Inc.	Healthcare products	First Lien	8/21/2023	L+5.00% (Floor L+ 1.00%)	4,925,000	4,886,584	4,949,625
California Pizza Kitchen, Inc.	Restaurants	First Lien	8/23/2022	L+6.00% (Floor L+ 1.00%)	6,899,937	6,863,761	6,775,739
Chloe Ox Parent, LLC (Censeo Health)	Healthcare services	First Lien	12/31/2024	L+5.00% (Floor L+ 1.00%)	5,200,000	5,149,500	5,265,000
CMN.com, LLC	Consumer services	First Lien	11/3/2021	L+6.00% (Floor L+ 1.00%)	8,742,126	8,645,306	8,742,126
Digital River, Inc.	Software & IT services	First Lien	2/12/2021	L+6.50% (Floor L+ 1.00%)	8,002,967	7,995,112	8,002,967
Go Wireless Holdings, Inc.	Retail	First Lien	12/31/2024	L+6.50% (Floor L+ 1.00%)	6,912,500	6,845,573	6,903,859
Highline Aftermarket Acquisition, LLC	Automobile	First Lien	3/17/2024	L+4.25% (Floor L+ 1.00%)	2,856,595	2,844,340	2,860,166
Hunter Defense Technologies, Inc.	Aerospace & defense	First Lien	3/29/2023	L+7.00% (Floor	6,500,000	6,370,152	6,370,152

Edgar Filing: CAPITAL SOUTHWEST CORP - Form 10-Q

iEnergizer Limited	Business services	First Lien	5/1/2019	1.00%) L+6.00% (Floor	6,550,375	6,421,048	6,558,563
Imagine! Print Solutions, LLC	Media, marketing & entertainment	Second Lien	6/21/2023	1.25%) L+8.75% (Floor	3,000,000	2,960,563	2,760,000
InfoGroup Inc.	Software & IT services	First Lien	4/3/2023	1.00%) L+5.00% (Floor	2,970,000	2,945,028	2,957,021
Integro Parent Inc.	Business services	First Lien	10/31/2022	1.50%) L+5.75% (Floor	4,888,924	4,768,810	4,888,924
				1.00%)			

58

---

Table of Contents

Portfolio Company	Industry	Investment Type	Maturity Date	Current Interest Rate <sup>1</sup>	Principal	Cost	Fair Value <sup>2</sup>
iPayment Holdings, Inc.	Financial services	First Lien	4/11/2023	L+5.00% (Floor 1.50%)	4,987,300	4,987,500	4,844
KeyPoint Government Solutions, Inc.	Business services	First Lien	4/18/2024	L+6.00% (Floor 1.00%)	4,750,000	4,750,000	4,750,000
LOGIX Holdings Company, LLC	Telecommunications	First Lien	12/22/2024	L+5.75% (Floor 1.00%)	4,528,714	4,528,925	4,360
LSF9 Atlantis Holdings, LLC	Telecommunications	First Lien	5/1/2023	L+6.00% (Floor 1.00%)	6,868,750	6,868,637	54,429
Lulu's Fashion Lounge, LLC	Consumer products & retail	First Lien	8/23/2022	L+7.00% (Floor 1.00%)	4,374,925	4,374,630	6,249
NBG Acquisition, Inc.	Wholesale	First Lien	4/26/2024	L+5.50% (Floor 1.00%)	2,962,300	2,962,071	73,609
New Media Holdings II LLC	Media, marketing & entertainment	First Lien	7/14/2022	L+6.25% (Floor 1.00%)	8,822,879	8,822,828	80,518
Peraton Corp. (fka MHVC Acquisition Corp.)	Aerospace & defense	First Lien	4/29/2024	L+5.25% (Floor 1.00%)	4,960,019	4,960,505	22,013
Pet Supermarket, Inc.	Consumer products & retail	First Lien	7/5/2022	L+5.50% (Floor 1.00%)	4,925,008	4,925,428	30,375
Polycom, Inc.	Telecommunications	First Lien	9/27/2023	L+5.25% (Floor 1.00%)	5,234,833	5,234,833	7,182
Prepaid Legal Services, Inc.	Consumer services	First Lien	7/1/2019	L+5.25% (Floor 1.25%)	3,860,938	3,860,938	60,938
		Second Lien	7/1/2020	L+9.00% (Floor 1.25%)	405,000	405,000	8,614
PT Network, LLC <sup>4</sup>	Healthcare products	First Lien	11/30/2021	L+6.50% (Floor 1.00%)	4,425,434	4,425,434	25,133
Redwood Ahead Acquisition, LLC	Business services	First Lien	11/2/2020	L+ 6.50%	2,811,287	2,811,287	29,056
Solaray, LLC <sup>5</sup>	Consumer services	First Lien	9/8/2023	L+6.50% (Floor 1.00%)	6,308,053	6,308,053	8,205
		Delayed Draw	9/8/2023	L+6.50% (Floor	1,784,897	1,784,868	84,890

Edgar Filing: CAPITAL SOUTHWEST CORP - Form 10-Q

Tacala, LLC	Consumer products & retail	Second Lien	1/31/2026	L+7.00% (Floor 1.00%)	3,000,000	85,089,63,765
Teleguam Holdings , LLC	Telecommunications	Second Lien	4/12/2024	L+8.50% (Floor 1.00%)	2,000,000	63,810,15,000
Terra Millennium Corporation	Industrial products	First Lien	10/31/2022	L+6.25% (Floor 1.00%)	7,776,019	15,978,34,339
TestEquity, LLC	Capital equipment	First Lien	4/28/2022	L+5.50% (Floor 1.00%)	4,952,674	11,729,52,674

59

---



Table of Contents

Portfolio Company	Industry	Investment Type	Maturity Date	Current Interest Rate <sup>1</sup>	Principal <sup>2</sup>	Fair Value <sup>2</sup>
TGP Holdings III LLC <sup>6</sup>	Durable consumer goods	First Lien	9/25/2024	L+5.00% (Floor 1.00%)	1,720,160	1,736,296
		Second Lien	9/25/2025	L+8.50% (Floor 1.00%)	2,500,000	2,537,500
Time Manufacturing Acquisition	Capital equipment	First Lien	2/3/2023	L+5.00% (Floor 1.00%)	4,947,500	4,935,150
Turning Point Brands, Inc.	Consumer products & retail	Second Lien	3/7/2024	L+7.00% (Floor 1.00%)	3,000,000	3,060,000
UniTek Global Services, Inc.	Telecommunications	First Lien	1/13/2019	L+8.50% (Floor 1.00%)	4,584,809	4,584,809
US Joiner Holding Company (IMECO and RAACI)	Transportation & logistics	First Lien	4/16/2020	L+6.00% (Floor 1.00%)	4,459,482	4,436,886
U.S. TelePacific Corp.	Telecommunications	First Lien	5/2/2023	L+5.00% (Floor 1.00%)	7,643,995	7,441,425
VIP Cinema Holdings, Inc.	Hotel, gaming & leisure	First Lien	3/1/2023	L+6.00% (Floor 1.00%)	4,750,000	4,804,934
Total Investments					\$218,673,550	\$220,806,845

Represents the interest rate as of March 31, 2018. All interest rates are payable in cash, unless otherwise noted. The majority of investments bear interest at a rate that may be determined by reference to London Interbank Offered Rate ("LIBOR" or "L") or Prime ("P") which reset daily, monthly, quarterly, or semiannually. For each the Company has provided the spread over LIBOR or Prime in effect at March 31, 2018. Certain investments are subject to a LIBOR or Prime interest rate floor.

<sup>2</sup> Represents the fair value determined utilizing a similar process as the Company in accordance with ASC 820.

<sup>2</sup> However, the determination of such fair value is determined by the Board of Managers of the Joint Venture. It is not included in the Company's Board of Directors' valuation process described elsewhere herein.

<sup>3</sup> The investment has approximately \$0.3 million in an unfunded delayed draw commitment as of March 31, 2018.

<sup>4</sup> The investment has approximately \$2.1 million in an unfunded delayed draw commitment as of March 31, 2018.

<sup>5</sup> The investment has approximately \$0.9 million in an unfunded delayed draw commitment as of March 31, 2018.

<sup>6</sup> The investment has approximately \$0.3 million in an unfunded delayed draw commitment as of March 31, 2018.

Table of Contents

Below is certain summarized financial information for I-45 SLF LLC as of September 30, 2018 and March 31, 2018 and for the three and six months ended September 30, 2018 and September 30, 2017 (amounts in thousands):

	September March 30, 2018 31, 2018		Three Months Ended Six Months Ended September 30, September 30, 2018 2017 2018 2017	
<b>Selected Balance Sheet Information:</b>				
Investments, at fair value (cost \$228,845 and \$218,674)	\$ 229,711	\$ 220,807		
Cash and cash equivalents	5,665	9,317		
Due from broker	—	330		
Deferred financing costs and other assets	1,862	2,111		
Interest receivable	978	813		
Total assets	\$ 238,216	\$ 233,378		
Senior credit facility payable	\$ 147,000	\$ 143,000		
Payable for unsettled transactions	4,930	3,213		
Other liabilities	3,281	3,119		
Total liabilities	\$ 155,211	\$ 149,332		
Members' equity	83,005	84,046		
Total liabilities and members' equity	\$ 238,216	\$ 233,378		
<b>Selected Statement of Operations Information:</b>				
Total revenues	\$5,150	\$ 4,349	\$10,021	\$ 8,300
Total expenses	(2,069)	(1,643)	(4,130)	(3,195)
Net investment income	3,081	2,706	5,891	5,105
Net unrealized appreciation	(433)	(281)	(1,267)	(60)
Net realized gains	74	324	271	938
Net increase in members' equity resulting from operations	\$2,722	\$ 2,749	\$4,895	\$ 5,983

Table of Contents

## CAPITAL SOUTHWEST CORPORATION AND SUBSIDIARIES

Consolidated Schedule of Investments in and Advances to Affiliates (Unaudited)

Six Months Ended September 30, 2018

(amounts in thousands)

Portfolio Company	Type of Investment (1)	Amount of Interest or Dividend Credited in Income (2)	Fair Value at March 31, 2018	Amount of Realized Gain/(Loss)	Amount of Unrealized Gain/(Loss)	Gross Additions (3)	Gross Reductions (4)	Fair Value at September 30, 2018
<b>Control Investments</b>								
I-45 SLF LLC	80% LLC equity interest	\$4,488	\$67,113	\$—	\$(787)	\$—	\$—	\$66,326
Prism Spectrum Holdings, LLC	First lien	471	4,241	—	134	8,965	—	13,340
	Revolving loan	72	490	—	21	1,475	(500)	1,486
	96,498.32 Class A units	—	1,692	—	—	4,847	—	6,539
Media Recovery, Inc.	800,000 shares Series A Convertible Preferred Stock, convertible into 800,000 shares common stock	238	6,371	—	252	—	—	6,623
	4,000,002 shares common stock	1,371	36,751	—	1,453	—	—	38,204
TitanLiner, Inc.	1,189,609 shares Series B convertible preferred stock (6% PIK)	29	11,362	6,913	(8,436)	29	(9,868)	—
	339,277 shares Series A convertible preferred stock	—	11,928	11,706	(8,724)	—	(14,910)	—
<b>Total Control Investments</b>		<b>\$6,669</b>	<b>\$139,948</b>	<b>\$18,619</b>	<b>\$(16,087)</b>	<b>\$15,316</b>	<b>\$(25,278)</b>	<b>\$132,518</b>

Table of Contents

Portfolio Company	Type of Investment (1)	Amount of Interest or Dividends Credited in Income (2)	Fair Value at March 31, 2018	Amount of Realized Gain/(Loss)	Amount of Unrealized Gain/(Loss)	Gross Additions (3)	Gross Reductions (4)	Fair Value at September 30, 2018
Affiliate Investments								
Chandler Signs, LLC	Senior subordinated debt (12.00% cash)	\$ 302	\$4,376	\$—	\$(22 )	\$30	\$—	\$4,384
	1,500,000 units of Class A-1 common stock	—	1,934	—	(439 )	—	—	1,495
Dynamic Communities, LLC	First lien	252	—	—	—	10,984	—	10,984
	Revolving loan	1	—	—	5	(5 )	—	—
	2,000,000 Preferred units	—	—	—	—	2,000	—	2,000
Elite SEM, Inc.	First lien	1,083	17,500	77	79	2,446	(20,102 )	—
	1,443 Preferred units;							
	1,443 Class A Common units	82	1,879	—	(87 )	716	(2,508 )	—
ITA Holdings Group, LLC	First lien	555	9,314	—	(206 )	16	(118 )	9,006
	First lien - Term Loan B	60	—	—	(42 )	1,963	(13 )	1,908
	Revolving loan	18	—	—	(5 )	988	(250 )	733
	Delayed draw term loan	85	1,470	—	(32 )	2	(9 )	1,431
	9.25% Class A membership interest	—	1,500	—	(442 )	—	—	1,058
SIMR, LLC	First lien	91	—	—	—	11,457	—	11,457
	5,724,000 Class B Common units	—	—	—	—	5,724	—	5,724
Zenfolio Inc.	First lien	796	13,325	—	(39 )	27	(68 )	13,245
	Revolving loan	8	—	—	(2 )	2	—	—
	190 shares of common stock	—	1,900	—	(307 )	—	—	1,593
Total Affiliate Investments		\$ 3,333	\$53,198	\$ 77	\$(1,539 )	\$36,350	\$(23,068 )	\$65,018
		\$ 10,002	\$193,146	\$18,696	\$(17,626 )	\$51,666	\$(48,346 )	\$197,536

Total Control &  
Affiliate  
Investments

63

---

Table of Contents

- (1) The principal amount and ownership detail as shown in the Consolidated Schedules of Investments.
- (2) Represents the total amount of interest or dividends credited to income for the portion of the year an investment was included in the Control or Affiliate categories, respectively.  
Gross additions include increases in the cost basis of investments resulting from new portfolio investments,  
(3) follow-on investments, accrued PIK interest, and accretion of OID. Gross additions also include movement of an existing portfolio company into this category and out of a different category.  
Gross reductions include decreases in the cost basis of investments resulting from principal repayments or sales  
(4) and the exchange of one or more existing securities for one or more new securities. Gross reductions also include movement of an existing portfolio company out of this category and into a different category.

Table of Contents

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion should be read in conjunction with our consolidated financial statements and the notes thereto included in our Annual Report on Form 10-K for the fiscal year ended March 31, 2018 as filed with the SEC on June 5, 2018, (the "Form 10-K").

The information contained herein may contain "forward-looking statements" based on our current expectations, assumptions and estimates about us and our industry. These forward-looking statements involve risks and uncertainties. Words such as "may," "predict," "will," "continue," "likely," "would," "could," "should," "expect," "anticipate," "estimate," "indicate," "seek," "believe," "target," "intend," "plan," or "project" and other similar expressions identify forward statements. In addition, any statements that refer to expectations, projections or other characterizations of future events or circumstances are forward-looking statements that are subject to risks, uncertainties and assumptions. Our actual results could differ materially from those we express in the forward-looking statements as a result of several factors more fully described in "Risk Factors" and elsewhere in our Form 10-K for the year ended March 31, 2018 and in this Form 10-Q. The forward-looking statements made in this Form 10-Q relate only to events as of the date on which the statements are made. You should read the following discussion in conjunction with the consolidated financial statements and related footnotes and other financial information included in our Form 10-K for the year ended March 31, 2018. We undertake no obligation to update publicly any forward-looking statements for any reason, whether as a result of new information, future events or otherwise, except as required by law.

OVERVIEW

We are an internally managed closed-end, non-diversified management investment company that has elected to be regulated as a BDC under the 1940 Act. We specialize in providing customized debt and equity financing to LMM companies and debt capital to UMM companies in a broad range of investment segments located primarily in the United States. Our investment objective is to produce attractive risk-adjusted returns by generating current income from our debt investments and capital appreciation from our equity and equity related investments. Our investment strategy is to partner with business owners, management teams and financial sponsors to provide flexible financing solutions to fund growth, changes of control, or other corporate events. We invest primarily in senior debt securities, secured by security interests in portfolio company assets, and in secured and unsecured subordinated debt securities. We also invest in equity interests in our portfolio companies alongside our debt securities.

We focus on investing in companies with histories of generating revenues and positive cash flow, established market positions and proven management teams with strong operating discipline. We target senior debt, subordinated debt, and equity investments in LMM companies, as well as first and second lien syndicated loans in UMM companies. Our target LMM companies typically have annual EBITDA between \$3.0 million and \$15.0 million, and our LMM investments generally range in size from \$5.0 million to \$25.0 million. Our UMM investments generally include syndicated first and second lien loans in companies with EBITDA generally greater than \$50.0 million, and our UMM investments typically range in size from \$5.0 million to \$15.0 million.

We seek to fill the financing gap for LMM companies, which, historically, have had more limited access to financing from commercial banks and other traditional sources. The underserved nature of the LMM creates the opportunity for us to meet the financing needs of LMM companies while also negotiating favorable transaction terms and equity participations. Our ability to invest across a LMM company's capital structure, from secured loans to equity securities, allows us to offer portfolio companies a comprehensive suite of financing options. Providing customized financing solutions is important to LMM companies. We generally seek to partner directly with financial sponsors, entrepreneurs, management teams and business owners in making our investments. Our LMM debt investments typically include senior loans with a first lien on the assets of the portfolio company, as well as subordinated debt which may either be secured or unsecured subordinated loans. Our LMM debt investments typically have a term of

between five and seven years from the original investment date. We also often seek to invest in the equity securities of our LMM portfolio companies.

Our investments in UMM companies primarily consist of direct investments in or secondary purchases of interest bearing debt securities in privately held companies that are generally larger in size than the LMM companies included in our portfolio. Our UMM debt investments are generally secured by either a first or second priority lien on the assets of the

65

---



## Table of Contents

portfolio company and typically have an expected duration of between three and seven years from the original investment date.

Because we are internally managed, we do not pay any external investment advisory fees, but instead directly incur the operating costs associated with employing investment and portfolio management professionals. We believe that our internally managed structure provides us with a beneficial operating expense structure when compared to other publicly traded and privately held investment firms which are externally managed, and our internally managed structure allows us the opportunity to leverage our non-interest operating expenses as we grow our investment portfolio. For the six months ended September 30, 2018 and 2017, the ratio of our annualized second quarter operating expenses, excluding interest expense, as a percentage of our quarterly average total assets was 3.05% and 4.03%, respectively.

## CRITICAL ACCOUNTING POLICIES AND USE OF ESTIMATES

The preparation of our consolidated financial statements in accordance with U.S. GAAP requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses for the periods covered by the consolidated financial statements. We have identified investment valuation and revenue recognition as our most critical accounting estimates. On an on-going basis, we evaluate our estimates, including those related to the matters below. These estimates are based on the information that is currently available to us and on various other assumptions that we believe to be reasonable under the circumstances. Actual results could differ materially from those estimates under different assumptions or conditions. A discussion of our critical accounting policies follows.

### Valuation of Investments

The most significant determination inherent in the preparation of our consolidated financial statements is the valuation of our investment portfolio and the related amounts of unrealized appreciation and depreciation. As of September 30, 2018 and March 31, 2018, our investment portfolio at fair value represented approximately 95.2% and 94.2%, respectively, of our total assets. We are required to report our investments at fair value. We follow the provisions of Accounting Standards Codification, or ASC 820, Fair Value Measurements and Disclosures ("ASC 820"). ASC 820 defines fair value, establishes a framework for measuring fair value, establishes a fair value hierarchy based on the quality of inputs used to measure fair value, and enhances disclosure requirements for fair value measurements. ASC 820 requires us to assume that the portfolio investment is to be sold in the principal market to independent market participants, which may be a hypothetical market. See Note 4 — "Fair Value Measurements" in the notes to consolidated financial statements for a detailed discussion of our investment portfolio valuation process and procedures.

Due to the inherent uncertainty in the valuation process, our determination of fair value for our investment portfolio may differ materially from the values that would have been determined had a ready market for the securities actually existed. In addition, changes in the market environment, portfolio company performance, and other events may occur over the lives of the investments that may cause the gains or losses ultimately realized on these investments to be materially different than the valuations currently assigned. We determine fair value of each individual investment and record changes in fair value as unrealized appreciation or depreciation.

Our Board of Directors is responsible for determining, in good faith, the fair value of our investments and our valuation procedures, consistent with the 1940 Act requirements. Our Board of Directors believes that our investment portfolio as of September 30, 2018 and March 31, 2018 reflects the fair value as of those dates based on the markets in which we operate and other conditions in existence on those reporting dates.

### Revenue Recognition

### Interest and Dividend Income

Interest and dividend income is recorded on an accrual basis to the extent amounts are expected to be collected. Dividend income is recognized on the date dividends are declared by the portfolio company or at the point an obligation exists for the portfolio company to make a distribution. Discounts/premiums received to par on loans purchased are capitalized and accreted or amortized into income over the life of the loan using the effective interest method. In accordance

66

---

## Table of Contents

with our valuation policy, accrued interest and dividend income is evaluated quarterly for collectability. When we do not expect the debtor to be able to service all of its debt or other obligations, we will generally establish a reserve against interest income receivable, thereby placing the loan or debt security on non-accrual status, and cease to recognize interest income on that loan or debt security until the borrower has demonstrated the ability and intent to pay contractual amounts due. If a loan or debt security's status significantly improves regarding its ability to service debt or other obligations, it will be restored to accrual basis. As of September 30, 2018, we did not have any investments on non-accrual status or past due its contractual payment obligation.

### Recently Issued Accounting Standards

In February 2016, the FASB issued ASU 2016-02, Leases, which requires lessees to recognize on the balance sheet a right-of-use asset, representing its right to use the underlying asset for the lease term, and a lease liability for all leases with terms greater than 12 months. The guidance also requires qualitative and quantitative disclosures designed to assess the amount, timing, and uncertainty of cash flows arising from leases. The standard requires the use of a modified retrospective transition approach, which includes a number of optional practical expedients that entities may elect to apply. In July 2018, the FASB issued ASU 2018-10, Codification Improvements to Topic 842, Leases, which affects narrow aspects of the guidance issued in the amendments in ASU 2016-02. The new guidance is effective for annual periods beginning after December 15, 2018, and interim periods therein. Early application is permitted. While we continue to assess the effect of adoption, we currently believe the single change relates to the recognition of a new right-of-use asset and lease liability on our consolidated balance sheet for our office space operating lease. We currently have one operating lease for office space and do not expect a significant change in our leasing activity between now and adoption.

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606). ASU 2014-09 supersedes the revenue recognition requirements under SAC Topic 605, Revenue Recognition, and most industry-specific guidance throughout the Industry Topics of the ASC. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which an entity expects to be entitled in exchange for those goods or services. Under the new guidance, an entity is required to perform the following five steps: (1) identify the contract(s) with a customer; (2) identify the performance obligations in the contract; (3) determine the transaction price; (4) allocate the transaction price to the performance obligations in the contract, and (5) recognize revenue when (or as) the entity satisfies a performance obligation. The new guidance will significantly enhance comparability of revenue recognition practices across entities, industries, jurisdictions and capital markets. Additionally, the guidance requires improved disclosures as to the nature, amount, timing and uncertainty of revenue that is recognized. In May 2016, the FASB issued ASU No. 2016-12, Revenue from Contracts with Customers (Topic 606)—Narrow-Scope Improvements and Practical Expedients. This ASU clarified guidance on assessing collectability, presenting sales tax, measuring noncash consideration, and certain transition matters. The new guidance is effective for the annual reporting period beginning after December 15, 2017, including interim periods within that reporting period. The Company adopted ASU 2014-09 effective April 1, 2018 and determined that its material financial contracts are excluded from the scope of ASU 2014-09. As a result of the scope exception for financial contracts, the Company's management has determined that there were no material changes to the recognition timing and classification of revenues and expenses; additionally, the adoption of ASU 2014-09 did not have a significant impact on pretax income or on the consolidated financial statement disclosures.

In August 2016, the FASB issued ASU 2016-15, Statement of Cash Flows (Topic 230), which is intended to reduce the existing diversity in practice in how certain cash receipts and cash payments are presented and classified in the statement of cash flows. The guidance is effective for annual periods beginning after December 15, 2017, and interim periods therein. The Company adopted ASU 2016-15 effective April 1, 2018 and the adoption did not have a material impact on the Company's consolidated financial statements.

In August 2018, the FASB issued ASU 2018-13, Fair Value Measurement (Topic 820): Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement, which changes the fair value measurement disclosure requirements of ASC 820. The key provisions include new, eliminated and modified disclosure requirements. The new guidance is effective for fiscal years beginning after December 15, 2019, including interim periods therein. Early application is permitted. CSWC is currently evaluating the impact the adoption of this new accounting standard will have on its consolidated financial statements, but the impact of the adoption is not expected to be material.

Table of Contents

## INVESTMENT PORTFOLIO COMPOSITION

Our LMM investments consist of secured debt, subordinated debt, equity warrants and direct equity investments in privately held, LMM companies based in the United States. Our LMM portfolio companies generally have annual EBITDA between \$3.0 million and \$15.0 million, and our LMM investments typically range in size from \$5.0 million to \$25.0 million. The LMM debt investments are typically secured by either a first or second priority lien on the assets of the portfolio company, generally bear interest at floating rates, and generally have a term of between five and seven years from the original investment date.

Our UMM investments consist of direct investments in or secondary purchases of interest-bearing debt securities in privately held companies based in the United States that are generally larger in size than the LMM companies included in our portfolio with EBITDA generally greater than \$50.0 million. Our UMM investments typically range in size from \$5.0 million to \$15.0 million. Our UMM debt investments are generally secured by either a first or second priority lien on the assets of the portfolio company and typically have a term of between three and seven years from the original investment date.

The total value of our investment portfolio was \$491.6 million as of September 30, 2018, as compared to \$393.1 million as of March 31, 2018. As of September 30, 2018, we had investments in 36 portfolio companies with an aggregate cost of \$445.1 million. As of March 31, 2018, we had investments in 30 portfolio companies with an aggregate cost of \$335.4 million.

As of September 30, 2018 and March 31, 2018, approximately \$314.8 million, or 93.5%, and \$220.3 million, or 92.1%, respectively, of our debt investment portfolio (at fair value) bore interest at floating rates, of which 88.4% and 94.2%, respectively, were subject to contractual minimum interest rates. As of September 30, 2018 and March 31, 2018, approximately \$21.9 million, or 6.5%, and \$18.8 million, or 7.9%, respectively, of our debt investment portfolio (at fair value) bore interest at fixed rates.

The following tables provide a summary of our investments in LMM and UMM companies as of September 30, 2018 and March 31, 2018 (excluding our investment in I-45 SLF LLC):

	As of September 30, 2018		
	LMM (a)	UMM	
	(dollars in thousands)		
Number of portfolio companies	24	11	
Fair value	\$337,776	\$87,499	
Cost	\$293,306	\$87,013	
% of portfolio at cost - debt	84.5	% 100.0	%
% of portfolio at cost - equity	15.5	% 0.0	%
% of debt investments at cost secured by first lien	74.1	% 79.1	%
Weighted average annual effective yield (b)(c)	11.9	% 10.8	%
Weighted average EBITDA (c)	\$8,996	\$66,743	
Weighted average leverage through CSWC security (c)(d)	3.4x	3.8x	

(a) At September 30, 2018, we had equity ownership in approximately 75.0% of our LMM investments.

(b) The weighted-average annual effective yields were computed using the effective interest rates for all debt investments at cost as of September 30, 2018, including accretion of original issue discount but excluding fees payable upon repayment of the debt instruments and any debt investments on non-accrual status. As of

September 30, 2018, there were no investments on non-accrual status. Weighted-average annual effective yield is not a return to shareholders and is higher than what an investor in shares in our common stock will realize on its investment because it does not reflect our expenses or any sales load paid by an investor.

(c) Weighted average metrics are calculated using investment cost basis weighting.

Table of Contents

Includes CSWC debt investments only. Calculated as the amount of each portfolio company's debt (including CSWC's position and debt senior or pari passu to CSWC's position, but excluding debt subordinated to CSWC's position) in the capital structure divided by each portfolio company's adjusted EBITDA. Management uses this metric as a guide to evaluate relative risk of its position in each portfolio debt investment.

	As of March 31, 2018	
	LMM (a)	UMM
	(dollars in thousands)	
Number of portfolio companies	19	10
Fair value	\$259,116	\$66,866
Cost	\$204,331	\$66,266
% of portfolio at cost - debt	83.5	% 100.0 %
% of portfolio at cost - equity	16.5	% —
% of debt investments at cost secured by first lien	74.2	% 65.2 %
Weighted average annual effective yield (b)(c)	11.9	% 10.2 %
Weighted average EBITDA (c)	\$8,600	\$86,200
Weighted average leverage through CSWC security (c)(d)	3.3x	4.3x

(a) At March 31, 2018, we had equity ownership in approximately 73.7% of our LMM investments.

The weighted-average annual effective yields were computed using the effective interest rates for all debt investments at cost as of March 31, 2018, including accretion of original issue discount but excluding fees payable upon repayment of the debt instruments and any debt investments on non-accrual status. As of March 31, 2018, there were no investments on non-accrual status. Weighted-average annual effective yield is not a return to shareholders and is higher than what an investor in shares in our common stock will realize on its investment because it does not reflect our expenses or any sales load paid by an investor.

(c) Weighted average metrics are calculated using investment cost basis weighting.

Includes CSWC debt investments only. Calculated as the amount of each portfolio company's debt (including CSWC's position and debt senior or pari passu to CSWC's position, but excluding debt subordinated to CSWC's position) in the capital structure divided by each portfolio company's adjusted EBITDA. Management uses this metric as a guide to evaluate relative risk of its position in each portfolio debt investment.

Table of Contents

As of September 30, 2018 and March 31, 2018, our investment portfolio consisted of the following investments:

	Fair Value	Percentage of Total Portfolio	Cost	Percentage of Total Portfolio
September 30, 2018:				
First lien loans <sup>1</sup>	\$ 287,808	58.5 %	\$ 286,246	64.3 %
Second lien loans	30,026	6.1	29,529	6.6
Subordinated debt	18,883	3.8	18,937	4.3
Preferred equity	24,150	4.9	15,777	3.5
Common equity & warrants	64,408	13.2	29,830	6.7
I-45 SLF LLC <sup>2</sup>	66,326	13.5	64,800	14.6
	\$ 491,601	100.0 %	\$ 445,119	100.0 %
March 31, 2018:				
First lien loans	\$ 197,110	50.1 %	\$ 194,820	58.1 %
Second lien loans	23,229	5.9	23,092	6.9
Subordinated debt	18,783	4.8	18,885	5.6
Preferred equity	36,545	9.3	16,666	5.0
Common equity & warrants	50,315	12.8	17,134	5.1
I-45 SLF LLC <sup>2</sup>	67,113	17.1	64,800	19.3
	\$ 393,095	100.0 %	\$ 335,397	100.0 %

Included in first lien loans are loans structured as first lien last out loans. These loans may in certain cases be

<sup>1</sup> subordinated in payment priority to other senior secured lenders. As of September 30, 2018 and March 31, 2018, the fair value of the first lien last out loans are \$23.0 million and \$26.9 million, respectively.

I-45 SLF LLC is a joint venture between CSWC and Main Street Capital. This entity primarily invests in syndicated senior secured loans in the UMM. The portfolio companies held by I-45 SLF LLC represent a diverse set of industry classifications, which are similar to those in which CSWC invests directly. We own 80.0% of I-45 SLF LLC and <sup>2</sup> have a profits interest of 75.6%, while Main Street Capital owns 20.0% and has a profits interest of 24.4%. I-45 SLF LLC's Board of Managers makes all investment and operational decisions for the fund, and consists of equal representation from our Company and Main Street Capital. The Company does not guarantee or otherwise obligate itself to make payments on debts owed by I-45 SLF LLC.

#### Portfolio Asset Quality

We utilize an internally developed investment rating system to rate the performance and monitor the expected level of returns for each debt investment in our portfolio. The investment rating system takes into account both quantitative and qualitative factors of the portfolio company and the investments held therein, including each investment's expected level of returns and the collectability of our debt investments, comparisons to competitors and other industry participants and the portfolio company's future outlook. The ratings are not intended to reflect the performance or expected level of returns of our equity investments.

- Investment Rating 1 represents the least amount of risk in our portfolio. The investment is performing materially above underwriting expectations and the trends and risk factors are generally favorable.
- Investment Rating 2 indicates the investment is performing as expected at the time of underwriting and the trends and risk factors are generally favorable to neutral.
- Investment Rating 3 involves an investment performing below underwriting expectations and the trends and risk factors are generally neutral to negative. The portfolio company or investment may be out of compliance with





Table of Contents

financial covenants and interest payments may be impaired, however principal payments are generally not past due. Investment Rating 4 indicates that the investment is performing materially below underwriting expectations, the trends and risk factors are generally negative and the risk of the investment has increased substantially. Interest and principal payments on our investment are likely to be impaired.

The following table shows the distribution of our debt portfolio investments on the 1 to 4 investment rating scale at fair value as of September 30, 2018 and March 31, 2018:

Investment Rating	As of September 30, 2018		
	Fair Value	Percentage of Debt Investments	Debt Portfolio
	(dollars in thousands)		
1	\$ 8,055	2.4	%
2	315,584	93.7	
3	13,078	3.9	
4	—	—	
Total	\$ 336,717	100.0	%

Investment Rating	As of March 31, 2018		
	Fair Value	Percentage of Debt Investments	Debt Portfolio
	(dollars in thousands)		
1	\$ 8,194	3.4	%
2	217,989	91.2	
3	12,939	5.4	
4	—	—	
Total	\$ 239,122	100.0	%

Interest and dividend income is recorded on an accrual basis to the extent amounts are expected to be collected. When we do not expect the debtor to be able to service all of its debt or other obligations, we will generally establish a reserve against interest income receivable, thereby placing the loan or debt security on non-accrual status, and cease to recognize interest income on that loan or debt security until the borrower has demonstrated the ability and intent to pay contractual amounts due.

As of September 30, 2018 and March 31, 2018, we did not have any investments on non-accrual status.

## Investment Activity

During the six months ended September 30, 2018, we made new debt investments in nine portfolio companies totaling \$128.3 million, follow-on debt investments in six portfolio companies totaling \$21.5 million, and equity investments in three existing and five new portfolio company totaling \$17.9 million. We received contractual principal repayments totaling approximately \$5.8 million and full prepayments of approximately \$18.3 million from three portfolio companies. In addition, we received proceeds from sales of investments totaling \$53.6 million and recognized realized gains on those sales totaling \$18.7 million.



Table of Contents

During the six months ended September 30, 2017, we made new debt investments in six portfolio companies totaling \$55.2 million, follow-on debt investments in one portfolio company totaling \$4.6 million, and equity investments in one existing and three new portfolio company totaling \$5.4 million. We also funded \$4.0 million on our existing equity commitment to I-45 SLF LLC. We received contractual principal repayments totaling approximately \$5.6 million and full repayments of approximately \$35.6 million from seven portfolio companies.

Total portfolio investment activity for the six months ended September 30, 2018 and 2017 was as follows (dollars in thousands):

	First Lien	Second Lien	Subordinated	Preferred & Common	I-45 SLF, LLC	Total	
Six months ended September 30, 2018	Loans	Loans	Debt	Equity			
Fair value, beginning of period	\$197,110	\$23,229	\$ 18,783	\$ 86,860	\$67,113	\$393,095	
New investments	138,485	11,359	—	17,853	—	167,697	
Proceeds from sales of investments	(28,805 )	—	—	(24,767 )	—	(53,572 )	
Principal repayments received	(19,138 )	(5,000 )	—	—	—	(24,138 )	
PIK interest earned	—	—	23	113	—	136	
Accretion of loan discounts	610	47	30	—	—	687	
Realized gain	274	31	—	18,608	—	18,913	
Unrealized gain (loss)	(728 )	360	47	(10,109 )	(787 )	(11,217 )	
Fair value, end of period	\$287,808	\$30,026	\$ 18,883	\$ 88,558	\$66,326	\$491,601	
Weighted average yield on debt investments at end of period							11.61 %
Weighted average yield on total investments at end of period							11.02 %

	First Lien	Second Lien	Subordinated	Preferred & Common	I-45 SLF, LLC	Total	
Six months ended September 30, 2017	Loans	Loans	Debt	Equity			
Fair value, beginning of period	\$107,817	\$47,176	\$ 12,453	\$56,039	\$63,395	\$286,880	
New investments	45,323	—	14,406	5,441	4,000	69,170	
Proceeds from sales of investments	—	—	—	(15 )	—	(15 )	
Principal repayments received	(17,930 )	(15,179 )	(8,100 )	—	—	(41,209 )	
PIK interest earned	—	—	—	142	—	142	
Accretion of loan discounts	304	54	25	—	—	383	
Realized gain	465	241	114	14	—	834	
Unrealized gain (loss)	146	53	(52 )	5,522	6	5,675	
Fair value, end of period	\$136,125	\$32,345	\$ 18,846	\$67,143	\$67,401	\$321,860	
Weighted average yield on debt investments at end of period							10.71 %
Weighted average yield on total investments at end of period							10.65 %

Table of Contents

## RESULTS OF OPERATIONS

The composite measure of our financial performance in the Consolidated Statements of Operations is captioned “Net increase in net assets from operations” and consists of three elements. The first is “Net investment income,” which is the difference between income from interest, dividends and fees and our combined operating and interest expenses, net of applicable income taxes. The second element is “Net realized gain on investments before income tax,” which is the difference between the proceeds received from the disposition of portfolio securities and their stated cost. The third element is the “Net change in unrealized appreciation of investments, net of tax,” which is the net change in the market or fair value of our investment portfolio, compared with stated cost. It should be noted that the “Net realized gain on investments before income tax” and “Net change in unrealized appreciation of investments, net of tax” are directly related in that when an appreciated portfolio security is sold to realize a gain, a corresponding decrease in net unrealized appreciation occurs by transferring the gain associated with the transaction from being “unrealized” to being “realized.” Conversely, when a loss is realized on a depreciated portfolio security, an increase in net unrealized appreciation occurs.

Comparison of three months ended September 30, 2018 and September 30, 2017

	Three Months Ended		Net Change	
	September 30, 2018	September 30, 2017	Amount	%
	(in thousands)			
Total investment income	\$12,595	\$8,509	\$4,086	48.0 %
Interest expense	(3,109 )	(911 )	(2,198 )	241.3 %
Other operating expenses	(3,684 )	(3,527 )	(157 )	4.5 %
Income before taxes	5,802	4,071	1,731	42.5 %
Income tax expense	256	134	122	91.0 %
Net investment income	5,546	3,937	1,609	40.9 %
Net realized gain on investments before income tax	94	210	(116 )	(55.2 )%
Net change in unrealized appreciation on investments, net of tax	948	4,496	(3,548 )	(78.9 )%
Net increase in net assets from operations	\$6,588	\$8,643	\$(2,055)	(23.8 )%

## Investment Income

Total investment income consisted of interest income, management fees, dividend income and other income for each applicable period. For the three months ended September 30, 2018, Capital Southwest reported investment income of \$12.6 million, a \$4.1 million, or 48.0%, increase as compared to the three months ended September 30, 2017. The increase was primarily due to a \$4.0 million, or 74.9%, increase in interest income from our debt investments due to a 59.1% increase in the cost basis of our debt investments from \$279.8 million to \$445.1 million year over year in addition to an increase in the weighted average yield on debt investments from 10.71% to 11.61% year over year.

## Operating Expenses

Due to the nature of our business, the majority of our operating expenses are related to interest and fees on our borrowings, employee compensation (including both cash and share-based compensation) and general and administrative expenses.

## Interest and Fees on our Borrowings

For the three months ended September 30, 2018, our total interest expense was \$3.1 million, an increase of \$2.2 million as compared to the total interest expense of \$0.9 million for the three months ended September 30, 2017. The increase was primarily attributable to an increase of \$52.8 million in average borrowings on our Credit Facility during the three months ended September 30, 2018 as compared to the three months ended September 30, 2017, as well as the issuance of \$75.7 million of the December 2022 Notes.

Table of Contents

Salaries, General and Administrative Expenses

For the three months ended September 30, 2018, our total employee compensation expense (including both cash and share-based compensation) was \$2.4 million, an increase of \$0.2 million, or 13.0%, as compared to the total employee compensation expense of \$2.2 million for the three months ended September 30, 2017. The increase was primarily due to an increase in headcount. For the three months ended September 30, 2018, our total general and administrative expense was \$1.2 million, a decrease of \$0.2 million, or 9.2%, as compared to the total general and administrative expense of \$1.4 million for the three months ended September 30, 2017. The decrease was primarily due to a decrease in employee recruitment expenses.

Net Investment Income

For the three months ended September 30, 2018, income before taxes increased by \$1.7 million, or 42.5%. Net investment income increased from the prior year period by \$1.6 million, or 40.9%, to \$5.5 million as a result of a \$4.1 million increase in total investment income, offset by a \$0.1 million increase in income tax expense and a \$2.2 million increase in interest expense.

Increase in Net Assets from Operations

During the three months ended September 30, 2018, we recognized realized gains totaling \$0.1 million, which consisted of gains on the full repayments of one non-control/non-affiliate investments and the sale of one affiliate investment.

In addition, during the three months ended September 30, 2018, we recorded a net change in unrealized appreciation of investments totaling \$0.9 million, consisting primarily of net unrealized appreciation on our current portfolio of \$0.9 million. Net unrealized appreciation on our current portfolio included unrealized gains on Vistar Media Inc. of \$0.6 million, Deepwater Corrosion Services of \$0.5 million and Alliance Sports Group, L.P. of \$0.5 million, offset by unrealized losses on ITA Holdings Group, LLC of \$0.7 million. These unrealized gains and losses were due to changes in fair value based on the overall EBITDA performance and cash flows of each investment.

During the three months ended September 30, 2017, we recognized realized gains totaling \$0.2 million, which consisted of net gains on the full repayment of three non-control/non-affiliate investment.

In addition, during the three months ended September 30, 2017, we recorded a net change in unrealized appreciation of investments totaling \$4.5 million, consisting of net unrealized appreciation on our current portfolio of \$4.5 million, the reversal of \$0.1 million of net unrealized appreciation recognized in prior periods due to realized gains noted above, and net unrealized appreciation related to deferred tax associated with the Taxable Subsidiary of \$0.1 million. Net unrealized appreciation on our current portfolio included unrealized gains on Media Recovery, Inc. of \$4.1 million and TitanLiner, Inc. of \$2.4 million, partially offset by unrealized losses on Deepwater Corrosion Services of \$1.2 million. These unrealized gains and losses were due to changes in fair value based on the overall EBITDA performance and cash flows of each investment.

Table of Contents

Comparison of six months ended September 30, 2018 and September 30, 2017

	Six Months Ended		Net Change		
	September 30, 2018	September 30, 2017	Amount	%	
	(in thousands)				
Total investment income	\$23,702	\$16,233	\$7,469	46.0	%
Interest expense	(5,482 )	(1,649 )	(3,833 )	232.4	%
Other operating expenses	(7,422 )	(6,933 )	(489 )	7.1	%
Income before taxes	10,798	7,651	3,147	41.1	%
Income tax (benefit) expense	635	278	357	128.4	%
Net investment income	10,163	7,373	2,790	37.8	%
Net realized gain on investments before income tax	18,913	834	18,079	2,167.7	%
Net change in unrealized appreciation on investments, net of tax	(10,835 )	5,880	(16,715)	(284.3 )	%
Net increase in net assets from operations	\$18,241	\$14,087	\$4,154	29.5	%

## Investment Income

Total investment income consisted of interest income, management fees, dividend income and other income for each applicable period. For the six months ended September 30, 2018, Capital Southwest reported investment income of \$23.7 million, a \$7.5 million, or 46.0%, increase as compared to the six months ended September 30, 2017. The increase was primarily due to a \$7.2 million, or 73.6%, increase in interest income from our debt investments due to a 59.1% increase in the cost basis of our debt investments from \$279.8 million to \$445.1 million year over year in addition to an increase in the weighted average yield on debt investments from 10.71% to 11.61% year over year.

## Operating Expenses

Due to the nature of our business, the majority of our operating expenses are related to interest and fees on our borrowings, employee compensation (including both cash and share-based compensation) and general and administrative expenses.

## Interest and Fees on our Borrowings

For the six months ended September 30, 2018, our total interest expense was \$5.5 million, an increase of \$3.8 million as compared to the total interest expense of \$1.6 million for the six months ended September 30, 2017. The increase was primarily attributable to an increase of \$43.5 million in average borrowings on our Credit Facility during the six months ended September 30, 2018 as compared to the six months ended September 30, 2017, as well as the issuance of \$75.7 million of the December 2022 Notes.

## Salaries, General and Administrative Expenses

For the six months ended September 30, 2018, our total employee compensation expense (including both cash and share-based compensation) was \$4.8 million, an increase of \$0.5 million, or 11.3%, as compared to the total employee compensation expense of \$4.3 million for the six months ended September 30, 2017. The increase was primarily due to an increase in headcount. For the six months ended September 30, 2018, our total general and administrative expense remained flat at \$2.6 million, as compared to the total general and administrative expense for the six months ended September 30, 2017.

## Net Investment Income



For the six months ended September 30, 2018, income before taxes increased by \$3.1 million, or 41.1%. Net investment income increased from the prior year period by \$2.8 million, or 37.8%, to \$10.2 million as a result of a \$7.5

75

---

## Table of Contents

million increase in total investment income, offset by a \$0.4 million increase in income tax expense and a \$3.8 million increase in interest expense.

### Increase in Net Assets from Operations

During the six months ended September 30, 2018, we recognized realized gains totaling \$18.9 million, which consisted of gains on the partial repayments of four non-control/non-affiliate investments, full repayments of three non-control/non-affiliate investments and the sale of one control and one affiliate investment.

In addition, during the six months ended September 30, 2018, we recorded a net change in unrealized appreciation of investments totaling \$10.8 million, consisting of net unrealized appreciation on our current portfolio of \$6.3 million, the reversal of \$17.5 million of net unrealized appreciation recognized in prior periods due to realized gains noted above, and net unrealized appreciation related to deferred tax associated with the Taxable Subsidiary of \$0.4 million. Net unrealized appreciation on our current portfolio included unrealized gains on Deepwater Corrosion Services, Inc. of \$5.2 million and Media Recovery, Inc. of \$1.7 million, offset by unrealized losses on ITA Holdings Group, LLC of \$0.7 million. These unrealized gains and losses were due to changes in fair value based on the overall EBITDA performance and cash flows of each investment.

During the six months ended September 30, 2017, we recognized realized gains totaling \$0.8 million, which consisted of net gains on the partial repayments of two non-control/non-affiliate investments, full repayment on seven non-control/non-affiliate investment, and the sale of one non-control/non-affiliate equity investment.

In addition, during the six months ended September 30, 2017, we recorded a net change in unrealized appreciation of investments totaling \$5.9 million, consisting of net unrealized appreciation on our current portfolio of \$6.0 million, the reversal of \$0.3 million of net unrealized appreciation recognized in prior periods due to realized gains noted above, and net unrealized appreciation related to deferred tax associated with the Taxable Subsidiary of \$0.2 million. Net unrealized appreciation on our current portfolio included unrealized gains on TitanLiner, Inc. of \$8.5 million, Media Recovery, Inc. of \$2.0 million and Vistar Media Inc. of \$1.4 million, partially offset by unrealized losses on Deepwater Corrosion Services of \$5.3 million. These unrealized gains and losses were due to changes in fair value based on the overall EBITDA performance and cash flows of each investments.

## FINANCIAL LIQUIDITY AND CAPITAL RESOURCES

Management believes that the Company's cash and cash equivalents, cash available from investments, and commitments under the Credit Facility are adequate to meet its needs for the next twelve months.

### Cash Flows

For the six months ended September 30, 2018, we experienced a net increase in cash and cash equivalents in the amount of \$2.3 million. During that period, our operating activities used \$78.1 million in cash, consisting primarily of new portfolio investments of \$167.7 million, partially offset by \$52.6 million from sales and repayments received from debt investments in portfolio companies and \$24.9 million from sales and return of capital of equity investments in portfolio companies. In addition, our financing activities increased cash by \$80.4 million, consisting primarily of proceeds from net borrowings under the Credit Facility of \$87.0 million and proceeds from the December 2022 Notes of \$18.1 million, partially offset by cash dividends paid in the amount of \$26.2 million. At September 30, 2018, the Company had cash and cash equivalents of approximately \$10.2 million.

For the six months ended September 30, 2017, we experienced a net increase in cash and cash equivalents in the amount of \$10.9 million. During that period, our operating activities used \$9.4 million in cash, consisting primarily of new portfolio investments of \$69.2 million, partially offset by \$40.4 million of sales and repayments received from debt investments in portfolio companies. In addition, our financing activities increased cash by \$20.3 million, consisting primarily of proceeds from net borrowings under the Credit Facility of \$31.0 million, partially offset by cash dividends paid in the amount of \$10.5 million. At September 30, 2017, the Company had cash and cash equivalents of approximately \$33.3 million.

## Table of Contents

### Financing Transactions

In accordance with the 1940 Act, with certain limitations, the Company is only allowed to borrow amounts such that its asset coverage (i.e., the ratio of assets less liabilities not represented by senior securities to senior securities such as borrowings), calculated pursuant to the 1940 Act, is at least 200% (or, pursuant to the 1940 Act, 150% if certain requirements are met as described in our Annual Report on Form 10-K in the Business Section under “Regulation as a Business Development Company-Senior Securities”) after such borrowing. On April 25, 2018, the Board of Directors unanimously approved the application of the recently modified asset coverage requirements set forth in Section 61(a)(2) of the 1940 Act. As a result, the minimum asset coverage ratio applicable to the Company will be decreased from 200% to 150%, effective April 25, 2019. The Board of Directors also approved a resolution which limits the Company’s issuance of senior securities such that the asset coverage ratio, taking into account any such issuance, would not be less than 166%, effective April 25, 2019. As of September 30, 2018, the Company’s asset coverage was 252%.

### Credit Facility

In August 2016, CSWC entered into a senior secured credit facility (as amended, restated, supplemented or otherwise modified from time to time, the “Credit Facility”) to provide additional liquidity to support its investment and operational activities, which included total commitments of \$100 million. The Credit Facility contained an accordion feature that allowed CSWC to increase the total commitments under the facility up to \$150 million from new and existing lenders on the same terms and conditions as the existing commitments. In August 2017, we increased our total commitments by \$15 million through adding an additional lender using the accordion feature.

On November 16, 2017, CSWC entered into Amendment No. 1 (the “Amendment”) to its Credit Facility. Prior to the Amendment, borrowings under the Credit Facility accrued interest on a per annum basis at a rate equal to the applicable LIBOR rate plus 3.25% with no LIBOR floor. CSWC paid unused commitment fees of 0.50% to 1.50% per annum, based on utilization, on the unused lender commitments under the Credit Facility. The Amendment (1) increased the total borrowing capacity under the Credit Facility to \$180 million, with commitments from a diversified group of eight lenders, (2) increased the Credit Facility’s accordion feature that allows for an increase in total commitments of up to \$250 million under the Credit Facility from new and existing lenders on the same terms and conditions as the existing commitments, (3) reduced the interest rate on borrowings from LIBOR plus 3.25% down to LIBOR plus 3.00%, with a further step-down to LIBOR plus 2.75% at the time the Company’s net worth exceeds \$325 million, (4) reduced unused commitment fees from a utilization-based grid of 0.50% to 1.5% down to a range of 0.50% to 1.0% per annum, and (5) extended the Credit Facility’s revolving period that ended on August 30, 2019 through November 16, 2020. Additionally, the final maturity of the Credit Facility was extended from August 30, 2020 to November 16, 2021. On April 16, 2018 and May 11, 2018, CSWC entered into Incremental Assumption Agreements, which increased the total commitments under the Credit Facility by \$20 million and \$10 million, respectively. The increases were executed in accordance with the accordion feature of the Credit Facility, increasing total commitments from \$180 million to \$210 million.

The Credit Facility contains certain affirmative and negative covenants, including but not limited to: (1) certain reporting requirements, (2) maintaining RIC and BDC status, (3) maintaining a minimum shareholders’ equity, (4) maintaining a minimum consolidated net worth, (5) maintaining an asset coverage of not less than 200%, (6) maintaining a consolidated interest coverage ratio of at least 2.5 to 1.0, and (7) at any time the outstanding advances exceed 90% of the borrowing base, maintaining a minimum liquidity of not less than 10% of the covered debt amount.

The Credit Facility also contains customary events of default, including, without limitation, nonpayment, misrepresentation of representations and warranties in a material respect, breach of covenant, bankruptcy, and change

of control, with customary cure and notice provisions. If the Company defaults on its obligations under the Credit Facility, the lenders may have the right to foreclose upon and sell, or otherwise transfer, the collateral subject to their security interests. There are no changes to the covenants or the events of default in the Credit Facility as a result of the Amendment.

The Credit Facility is secured by (1) substantially all of the present and future property and assets of the Company and the guarantors and (2) 100% of the equity interests in the Company's wholly-owned subsidiaries. As of September 30, 2018, substantially all of the Company's assets were pledged as collateral for the Credit Facility.

Table of Contents

At September 30, 2018, CSWC had \$127.0 million in borrowings outstanding under the Credit Facility. CSWC recognized interest expense related to the Credit Facility, including unused commitment fees and amortization of deferred loan costs of \$1.8 million and \$3.2 million, respectively, for the three and six months ended September 30, 2018. For the three and six months ended September 30, 2017, CSWC recognized interest expense of \$0.9 million and \$1.6 million, respectively. The weighted average interest rate on the Credit Facility was 5.42% and 5.31%, respectively, for the three and six months ended September 30, 2018. For the three and six months ended September 30, 2017, the weighted average interest rate on the Credit Facility was 4.76% and 4.65%, respectively. Average borrowings for the three and six months ended September 30, 2018 were \$102.5 million and \$80.9 million, respectively. For the three and six months ended September 30, 2017, average borrowings were \$49.7 million and \$37.4 million, respectively. As of September 30, 2018, CSWC was in compliance with all financial covenants under the Credit Facility.

Notes

In December 2017, the Company issued \$57.5 million in aggregate principal amount, including the underwriters' full exercise of their option to purchase additional principal amounts to cover over-allotments, of 5.95% Notes due 2022 (the "December 2022 Notes"). The December 2022 Notes mature on December 15, 2022 and may be redeemed in whole or in part at any time, or from time to time, at the Company's option on or after December 15, 2019. The December 2022 Notes bear interest at a rate of 5.95% per year, payable quarterly on March 15, June 15, September 15 and December 15 of each year, beginning on March 15, 2018. The December 2022 Notes are an unsecured obligation, rank pari passu with our other outstanding and future unsecured unsubordinated indebtedness and are effectively subordinated to all of our existing and future secured indebtedness, including borrowings under our Credit Facility.

On June 11, 2018, the Company entered into an "At-The-Market" ("ATM") debt distribution agreement, pursuant to which it may offer for sale, from time to time, up to \$50 million in aggregate principal amount of December 2022 Notes through B. Riley FBR, Inc., acting as its sales agent (the "2022 Notes Agent"). Sales of the December 2022 Notes may be made in negotiated transactions or transactions that are deemed to be "at the market offerings" as defined in Rule 415 under the Securities Act of 1933, as amended, including sales made directly on The Nasdaq Global Select Market, or similar securities exchanges or sales made through a market maker other than on an exchange at prices related to prevailing market prices or at negotiated prices.

The 2022 Notes Agent receives a commission from the Company equal to up to 2% of the gross sales of any December 2022 Notes sold through the 2022 Notes Agent under the debt distribution agreement. The 2022 Notes Agent is not required to sell any specific principal amount of December 2022 Notes, but will use its commercially reasonable efforts consistent with its sales and trading practices to sell the December 2022 Notes. The December 2022 Notes trade "flat," which means that purchasers in the secondary market will not pay, and sellers will not receive, any accrued and unpaid interest on the December 2022 Notes that is not reflected in the trading price.

During the six months ended September 30, 2018, the Company sold 727,063 December 2022 Notes for an aggregate principal amount of approximately \$18.2 million at a weighted average effective yield of 5.86%. As of September 30, 2018, an aggregate principal amount of approximately \$31.8 million remains available for issuance and sale under the debt distribution agreement.

All issuances of December 2022 Notes rank equally in right of payment and form a single series of notes.

As of September 30, 2018, the carrying amount of the December 2022 Notes was \$73.4 million on an aggregate principal amount of \$75.7 million at a weighted average effective yield of 5.93%. As of September 30, 2018, the fair value of the December 2022 Notes was \$77.0 million. The fair value is based on the closing price of the security on The Nasdaq Global Select Market, which is a Level 1 input under ASC 820. The Company recognized interest

expense related to the December 2022 Notes, including amortization of deferred issuance costs of \$1.2 million and \$2.2 million, respectively, for the three and six months ended September 30, 2018.

The indenture governing the December 2022 Notes contains certain covenants including but not limited to (i) a requirement that the Company comply with the asset coverage requirement of Section 61 of the 1940 Act or any successor provisions, after giving effect to any exemptive relief granted to the Company by the SEC, (ii) a requirement, subject to limited exception, that the Company will not declare any cash dividend, or declare any other cash distribution, upon a class

Table of Contents

of its capital stock, or purchase any such capital stock, unless, in every such case, at the time of the declaration of any such dividend or distribution, or at the time of any such purchase, the Company has the minimum asset coverage required pursuant to Section 61 of the 1940 Act, or any successor provision thereto, after deducting the amount of such dividend, distribution or purchase price, as the case may be, giving effect to any exemptive relief granted to the Company by the SEC and (iii) a requirement to provide financial information to the holders of the December 2022 Notes and the trustee under the indenture if the Company should no longer be subject to the reporting requirements under the Exchange Act. The indenture and supplement relating to the December 2022 Notes also provides for customary events of default. As of September 30, 2018, the Company was in compliance with all covenants of the December 2022 Notes.

Equity Capital Activities

In January 2016, our board of directors approved a share repurchase program authorizing us to repurchase up to \$10 million in the aggregate of our outstanding common stock in the open market at certain thresholds below our net asset value per share, in accordance with Rules 10b-18 under the Exchange Act. During the six months ended September 30, 2018, we did not repurchase any common stock under the stock repurchase program. Cumulative to date, we have repurchased a total of 35,911 shares of our common stock in the open market under the stock repurchase program, at an average price of \$16.37, including commissions paid, leaving approximately \$9.4 million available for additional repurchases under the program.

We anticipate that we will continue to fund our investment activities through existing cash and cash equivalents, cash flows generated through our ongoing operating activities, utilization of available borrowings under our Credit Facility and future issuances of debt and equity on terms we believe are favorable to the Company and our shareholders. Our primary uses of funds will be investments in portfolio companies and operating expenses.

In order to satisfy the Internal Revenue Code requirements applicable to a RIC, we intend to distribute to our stockholders, after consideration and application of our ability under the Internal Revenue Code to carry forward certain excess undistributed taxable income from one tax year into the next tax year, substantially all of our taxable income.



Table of Contents

## CONTRACTUAL OBLIGATIONS

As shown below, we had the following contractual obligations as of September 30, 2018.

	Payments Due By Period (In thousands)				
	Total	Less than 1 Year	1-3 Years	3-5 Years	More Than 5 Years
Contractual Obligations					
Operating lease obligations	\$ 897	\$ 252	\$ 645	\$ —	\$ —
Credit Facility (1)	148,807	6,963	141,844	—	—
December 2022 Notes (2)	95,101	4,613	9,239	81,249	—
	\$ 244,805	\$ 11,828	\$ 151,728	\$ 81,249	\$ —

(1) Amounts include interest payments calculated at an average rate of 5.42% of outstanding credit facility borrowings, which were \$127.0 million as of September 30, 2018.

(2) Includes interest payments.

## OFF-BALANCE SHEET ARRANGEMENTS

We may be a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financial needs of our portfolio companies. These instruments may include commitments to extend credit and fund equity capital and involve, to varying degrees, elements of liquidity and credit risk in excess of the amount recognized in the balance sheet.

At September 30, 2018 and March 31, 2018, we had a total of approximately \$26.9 million and \$11.6 million, respectively, in currently unfunded commitments (as discussed in Note 11 to the Consolidated Financial Statements). Included within the total unfunded commitments as of September 30, 2018 were commitments to issue letters of credit through a financial intermediary on behalf of certain portfolio companies. As of September 30, 2018, we had \$3.3 million in letters of credit issued and outstanding under these commitments on behalf of the portfolio companies. For the letters of credit issued and outstanding, we would be required to make payments to third parties if the portfolio companies were to default on their related payment obligations. Of these letters of credit, \$3.3 million expire in May 2019. As of September 30, 2018, none of the letters of credit issued and outstanding were recorded as a liability on the Company's balance sheet as such letters of credit are considered in the valuation of the investments in the portfolio company.

The Company believes its assets will provide adequate coverage to satisfy these commitments. As of September 30, 2018, the Company had cash and cash equivalents of \$10.2 million and \$83.0 million in available borrowings under the Credit Facility.

## RECENT DEVELOPMENTS

On October 4, 2018, the Company issued an aggregate of 700,000 shares of the Company's common stock at a net price of \$18.90 per share. Of the 700,000 shares sold, 100,000 shares were sold to certain institutional investors in a direct registered offering and 600,000 shares were sold in a "best efforts" underwritten offering. The total net proceeds of the offerings, before expenses, was approximately \$13.2 million.



Table of Contents

Item 3. Quantitative and Qualitative Disclosures about Market Risk

We are subject to market risk. Market risk includes risk that arise from changes in interest rates, commodity prices, equity prices and other market changes that affect market sensitive instruments. The prices of securities held by us may decline in response to certain events, including those directly involving the companies in which we invest; conditions affecting the general economy; overall market changes; legislative reform; local, regional, national or global political, social or economic instability; and interest rate fluctuations.

Interest Rate Risk

We are subject to interest rate risk. Interest rate risk is defined as the sensitivity of our current and future earnings to interest rate volatility, variability of spread relationships, the difference in re-pricing internals between our assets and liabilities and the effect that interest rates may have on our cash flows. Changes in the general level of interest rates can affect our net interest income, which is the difference between the interest income earned on interest earning assets and our interest expense incurred in connection with our interest-bearing liabilities. Changes in interest rates can also affect, among other things, our ability to acquire and originate loans and securities and the value of our investment portfolio. Our net investment income is affected by fluctuations in various interest rates including LIBOR and prime rates. However, the interest rates on our December 2022 Notes are fixed for the life of such debt. Our risk management systems and procedures are designed to identify and analyze our risk, to set appropriate policies and limits and to continually monitor these risks. We regularly measure exposure to interest rate risk and determine whether or not any hedging transactions are necessary to mitigate exposure to changes in interest rates. As of September 30, 2018, we were not a party to any hedging arrangements.

As of September 30, 2018, approximately 93.5% of our debt investment portfolio (at fair value) bore interest at floating rates, 88.4% of which were subject to contractual minimum interest rates. A hypothetical 100 basis point increase in interest rates could increase our net investment income by a maximum of \$2.6 million, or \$0.16 per share, on an annual basis. A hypothetical 100 basis point decrease in interest rates could decrease our net investment income by a maximum of \$2.4 million, or \$0.15 per share, on an annual basis. Our Credit Facility bears interest on a per annum basis equal to the applicable LIBOR rate plus 3.00%, with a step-down to LIBOR plus 2.75% at the time the Company's net worth exceeds \$325 million. We pay unused commitment fees of 0.50% to 1.00% per annum, based on utilization.

Although we believe that the foregoing analysis is indicative of our sensitivity to interest rate changes, it does not adjust for potential changes in the credit market, credit quality, size and composition of the assets in our portfolio. It also does not adjust for other business developments, including future borrowings that could affect the net increase in net assets resulting from operations, or net income. It also does not assume any repayments from borrowers. Accordingly, no assurances can be given that actual results would not differ materially from the statement above.

Because we currently borrow, and plan to borrow in the future, money to make investments, our net investment income is dependent upon the difference between the rate at which we borrow funds and the rate at which we invest the funds borrowed. Accordingly, there can be no assurance that a significant change in interest rates will not have a material adverse effect on our net investment income. In periods of rising interest rates, our cost of funds would increase, which could reduce our net investment income if there is not a corresponding increase in interest income generated by our investment portfolio.

Table of Contents

Item 4. Controls and Procedures

As of the end of the period covered by this report, an evaluation was performed under the supervision and with the participation of our management, including the President and Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15 of the Securities Exchange Act of 1934). Based upon this evaluation, management, including our President and Chief Executive Officer and our Chief Financial Officer, concluded that our current disclosure controls and procedures are effective as of September 30, 2018.

During the three months ended September 30, 2018, there have been no changes in our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect our internal control over financial reporting.

Table of Contents

PART II. – OTHER INFORMATION

Item 1. Legal Proceedings

We may, from time to time, be involved in litigation arising out of our operations in the normal course of business or otherwise. Furthermore, third parties may try to seek to impose liability on us in connection with the activities of our portfolio companies. We have no currently pending material legal proceedings to which we are party or to which any of our assets is subject.

Item 1A. Risk Factors

Investing in our common stock involves a number of significant risks. There have been no material changes to the risk factors as previously disclosed in our Annual Report on Form 10-K for the fiscal year ended March 31, 2018 that we filed with the SEC on June 5, 2018.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

Sales of Unregistered Securities

None.

Issuer Purchases of Equity Securities

On January 25, 2016, we announced that our Board of Directors authorized us to repurchase an indeterminate number of shares of our common stock at an aggregate market value of up to \$10 million. The share repurchase program will be in effect until the approved dollar amount has been used to repurchase shares or the Board amends or discontinues the program at any time. During the six months ended September 30, 2018, the Company did not repurchase any shares of the Company's common stock under the share repurchase program. As of September 30, 2018, the Company has approximately \$9.4 million available for additional repurchases under the program.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Mine Safety Disclosures.

None.

Item 5. Other Information.

None.

Table of Contents

Item 6. Exhibits

Exhibit No.	Description
<u>31.1*</u>	<u>Certification of President and Chief Executive Officer required by Rule 13a-14(a) of the Exchange Act.</u>
<u>31.2*</u>	<u>Certification of Chief Financial Officer required by Rule 13a-14(a) of the Exchange Act.</u>
<u>32.1*^</u>	<u>Certification of President and Chief Executive Officer required by Rule 13a-14(b) of the Exchange Act and Section 1350 of Chapter 63 of Title 18 of the United States Code.</u>
<u>32.2*^</u>	<u>Certification of Chief Financial Officer required by Rule 13a-14(b) of the Exchange Act and Section 1350 of Chapter 63 of Title 18 of the United States Code.</u>

\* Filed herewith.

The certifications attached as Exhibit 32.1 and 32.2 accompany this Quarterly Report pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, and shall not be deemed “filed” by the ^registrant for purposes of Section 18 of the Exchange Act, and are not to be incorporated by reference into any of the registrant’s filings under the Securities Act or the Exchange Act, whether made before or after the date of this Quarterly Report, irrespective of any general incorporation language contained in any such filing.

Table of Contents

SIGNATURES

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

CAPITAL SOUTHWEST CORPORATION

November 7, 2018 By:/s/ Bowen S. Diehl  
Date Bowen S. Diehl  
President and Chief Executive Officer

November 7, 2018 By:/s/ Michael S. Sarner  
Date Michael S. Sarner  
Chief Financial Officer, Secretary and Treasurer