

CAPITAL SOUTHWEST CORP  
Form 10-Q  
August 08, 2017  
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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 June 30, 2017

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)

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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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted 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 and post such filings). 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.

Large accelerated filer	Accelerated filer	Non-accelerated filer	Smaller reporting company	Emerging growth company
	<input checked="" type="checkbox"/>	(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.

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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.

16,006,296 shares of Common Stock, \$0.25 value per share, as of August 4, 2017.

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## 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)

	June 30, 2017 (Unaudited)	March 31, 2017
Assets		
Investments at fair value:		
Non-control/Non-affiliate investments (Cost: \$186,795 and \$172,437, respectively)	\$ 187,670	\$ 175,731
Affiliate investments (Cost: \$5,929 and \$5,925, respectively)	6,810	7,138
Control investments (Cost: \$76,219 and \$72,178, respectively)	112,102	104,011
Total investments (Cost: \$268,943 and \$250,540, respectively)	306,582	286,880
Cash and cash equivalents	12,359	22,386
Receivables:		
Dividends and interest	3,417	3,137
Escrow	545	545
Other	406	626
Deferred tax asset	1,858	2,017
Debt issuance costs (net of accumulated amortization of \$523 and \$366, respectively)	1,980	2,137
Other assets	4,043	8,024
Total assets	\$ 331,190	\$ 325,752
Liabilities		
Credit facility	\$ 25,000	\$ 25,000
Other liabilities	3,761	5,996
Payable for unsettled transactions	9,263	-
Dividends payable	3,355	7,191
Accrued restoration plan liability	2,146	2,170
Deferred income taxes	238	323
Total liabilities	43,763	40,680
Net Assets		

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Common stock, \$0.25 par value: authorized, 25,000,000 shares; issued, 18,345,808 shares at June 30, 2017 and 18,350,808 shares at March 31, 2017	4,586	4,588
Additional paid-in capital	261,740	261,472
Accumulated net investment loss	(1,377)	(1,457)
Accumulated net realized gain	9,014	8,390
Unrealized appreciation of investments, net of income taxes	37,401	36,016
Treasury stock - at cost, 2,339,512 shares	(23,937)	(23,937)
Total net assets	287,427	285,072
Total liabilities and net assets	\$ 331,190	\$ 325,752
Net asset value per share (16,006,296 shares outstanding at June 30, 2017 and 16,011,296 shares outstanding at March 31, 2017)	\$ 17.96	\$ 17.80

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

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## CAPITAL SOUTHWEST CORPORATION AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

(In thousands, except shares and per share data)

	Three Months Ended June 30,	
	2017	2016
Investment income:		
Interest income:		
Non-control/Non-affiliate investments	\$ 4,332	\$ 2,082
Affiliate investments	140	140
Control investments	41	-
Dividend income:		
Control investments	3,004	1,769
Interest income from cash and cash equivalents	7	70
Fees and other income	200	96
Total investment income	7,724	4,157
Operating expenses:		
Compensation	1,638	1,582
Spin-off compensation plan	172	172
Share-based compensation	368	239
Interest	738	-
Professional fees	479	518
Net pension expense	40	43
General and administrative	709	685
Total operating expenses	4,144	3,239
Income before taxes	3,580	918
Income tax expense	144	547
Net investment income	\$ 3,436	\$ 371
Realized gain		
Non-control/Non-affiliate investments	\$ 624	\$ 199
Total net realized gain on investments before income tax	624	199
Unrealized appreciation of investments		
Non-control/Non-affiliate investments	(2,419)	1,353
Affiliate investments	(332)	506
Control investments	4,050	790
Income tax benefit (provision)	85	(522)
Total net increase in unrealized appreciation of investments, net of tax	1,384	2,127
Net realized and unrealized gain on investments	\$ 2,008	\$ 2,326

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Net increase in net assets from operations	\$ 5,444	\$ 2,697
Pre-tax net investment income per share - basic and diluted	\$ 0.22	\$ 0.06
Net investment income per share – basic and diluted	\$ 0.21	\$ 0.02
Net increase in net assets from operations – basic and diluted	\$ 0.34	\$ 0.17
Weighted average shares outstanding – basic	16,009,703	15,724,620
Weighted average shares outstanding – diluted	16,072,463	15,791,299

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

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## CAPITAL SOUTHWEST CORPORATION AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

(Unaudited)

(In thousands)

	Three Months Ended June 30,	
	2017	2016
Operations:		
Net investment income	\$ 3,436	\$ 371
Net realized gain on investments	624	199
Net increase in unrealized appreciation of investments, net of tax	1,384	2,127
Net increase in net assets from operations	5,444	2,697
Distributions from:		
Undistributed net investment income	(3,355)	(939)
Distributions of CSW Industrials, Inc.:		
Spin-Off Compensation Plan distribution, net of tax of \$59 and \$ - , respectively	(114)	(1,348)
Capital share transactions:		
Change in pension plan funded status	12	-
Share-based compensation expense	368	239
Increase (decrease) in net assets	2,355	649
Net assets, beginning of period	285,072	272,635
Net assets, end of period	\$ 287,427	\$ 273,284

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

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## CAPITAL SOUTHWEST CORPORATION AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(In thousands)

	Three Months Ended	
	June 30,	
	2017	2016
Cash flows from operating activities		
Net increase in net assets from operations	\$ 5,444	\$ 2,697
Adjustments to reconcile net increase in net assets from operations to net cash (used in) provided by operating activities:		
Purchases and originations of investments	(41,662)	(5,836)
Proceeds from sales and repayments of debt investments in portfolio companies	23,515	11,253
Proceeds from sales and return of capital of equity investments in portfolio companies	15	-
Payment of accreted original issue discounts	609	27
Depreciation and amortization	181	23
Net pension benefit	(12)	(7)
Realized gain on investments before income tax	(624)	(199)
Net increase in unrealized appreciation of investments	(1,299)	(2,127)
Accretion of discounts on investments	(183)	(75)
Payment-in-kind interest	(73)	-
Stock option and restricted awards expense	368	239
Deferred income tax expense	(155)	547
Changes in other assets and liabilities:		
(Increase) decrease in dividend and interest receivable	(281)	368
Increase in escrow receivables	-	1,600
Decrease (increase) in other receivables	220	(60)
Decrease (increase) in other assets	3,957	(295)
Decrease in other liabilities	(2,119)	(1,257)
Increase (decrease) in payable for unsettled transaction	9,263	(3,940)
Net cash (used in) provided by operating activities	(2,836)	2,958
Cash flows from financing activities		
Dividends to shareholders	(7,191)	(625)
Spin-off Compensation Plan distribution	-	(1,345)
Net cash used in financing activities	(7,191)	(1,970)
Net (decrease) increase in cash and cash equivalents	(10,027)	988
Cash and cash equivalents at beginning of period	22,386	95,969
Cash and cash equivalents at end of period	\$ 12,359	\$ 96,957
Supplemental cash flow disclosures:		
Cash paid for income taxes	\$ 214	\$ -

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Cash paid for interest	611	-
Supplemental disclosure of noncash financing activities:		
Dividend declared, not yet paid	3,355	939
Spin-off Compensation Plan distribution accrued, not yet paid	172	-

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

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## CAPITAL SOUTHWEST CORPORATION AND SUBSIDIARIES

## CONSOLIDATED SCHEDULE OF INVESTMENTS

(Unaudited)

June 30, 2017

Portfolio Company1 Non-control/Non-affiliate Investments5	Type of Investment2	Industry	Current Interest Rate3	Maturity	Principal	Cost
AAC HOLDINGS	First Lien	Healthcare services	L+6.75% (Floor 1.00%)	6/28/2023	\$ 9,500,000	\$ 9,26
AG KINGS HOLDINGS8	First Lien	Food, agriculture & beverage	L+8.50% (Floor 1.00%)	8/8/2021	9,850,000	9,67
AMERICAN TELECONFERENCING	First Lien	Telecommunications	L+6.50% (Floor 1.00%)	12/8/2021	6,644,670	6,47
	Second Lien		L+9.50% (Floor 1.00%)	6/6/2022	2,005,714	1,93
AMWARE FULFILLMENT	First Lien	Distribution	L+9.50% (Floor 1.00%)	5/21/2019	12,897,500	12,7
ARGON MEDICAL DEVICES	Second Lien	Healthcare products	(Floor 1.00%)	6/23/2022	5,000,000	4,87
BINSWANGER CORP.	First Lien	Consumer products & retail	L+8.00% (Floor 1.00%)	3/9/2022	13,251,760	12,9
	900,000 shares of common stock		-	-	-	900, 13,8
CALIFORNIA PIZZA KITCHEN	First Lien	Restaurants	L+6.00% (Floor 1.00%)	8/23/2022	4,962,500	4,91
CAST AND CREW PAYROLL, LLC	Second Lien	Media, marketing & entertainment	L+7.75% (Floor 1.00%)	8/12/2023	3,705,263	3,68
			-	-	-	8,00

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DEEPWATER CORROSION SERVICES, INC.	127,004 shares of Series A convertible preferred stock	Energy services (upstream)				
DIGITAL RIVER, INC.	First Lien	Software & IT services	L+6.50% (Floor 1.00%)	2/12/2021	7,032,285	7,000,000
DIGITAL ROOM INC.	Second Lien	Paper & forest products	L+10.00% (Floor 1.00%)	5/21/2023	7,000,000	6,860,000
DUNN PAPER, INC.	Second Lien	Paper & forest products	L+8.75% (Floor 1.00%)	8/26/2023	3,000,000	2,940,000
ELITE SEM, INC. <sup>8</sup>	First Lien 1,000 shares of common stock	Media, marketing & entertainment	L+8.50% (Floor 1.00%)	2/1/2022	12,150,000	11,800,000
LIGHTING RETROFIT INTERNATIONAL <sup>13</sup>	First Lien 396,825 shares of Series B preferred stock	Environmental services	12% PIK	-	-	1,040,000 12,900,000
PREPAID LEGAL SERVICES, INC.	Second Lien	Consumer services	L+9.25% (Floor 1.00%)	6/30/2022	15,000,000	14,700,000
REDBOX AUTOMATED RETAIL	First Lien	Gaming & leisure	-	-	-	500,000 15,200,000
RESEARCH NOW GROUP, INC.	Second Lien	Business services	L+9.00% (Floor 1.25%)	7/1/2020	5,000,000	4,950,000
RESTAURANT TECHNOLOGIES, INC.	Second Lien	Restaurants	L+7.50% (Floor 1.00%)	9/27/2021	7,437,500	7,230,000
			L+8.75% (Floor 1.00%)	3/18/2022	7,000,000	6,920,000
			L+8.75% (Floor 1.00%)	11/23/2023	3,500,000	3,450,000

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Portfolio Company 1	Type of Investment 2	Industry	Current Interest Rate 3	Maturity	Principal	
RJO HOLDINGS CORP. 14	First Lien	Financial services	L+9.50% (Floor 1.00%)	5/5/2022	7,500,000	
TAX ADVISORS GROUP13	Senior subordinated debt 143.3 Class A units	Consumer services	10.00% / 2.00% PIK -	12/23/2022 -	4,601,533 -	
VISTAR MEDIA INC.	First Lien Warrants	Media, marketing & entertainment	L+10.00% (Floor 1.00%) -	2/16/2022 -	8,250,000 -	
WASTEWATER SPECIALTIES	First Lien	Business services	L+8.75% (Floor 1.00%)	4/18/2022	11,000,000	
WATER PIK, INC.	Second Lien	Consumer products & retail	L+8.75% (Floor 1.00%)	1/8/2021	4,254,386	
WINZER CORPORATION	Senior subordinated debt	Distribution	11.00%	6/1/2021	8,100,000	
Total Non-control/Non-affiliate Investments						\$
Affiliate Investments6 CHANDLER SIGNS, LP13	Senior subordinated debt 1,500,000 units of Class A-1 common stock	Business services	12.00% -	7/4/2021 -	\$ 4,500,000 -	\$
Total Affiliate Investments						\$
Control Investments7						
I-45 SLF LLC9, 10, 11	80% LLC equity interest 800,000 shares of Series A	Multi-sector holdings	-	-	-	\$
MEDIA RECOVERY, INC.11	convertible preferred stock 4,000,002 shares of common stock	Industrial products	- - -	- - -	- - -	
			6% PIK	-	-	

TITANLINER, INC.	1,189,609 shares of Series B convertible preferred stock	Energy services (upstream)			
	339,277 shares of Series A convertible preferred stock		-	-	-

Total Control Investments

TOTAL INVESTMENTS<sup>12</sup>

- 
- <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.
  - <sup>3</sup> 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 June 30, 2017. Certain investments are subject to a LIBOR or Prime interest rate floor. Certain investments, as noted, accrue payment-in-kind (“PIK”) interest.
  - <sup>4</sup> 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 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 June 30, 2017, approximately 61.2% of the Company’s investment assets are non-control/non-affiliate investments. The fair value of these investments as a percent of net assets is 65.3%.
  - <sup>6</sup> 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 June 30, 2017, approximately 2.2% of the Company’s investment assets are affiliate investments. The fair value of these investments as a percent of net assets is 2.4%.

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- <sup>7</sup> Control investments are generally defined by the 1940 Act as investments in which more than 25% of the voting securities are owned or where greater than 50% of the board representation is maintained. At June 30, 2017, approximately 36.6% of the Company's investment assets are control investments. The fair value of these investments as a percent of net assets is 39.0%.
- <sup>8</sup> The investment is structured as a first lien last out term loan and earns interest in addition to the stated rate.
- <sup>9</sup> 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.
- <sup>10</sup> The investment has approximately \$3.2 million unfunded commitment as of June 30, 2017.
- <sup>11</sup> Income producing through dividends on distributions.
- <sup>12</sup> As of June 30, 2017, the cumulative gross unrealized appreciation for federal income tax purposes is approximately \$39.1 million; cumulative gross unrealized depreciation for federal income tax purposes is \$2.4 million. Cumulative net unrealized appreciation is \$36.7 million, based on a tax cost of \$269.1 million.
- <sup>13</sup> Lighting Retrofit International Series B preferred stock, Tax Advisors Group Class A units and Chandler Signs, LP Class A-1 common stock are held through a wholly-owned taxable subsidiary.
- <sup>14</sup> The investment is structured as a first lien first out term loan and earns less interest than the stated rate.



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## CAPITAL SOUTHWEST CORPORATION AND SUBSIDIARIES

## CONSOLIDATED SCHEDULE OF INVESTMENTS

March 31, 2017

Portfolio Company <sup>1</sup> Non-control/Non-affiliate Investments <sup>4</sup>	Type of Investment <sup>2</sup>	Industry	Current Interest Rate <sup>2</sup>	Maturity	Principal	Cost
AG KINGS HOLDINGS <sup>8</sup>	First Lien	Food, agriculture & beverage	L+8.50% (Floor 1.00%)	8/10/2021	9,900,000	9,720,000
AMERICAN TELECONFERENCING	First Lien	Telecommunications	L+6.50% (Floor 1.00%)	12/8/2021	6,733,503	6,559,000
	Second Lien		L+9.50% (Floor 1.00%)	6/6/2022	2,005,714	1,929,000
AMWARE FULFILLMENT	First Lien	Distribution	L+9.50% (Floor 1.00%)	5/21/2019	13,065,000	12,850,000
ARGON MEDICAL DEVICES	Second Lien	Healthcare products	L+9.50% (Floor 1.00%)	6/23/2022	5,000,000	4,871,000
BINSWANGER CORP.	First Lien 900,000 shares of common stock	Consumer products & retail	L+8.00% (Floor 1.00%)	3/9/2022	13,251,760	12,980,000
CALIFORNIA PIZZA KITCHEN	First Lien	Restaurants	L+6.00% (Floor 1.00%)	8/23/2022	4,975,000	4,929,000
CAST AND CREW PAYROLL, LLC	Second Lien 127,004 shares of Series A convertible	Media, marketing & entertainment Energy services (upstream)	L+7.75% (Floor 1.00%)	8/12/2023	3,705,263	3,685,000
DEEPWATER CORROSION SERVICES, INC.			-	-	-	8,000,000

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	preferred stock		L+6.50%			
DIGITAL RIVER, INC.	First Lien	Software & IT services	(Floor 1.00%)	2/12/2021	7,032,285	7,001,000
			L+10.00%			
DIGITAL ROOM INC.	Second Lien	Paper & forest products	(Floor 1.00%)	5/21/2023	7,000,000	6,864,000
			L+8.75%			
DUNN PAPER, INC.	Second Lien	Paper & forest products	(Floor 1.00%)	8/26/2023	3,000,000	2,942,000
			L+8.50%			
ELITE SEM, INC.8	First Lien	Media, marketing & entertainment	(Floor 1.00%)	2/1/2022	12,150,000	11,860,000
	1,000 shares of common stock					
			12% PIK	-	-	1,019,000
						12,880,000
IMAGINE! PRINT SOLUTIONS, INC.	First Lien	Media, marketing & entertainment	(Floor 1.00%)	3/30/2022	4,853,233	4,800,000
			L+5.50%			
INFOGROUP INC.	First Lien	Software & IT services	(Floor 1.50%)	5/26/2018	4,895,007	4,822,000
			L+9.75%			
LIGHTING RETROFIT INTERNATIONAL	First Lien	Environmental services	(Floor 0.5%)	9/28/2021	10,222,222	10,120,000
			L+9.25%			
LTI HOLDINGS, INC.	Second Lien	Industrial products	(Floor 1.00%)	4/17/2023	7,000,000	6,853,000
			L+9.00%			
PREPAID LEGAL SERVICES, INC.	Second Lien	Consumer services	(Floor 1.25%)	7/1/2020	5,000,000	4,955,000
			L+7.50%			
REDBOX AUTOMATED RETAIL	First Lien	Gaming & leisure	(Floor 1.00%)	9/27/2021	8,750,000	8,505,000
			L+8.75%			
RESEARCH NOW GROUP, INC.	Second Lien	Business services	(Floor 1.00%)	3/18/2022	7,000,000	6,918,000

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Portfolio Company 1	Type of Investment 2	Industry	Current Interest Rate 2	Maturity	Principal
RESTAURANT TECHNOLOGIES, INC.	Second Lien	Restaurants	L+8.75% (Floor 1.00%)	11/23/2023	3,500,000
TAXACT, INC.	First Lien	Financial services	L+6.00% (Floor 1.00%)	12/31/2022	2,775,000
VISTAR MEDIA INC.	First Lien Warrants	Media, marketing & entertainment	L+10.00% (Floor 1.00%)	2/16/2022	11,000,000
WATER PIK, INC.	Second Lien	Consumer products & retail	L+8.75% (Floor 1.00%)	2/8/2021	4,473,684
WINZER CORPORATION	Senior subordinated debt	Distribution	11.00%	6/1/2021	8,100,000
Total Non-control/Non-affiliate Investments					
Affiliate Investments <sup>6</sup>					
CHANDLER SIGNS, LP13	Senior subordinated debt	Business services	12.00%	7/4/2021	\$ 4,500,000
	1,500,000 units of Class A-1 common stock		-	-	-
Total Affiliate Investments					
Control Investments <sup>7</sup>					
I-45 SLF LLC9, 10, 11	80% LLC equity interest	Multi-sector holdings	-	-	-
	800,000 shares of Series A convertible preferred stock				
MEDIA RECOVERY, INC.11	4,000,002 shares of common stock	Industrial products	-	-	-
			-	-	-
TITANLINER, INC.	1,189,609 shares of Series B convertible preferred stock	Energy services (upstream)	6% PIK	-	-
	339,277 shares of Series A convertible preferred		-	-	-

stock

Total Control Investments

TOTAL  
INVESTMENTS<sup>12</sup>

---

- <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.
- <sup>3</sup> 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, 2017. Certain investments are subject to a LIBOR or Prime interest rate floor.
- <sup>4</sup> 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 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, 2017, approximately 61.3% of the Company's investment assets are non-control/non-affiliate investments.
- <sup>6</sup> 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, 2017, approximately 2.5% of the Company's investment assets are affiliate investments.
- <sup>7</sup> 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, 2017, approximately 36.2% of the Company's investment assets are control investments.
- <sup>8</sup> The investment is structured as a first lien last out term loan and earns interest in addition to the stated rate.

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- <sup>9</sup> Indicates assets that the Company believes do not represent “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.
- <sup>10</sup> The investment has approximately \$7.2 million unfunded commitment as of March 31, 2017.
- <sup>11</sup> Income producing through dividends on distributions.
- <sup>12</sup> As of March 31, 2017, the cumulative gross unrealized appreciation for federal income tax purposes is approximately \$40.1 million; cumulative gross unrealized depreciation for federal income tax purposes is \$3.4 million. Cumulative net unrealized appreciation is \$36.7 million, based on a tax cost of \$250.1 million.
- <sup>13</sup> Chandler Signs, LP Class A-1 common stock is held through a wholly-owned taxable subsidiary.

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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. Until September 1969, we operated as a Small Business Investment Company (“SBIC”) licensed under the Small Business Investment Act of 1958. At that time, CSWC transferred to its then wholly-owned subsidiary, Capital Southwest Venture Corporation (“CSVC”), certain assets including our license as an “SBIC”. CSVC was a closed-end, non-diversified investment company registered under the Investment Company Act of 1940, as amended (the “1940 Act”). Effective June 14, 2016, CSVC was dissolved and its SBIC license was surrendered. All assets held in CSVC were transferred to CSWC upon dissolution. Prior to March 30, 1988, CSWC was registered as a closed-end, non-diversified investment company under the 1940 Act. On that date, we elected to be treated 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 remain a BDC, we must meet certain specified requirements under the 1940 Act, including investing at least 70% of our assets in eligible portfolio companies and limiting the amount of leverage we incur.

We are also a regulated investment company (“RIC”) under Subchapter M of the U.S. Internal Revenue Code of 1986 (the “Code”). As such, we are not required to pay corporate-level income tax on our investment income. We intend to maintain our RIC status, which requires that we annually qualify as a RIC by meeting certain specified requirements.

Capital Southwest Management Company (“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, office expenses 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 track records 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 the lower middle market, as well as first and second lien syndicated loans in upper middle market companies. Our target lower middle market (“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 \$20.0 million. Our upper middle market (“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 \$10.0 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 Topic 946”). Under the rules and

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regulations applicable to investment companies, we are generally precluded from consolidating any entity other than another investment 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 months ended June 30, 2017 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, 2017 and 2016. 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 or have rights to maintain greater than 50% of the board representation; “Affiliated Investments” are generally defined as investments in which we own between 5% and 25% of the voting securities; and “Non-Control/Non-Affiliated Investments” are generally defined as investments that are neither “Control Investments” nor “Affiliated Investments.”

Under the 1940 Act, a BDC must meet certain requirements, including investing at least 70% 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 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 qualify as a BDC under the 1940 Act at all times during each taxable year.

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(2) Derive in each taxable year at least 90.0% 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 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 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 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.

This quarter we satisfied all RIC tests and have only 11.0% in nonqualified assets according to measurement criteria established in Section 851(d) of the Internal Revenue Code (as amended, the "IRC").

## 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 Topic 820"). ASC Topic 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 Topic 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 because the interest rate adjusts to the market interest rate (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 investment, 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 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 June 30, 2017 and March 31, 2017, cash balances totaling \$10.1 million and \$19.6 million, respectively, exceeded FDIC insurance limits, subjecting us to 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.

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**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 Topic 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. Prior to its dissolution, we consolidated the results of CSWC's wholly-owned subsidiary, CSVC. 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 record date. 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 periodically 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 June 30, 2017 and March 31, 2017, we did not have any investments on non-accrual status.

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 months ended June 30, 2017, approximately 2.4% of CSWC's total investment income was attributable to interest income for the accretion of discounts associated with debt investments, net of any premium reduction. For the three and three months ended June 30, 2016, approximately 1.8% of CSWC's total investment income was attributable to 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 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 regulated investment company ("RIC") for 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 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. For the three months ended June 30, 2017 and 2016, approximately 0.9% and 0.0%, 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 (as discussed further in Note 5). These costs have been capitalized and are amortized into interest expense over the term of the credit facility.

**Federal Income Taxes** CSWC has elected and intends to comply with the requirements of the IRC necessary to qualify as a RIC. By meeting these requirements, we will not be subject to corporate federal income taxes on ordinary

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income distributed to shareholders. In order to qualify as a RIC, the company is required to timely distribute to its shareholders at least 90.0% of investment company taxable income, as defined by the IRC, 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.

In addition to the requirement that we must annually distribute at least 90.0% of our investment company taxable income, we may either distribute or retain our realized net capital gains from investments, but any net capital gains not distributed may be subject to corporate level tax. If we retain the capital gains, they are classified as a “deemed distribution” to our shareholders and are subject to our corporate tax rate of 35.0%. 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 capital gains actually distributed to shareholders 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 current corporate rate of 34%. 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 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 months ended June 30, 2017 and 2016.

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. See Note 6 for further discussion.

**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 and 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 measured 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. 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. At the three months ended June 30, 2017 and 2016, weighted-average basic shares were adjusted for the diluted effect of stock-based awards of 62,761 and 66,679, 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 of our Company. In connection with the Share Distribution, we entered into an Employee Matters Agreement (the “Employee Matters Agreement”) with CSWI. Under the Employee Matters Agreement, the value of individual cash incentive awards was determined based upon the net asset value 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.

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Presentation Presentation of certain amounts on the Consolidated Statements of Operations for the prior year comparative consolidated financial statements is updated to conform to the current period presentation. This mainly includes disclosure of amounts at a more disaggregated level.

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. The new guidance is effective for annual periods beginning after December 15, 2018, and 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 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 FASB tentatively decided to defer the effective date of the new revenue standard for public entities under U.S. GAAP for one year. The new guidance will be effective for the annual reporting period beginning after December 15, 2017, including interim periods within that reporting period. Early adoption would be permitted for annual reporting periods beginning after December 15, 2016. CSWC completed its initial assessment in evaluating the potential impact on its consolidated financial statements and based on its initial assessment, determined that its 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 will be no material changes to the recognition timing and classification of revenues and expenses; additionally, the Company's management does not expect the adoption of ASU 2014-09 to have a significant impact to pretax income upon adoption. The Company will continue to evaluate the impacts of ASU 2014-09 through the date of adoption to ensure that its initial assessment continues to remain accurate. Additionally, the Company is continuing its assessment of ASU 2014-09's impact on its consolidated financial statement disclosures.



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## 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 June 30, 2017 and March 31, 2017:

	Fair Value (dollars in millions)	Percentage of Total Portfolio	Cost	Percentage of Total Portfolio
June 30, 2017:				
1st lien loans <sup>1</sup>	\$ 124.6	40.6	% \$ 122.6	45.6
2nd lien loans	40.2	13.2	39.8	14.8
Subordinated debt	17.0	5.5	16.9	6.3
Preferred equity, common equity & warrants	57.3	18.7	24.8	9.2
I-45 SLF LLC2	67.5	22.0	64.8	24.1
	\$ 306.6	100.0	% \$ 268.9	100.0
March 31, 2017:				
1st lien loans	\$ 107.8	37.6	% \$ 106.8	42.6
2nd lien loans	47.2	16.5	46.9	18.7
Subordinated debt	12.5	4.3	12.4	4.9
Preferred equity, common equity & warrants	56.0	19.5	23.6	9.5
I-45 SLF LLC2	63.4	22.1	60.8	24.3
	\$ 286.9	100.0	% \$ 250.5	100.0

<sup>1</sup> Included in 1st 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.

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

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The following table shows the composition of the investment portfolio by industry, at fair value and cost (with corresponding percentage of total portfolio investments) as of June 30, 2017 and March 31, 2017:

	Fair Value (dollars in millions)	Percentage of Total Portfolio		Cost	Percentage of Total Portfolio	
June 30, 2017:						
I-45 SLF LLC1	\$ 67.5	22.0	%	\$ 64.8	24.1	%
Industrial Products	35.7	11.7		5.4	2.0	
Media, Marketing, & Entertainment	26.6	8.7		25.0	9.3	
Distribution	20.9	6.8		20.7	7.7	
Consumer Products and Retail	18.0	5.9		18.1	6.7	
Environmental Services	15.2	5.0		15.2	5.7	
Energy Services (Upstream)	14.7	4.8		14.0	5.2	
Business Services	13.8	4.5		12.8	4.9	
Industrial Services	10.8	3.5		10.8	4.0	
Consumer Services	10.1	3.3		10.0	3.7	
Paper & Forest Products	9.9	3.2		9.8	3.6	
Food, Agriculture & Beverage	9.9	3.2		9.7	3.6	
Healthcare Services	9.4	3.1		9.3	3.4	
Telecommunications	8.6	2.8		8.4	3.1	
Restaurants	8.5	2.8		8.4	3.1	
Gaming & Leisure	7.5	2.4		7.2	2.7	
Commodities & Mining	7.4	2.4		7.4	2.8	
Software & IT Services	7.1	2.3		7.0	2.6	
Healthcare Products	5.0	1.6		4.9	1.8	
	\$ 306.6	100.0	%	\$ 268.9	100.0	%
	Fair Value (dollars in millions)	Percentage of Total Portfolio		Cost	Percentage of Total Portfolio	
March 31, 2017:						
I-45 SLF LLC1	\$ 63.4	22.1	%	\$ 60.8	24.3	%
Industrial Products	44.7	15.6		12.3	4.9	
Media, Marketing, & Entertainment	32.3	11.2		32.2	12.8	
Distribution	20.9	7.3		20.8	8.3	
Consumer Products & Retail	18.4	6.4		18.3	7.3	
Business Services	14.0	4.9		12.8	5.1	
Energy Services (Upstream)	12.7	4.4		14.0	5.6	
Software & IT Services	12.0	4.2		11.8	4.7	
Environmental Services	10.1	3.5		10.1	4.0	
Food, Agriculture & Beverage	9.9	3.5		9.7	3.9	
Paper & Forest Products	9.8	3.4		9.8	3.9	
Gaming & Leisure	8.8	3.1		8.5	3.4	
Telecommunications	8.7	3.0		8.4	3.4	
Restaurants	8.4	2.9		8.4	3.4	
Consumer Services	5.0	1.8		5.0	2.0	
Healthcare Products	5.0	1.7		4.9	1.9	

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Financial Services	2.8	1.0	2.7	1.1
	\$ 286.9	100.0	% \$ 250.5	100.0 %

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

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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 June 30, 2017 and March 31, 2017:

	Fair Value (dollars in millions)	Percentage of Total Portfolio		Cost	Percentage of Total Portfolio	
June 30, 2017:						
Southwest	\$ 82.3	26.8	%	\$ 50.1	18.6	%
I-45 SLF LLC1	67.5	22.0		64.8	24.1	
South	63.5	20.7		63.1	23.5	
Northeast	48.1	15.7		46.2	17.2	
Midwest	28.8	9.4		28.5	10.6	
West	16.4	5.4		16.2	6.0	
	\$ 306.6	100.0	%	\$ 268.9	100.0	%
March 31, 2017:						
Southwest	\$ 82.6	28.8	%	\$ 50.0	20.0	%
I-45 SLF LLC1	63.4	22.1		60.8	24.3	
Northeast	43.7	15.2		43.4	17.4	
South	38.5	13.4		38.2	15.2	
West	30.3	10.6		30.2	12.0	
Midwest	28.4	9.9		27.9	11.1	
	\$ 286.9	100.0	%	\$ 250.4	100.0	%

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<sup>1</sup> I-45 SLF is a joint venture between CSWC and Main Street. This entity primarily invests in syndicated senior secured loans to the UMM. The portfolio companies held by I-45 SLF 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. 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.

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.

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### 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 Topic 820. As required by ASC Topic 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 Topic 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 June 30, 2017 and March 31, 2017, 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 net asset value) 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 Topic 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 Topic 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 Topic 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.

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;

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- 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 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 from our third-party valuation provider 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 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

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outstanding debt or other securities that are senior to CSWC's equity securities are required to be repaid at par. Additionally, we estimate the fair value of a limited number of our debt securities using the Enterprise Value Waterfall approach.

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.

## 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 table below presents the Valuation Techniques and Significant Level 3 Inputs (ranges and weighted averages) used in the valuation of CSWC's debt and equity securities at June 30, 2017 and March 31, 2017. The table is not intended to be all inclusive, but instead captures the significant unobservable inputs relevant to our determination of fair value.

Type	Valuation Technique	Fair Value at June 30, 2017 (in millions)	Significant Unobservable Inputs	Range	Weighted Average
Equity Investments	Enterprise Value Waterfall Approach	\$ 57.3	EBITDA Multiple	4.70x - 9.20x	7.20x
			Weighted Average Cost of Capital	12.9% - 27.1%	20.5%
Debt Investments	Income Approach	159.0	Required Market Yield	7.33% - 12.50%	10.8%
			Third Party Broker Quote	98.1 - 100.8	
	Market Approach	22.8	Recent Transaction		
		181.8			
Total Level 3 Investments		\$ 239.1			

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Type	Valuation Technique	Fair Value at March 31, 2017 (in millions)	Significant Unobservable Inputs	Range	Weighted Average
Equity Investments	Enterprise Value Waterfall Approach	\$ 56.0	EBITDA Multiple	4.10x - 9.30x	7.80x
			Weighted Average Cost of Capital	14.1% - 27.8%	17.5%
Debt Investments	Income Approach	132.8	Required Market Yield	7.70% - 12.60%	10.8%
			Third Party Broker Quote	97.50 - 101.25	
	Market Approach	34.8	Recent Transaction		
Total Level 3 Investments		\$ 223.5			

The following fair value hierarchy tables set forth our investment portfolio by level as of June 30, 2017 and March 31, 2017 (in millions):

Asset Category	Total	Fair Value Measurements at June 30, 2017 Using Quoted Prices in Active Markets for Identifiable Assets		
		(Level 1)	(Level 2)	(Level 3)
1st lien loans	\$ 124.6	\$ -	\$ -	\$ 124.6
2nd lien loans	40.2	-	-	40.2
Subordinated debt	17.0	-	-	17.0
Preferred equity, common equity & warrants	57.3	-	-	57.3
Investments measured at net asset value	67.5	-	-	-
Total Investments	\$ 306.6	\$ -	\$ -	\$ 239.1

Fair Value Measurements at March 31, 2017 Using Quoted Prices in

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Asset Category	Total	Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
1st lien loans	\$ 107.8	\$ —	\$ —	\$ 107.8
2nd lien loans	47.2	—	—	47.2
Subordinated debt	12.5	—	—	12.5
Preferred equity, common equity & warrants	56.0	—	—	56.0
Investments measured at net asset value <sup>1</sup>	63.4	—	—	—
Total Investments	\$ 286.9	\$ —	\$ —	\$ 223.5

<sup>1</sup> Certain investments that are measured at fair value using the net asset value 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.

#### 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 months ended June 30, 2017 and 2016, we had no transfers between levels.

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The following tables provide a summary of changes in the fair value of investments measured using Level 3 inputs during the three months ended June 30, 2017 and 2016 (in millions):

	Fair Value	Realized & Unrealized Gains (Losses)	Purchases of Investments <sup>1</sup>	Repayments	PIK Interest Earned	Fair Value at 6/30/2017
3/31/2017						
1st lien loans	\$ 107.8	\$ 1.4	\$ 32.3	\$ (16.9)	\$ —	\$ 124.6
2nd lien loans	47.2	0.2	—	(7.2)	—	40.2
Subordinated debt	12.5	—	4.5	—	—	17.0
Preferred equity, common equity & warrants	56.0	0.2	1.0	—	0.1	57.3
Total Investments	\$ 223.5	\$ 1.8	\$ 37.8	\$ (24.1)	\$ 0.1	\$ 239.1

	Fair Value	Realized & Unrealized Gains (Losses)	Purchases of Investments <sup>1</sup>	Repayments	PIK Interest Earned	Fair Value at 6/30/2016
3/31/2016						
1st lien loans	\$ 39.5	\$ 0.3	\$ 1.9	\$ (6.3)	\$ —	\$ 35.4
2nd lien loans	38.2	0.1	—	(5.0)	—	33.3
Subordinated debt	15.1	(0.1)	—	—	—	15.0
Preferred equity, common equity & warrants	49.3	1.8	—	—	—	51.1
Total Investments	\$ 142.1	\$ 2.1	\$ 1.9	\$ (11.3)	\$ —	\$ 134.8

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

The total net unrealized gains (excluding reversals) included in earnings that related to assets still held at the report date for the three months ended June 30, 2017 and 2016 were \$1.5 million and \$2.7 million, respectively.

## 5.CREDIT FACILITY

In August 2016, CSWC entered into a senior secured credit facility (the “Credit Facility”) to provide additional liquidity to support its investment and operational activities. The Credit Facility includes total commitments of \$100.0 million from a diversified group of five lenders and is scheduled to mature August 30, 2020. The Credit Facility also contains an accordion feature that allows CSWC to increase the total commitments under the facility up to \$150.0 million from new and existing lenders on the same terms and conditions as the existing commitments.

Borrowings under the Credit Facility bear interest on a per annum basis at a rate equal to the applicable LIBOR rate plus 3.25% with no LIBOR floor. CSWC pays unused commitment fees of 0.50% to 1.50% per annum, based on utilization, on the unused lender commitments under the Credit Facility.

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 a regulatory asset coverage of not less than 200.0%, (6) maintaining a consolidated interest coverage ratio of at least 2.5 to 1.0, and (7) at any time the outstanding advances exceed 90.0% of the borrowing base, maintaining a minimum liquidity of not less than 10.0% 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.

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) 100.0% of the equity interests in the Company's wholly-owned subsidiaries. As of June 30, 2017, substantially all of the Company's assets were pledged as collateral for the Credit Facility.

At June 30, 2017, CSWC had \$25.0 million in borrowings outstanding under the Credit Facility. CSWC

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recognized interest expense related to the Credit Facility, including unused commitment fees and amortization of deferred loan costs of \$0.7 million and \$0.0 million, respectively, for the three months ended June 30, 2017 and 2016. The weighted average interest rate on the Credit Facility was 4.45% as of June 30, 2017. As of June 30, 2017, CSWC was in compliance with all financial covenants under the Credit Facility.

## 6.INCOME TAXES

We have elected to be treated as a RIC under Subchapter M of the IRC 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 IRC, 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 long-term capital gains that is distributed to its shareholders, including “deemed distributions” as discussed below. As part of maintaining RIC status, undistributed taxable income, 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.

As of June 30, 2017, 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.

During the quarter ended March 31, 2017, CSWC declared quarterly dividends in the amount of \$3.0 million, or \$0.19 per share and declared special dividends in the amount of \$4.2 million, or \$0.26 per share. During the quarter ended June 30, 2017, CSWC declared quarterly dividends in the amount of \$3.3 million, or \$0.21 per share.

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.

Ordinary dividend distributions from a RIC do not qualify for the 20.0% maximum tax rate (plus a 3.8% Medicare surtax, if applicable) on dividend income from domestic corporations and qualified foreign corporations, except to the extent that the RIC received the income in the 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 three months ended June 30, 2017 and 2016:

	Three Months Ended	
	June 30,	
Reconciliation of RIC Taxable Income <sup>1</sup>	2017	2016
Net increase in net assets from operations	\$ 5,444	\$ 2,697
Net change in unrealized appreciation on investments	(1,384)	(2,127)
Income/gain recognized for tax on pass-through entities	(168)	56
Net operating loss (income) - management company	352	522
Non-deductible tax expense	(125)	—
Estimated taxable income before deductions for distributions	\$ 4,119	\$ 1,148

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<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.

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A RIC may elect to retain its long-term capital gains by designating them as a “deemed distribution” to its shareholders and paying a federal tax rate of 35% on the long-term 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.

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 qualified defined pension plan, 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 June 30, 2017, CSMC had a deferred tax asset of approximately \$3.3 million, our valuation allowance was \$1.4 million and our net deferred tax asset was \$1.9 million. As of June 30, 2017, we believe that it is more likely than not that we will be able to utilize \$1.9 million of our deferred tax assets. We will continue to assess our ability to realize our existing deferred tax assets. As of March 31, 2017, CSMC had a deferred tax asset of \$2.0 million.

Based on our assessment of our unrecognized tax benefits, management believes that all benefits, net of the valuation allowance, will be realized and they do not contain any uncertain tax positions. Additionally, the increase in valuation allowance of \$0.1 million was a result of adjusting the net realizable deferred tax asset to an amount management believes will be realized. Our analysis of the net realizable deferred tax assets is based on projections of future taxable income.

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 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 90.0% 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.

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 June 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 \$0.2 million and a \$0.1 million benefit for excise tax on our estimated undistributed taxable income. For the three months ended June 30, 2016, we recognized a net income tax expense of \$0.5 million, principally consisting of a provision for current U.S. federal income taxes of \$0.4 million and \$0.1 million relating to the Taxable Subsidiary. 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, 2013 through December 31, 2016.

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7. ACCUMULATED Net Realized Gains on Investments

The Company may retain some or all of its realized net long-term capital gains in excess of realized net short-term capital losses and may designate the retained net capital gain as a “deemed distribution.” For the tax year ended December 31, 2016, the Company did not elect to designate retained net capital gains as deemed distributions. “Deemed distributions” are generally reclassified from accumulated net realized gains into additional capital after our tax year ends each December 31.

8. SPIN-OFF COMPENSATION PLAN

On August 28, 2014, our 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 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 plan, Joseph B. Armes, former CEO of the Company, Kelly Tacke, former CFO of the Company, and Bowen S. Diehl, former CIO and current CEO of the company, in aggregate, were 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 90 days after the completion of a transformative transaction (the “Trigger Event Date”). The first plan component consisted of nonqualified options awarded to purchase 259,000 shares of common stock at an exercise price of \$36.60 per share. The second plan component consisted of awards of 127,000 shares of restricted stock, which, prior to their vesting, have voting rights but do not have cash dividend rights. See Note 9 for further discussion on the first two components of the Executive 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 option awards under the plan.

On September 8, 2015, the Board of Directors 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 as discussed above. 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 awards remained liabilities of CSWC. The equity based awards vesting terms 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.

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 plan. The total cash liabilities for three participants under the plan totaled \$6.1 million, of which \$2.1 million was fully vested as of December 29, 2015 and was subsequently paid out in January 2016. \$1.4 million was fully vested as of December 29, 2016 and was subsequently paid out in January 2017. The remaining payment will be fully vested on December 29, 2017, subject to accelerated vesting as described above.

During each of the three months ended June 30, 2017 and 2016, we recognized the cash component of spin-off compensation expense of \$0.2 million, which represented the cash component of spin-off compensation for our current employee. During the three months ended June 30, 2017 and 2016, we also recorded \$0.2 million and \$1.3 million, respectively, directly to additional capital for the cash component of the spin-off compensation related to the two employees who transferred to CSWI, of which \$1.2 million was paid to Kelly Tacke upon her separation from CSWI.

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9. Employee Stock based Compensation plans

Stock Options

On July 20, 2009, shareholders approved our 2009 Stock Incentive Plan (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 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 of Directors designated the Share Distribution 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 such 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 December 29, 2015, a third vested on December 29, 2016 and the remaining options will vest on December 29, 2017, subject to accelerated vesting as described above.

At June 30, 2017, there are options to acquire 206,364 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.

We previously granted stock options under our 1999 Stock Option Plan (the “1999 Plan”), as approved by shareholders on July 19, 1999. The 1999 Plan expired on April 19, 2009. Options previously granted under our 1999 Plan and outstanding on July 20, 1999 continue in effect and are governed by the provisions of the 1999 Plan. All options granted under the 1999 Plan were granted at market price on the date of grant, 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 to ten annual installments. At June 30, 2017, there are no options to acquire shares of common stock outstanding under the 1999 Plan.

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 September 30, 2015. 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 months ended June 30, 2017.

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The following table summarizes activity in the 2009 Plan and the 1999 Plan as of June 30, 2017, including adjustments in connection with the Share Distribution:

	Number of Shares	Weighted Average Exercise Price
2009 Plan		
Balance at March 31, 2016	362,513	\$ 11.21*
Granted	–	–
Exercised	(131,252)	11.48
Canceled/Forfeited	(24,897)	10.56
Balance at March 31, 2017	206,364	11.12
Granted	–	–
Exercised	–	–
Canceled/Forfeited	–	–
Balance at June 30, 2017	206,364	\$ 11.12

	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
June 30, 2017 Outstanding	6.3 years	\$ 1,023,847
Exercisable	5.8 years	\$ 649,504

\* Certain adjustments were made to the exercise price and number of shares of Capital Southwest awards using volumetric weighted-average prices for the 10-day period immediately prior to and immediately following the distribution with the intention of preserving the economic value of the awards immediately prior to the distribution for all Capital Southwest employees.

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 June 30, 2017 and 2016, we recognized stock option compensation expense of \$48.0 thousand and \$53.9 thousand, respectively, related to the stock options held by our employees and officers.

As of June 30, 2017, the total remaining unrecognized compensation cost related to non-vested stock options was \$0.1 million, which will be amortized over the weighted-average vesting period of approximately 1.3 years. During the quarter ended June 30, 2017, we recognized stock-based compensation expense for awards that are held by our



employees.

At June 30, 2017, the range of exercise prices was \$7.55 to \$11.66 and the weighted-average remaining contractual life of outstanding options was 6.3 years. The total number of shares of common stock exercisable under both the 2009 Plan and the 1999 Plan at June 30, 2017 was 125,141 shares with a weighted-average exercise price of \$10.89. During the quarter ended June 30, 2017, no options became exercisable and no options were exercised. During the quarter ended June 30, 2016, no options were exercised.

#### Stock Awards

Pursuant to the Capital Southwest Corporation 2010 Restricted Stock Award Plan (“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 meeting in August 2015, our shareholders approved an increase of an additional 450,000 shares to our 2010 Restricted Stock Award 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

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agreement may allow an award to remain outstanding after a spin-off or change in control of one or more wholly-owned subsidiaries of CSWC. In addition, on August 28, 2014, the Board of Directors granted 127,000 shares of restricted stock under the Spin-off Compensation Plan.

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 comprised 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.

The following table summarizes the restricted stock available for issuance for the three months ended June 30, 2017:

Restricted stock available for issuance as of March 31, 2017	190,502
Additional restricted stock approved under the plan	–
Restricted stock granted during the three months ended June 30, 2017	–
Restricted stock forfeited during the three months ended June 30, 2017	5,000
Restricted stock available for issuance as of June 30, 2017	195,502

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 June 30, 2017 and 2016, we recognized total share based compensation expense of \$0.3 million and \$0.2 million, respectively, related to the restricted stock issued to our employees and officers.

As of June 30, 2017, the total remaining unrecognized compensation expense related to non-vested restricted stock awards was \$3.2 million, which will be amortized over the weighted-average vesting period of approximately 2.8 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 June 30, 2017:

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, 2017	294,043	\$ 14.99	3.1
Granted	–	–	–
Vested	(1,875)	13.92	–
Forfeited	(5,000)	14.48	–
Unvested at June 30, 2017	287,168	\$ 15.01	2.8

#### 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 net asset value per share of \$36.74 (Net Asset Value at December 31, 2011) to provide deferred compensation to certain key employees. On January 22, 2013, the Board of Directors granted 16,200 individual cash incentive awards with a baseline net asset value per share of \$41.34 (Net Asset Value at December 31, 2012) to officers of the Company. On July 15, 2013, the Board of Directors granted 24,000 shares of individual cash incentive awards with a baseline net asset value per share of \$43.80 (Net Asset Value at June 30, 2013) to a key officer of the Company. Additionally, the Board of Directors granted 38,000 individual cash incentive awards with a baseline net

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asset value per share of \$50.25 (Net Asset Value at December 31, 2013) to several key employees of the Company in January 2014 and March 2014. 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 net asset value per share minus the baseline net asset value 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 net asset value 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 48,000 individual cash incentive awards outstanding as of June 30, 2017 and the liability for individual cash incentive awards was \$0.3 million at June 30, 2017. As of June 30, 2017, there is no remaining unrecognized compensation expense related to individual cash incentive awards.

There were no individual cash incentive awards vested or granted during the three months ended June 30, 2017.

	Number of	Weighted	Weighted
Individual Cash Incentive Awards	Shares	Average Grant	Average
		Price Per Share	Remaining
			Vesting Term
			(in Years)
Unvested at March 31, 2017	48,000	\$ 47.03	1.6
Granted	–	–	–
Vested	–	–	–
Forfeited or expired	–	–	–
Unvested at June 30, 2017	48,000	\$ 47.03	1.4

## 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. During the quarter ended

June 30, 2017, 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 June 30, 2017 and 2016, we made matching contributions of approximately \$48.0 thousand and \$47.0 thousand, respectively.

#### 11. Commitments AND CONTINGENCIES

On September 9, 2015, we entered into an agreement to co-manage I-45 SLF LLC (the "Joint Venture" or "I-45 SLF") with Main Street. Both companies have equal voting rights on the Joint Venture's Board of Managers. CSWC has committed to provide \$68.0 million of equity to the Joint Venture, with Main Street providing \$17.0 million. I-45 SLF invests primarily in syndicated senior secured loans in the UMM. To date, CSWC has contributed \$64.8 million and currently has unfunded equity commitments outstanding of \$3.2 million as of June 30, 2017.

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 is 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,

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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 the three months ended June 30, 2017 and 2016, we received management and other fees from certain of our portfolio companies totaling \$0.1 million and \$0.1 million, respectively, which were recognized as Fees and other income on the Consolidated Statements of Operations.

13.SUBSEQUENT EVENTS

On July 3, 2017, CSWC paid quarterly dividends declared on May 31, 2017 in the amount of \$3.3 million, or \$0.21 per share.

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## 14.SUMMARY OF PER SHARE INFORMATION

The following presents a summary of per share data for the three months ended June 30, 2017 and 2016 (share amounts presented in thousands).

	Three Months Ended			
	June 30,			
Per Share Data:	2017	2016		
Investment income <sup>1</sup>	\$ 0.48	\$ 0.27		
Operating expenses <sup>1</sup>	(0.26)	(0.21)		
Income taxes <sup>1</sup>	(0.01)	(0.04)		
Net investment income <sup>1</sup>	0.21	0.02		
Dividends to shareholders	(0.21)	(0.06)		
Net realized gain <sup>1</sup>	0.04	0.01		
Net increase in unrealized appreciation of investments <sup>1</sup>	0.09	0.14		
Spin-off Compensation Plan distribution, net of tax	(0.01)	(0.08)		
Share based compensation expense	0.02	0.02		
Other <sup>2</sup>	0.02	—		
Increase in net asset value	0.16	0.05		
Net asset value				
Beginning of period	17.80	17.34		
End of period	\$ 17.96	\$ 17.39		
<b>Ratios and Supplemental Data</b>				
Ratio of operating expenses, excluding interest expense, to average net assets <sup>3</sup>	1.19	%	1.19	%
Ratio of net investment income to average net assets <sup>3</sup>	1.20	%	0.14	%
Portfolio turnover	7.67	%	2.06	%
Total investment return <sup>3,4</sup>	(3.67)	%	(1.01)	%
Total return based on change in NAV <sup>3,5</sup>	2.08	%	0.81	%
Weighted-average fully diluted shares outstanding	16,072		15,791	
Common shares outstanding at end of period	16,006		15,718	

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

<sup>2</sup> Includes the impact of the different share amounts as a result of calculating certain per share data based on the weighted-average basic shares outstanding during the period and certain per share data based on the shares outstanding as of a period end.

<sup>3</sup> Not annualized.

<sup>4</sup> 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>5</sup> Total return based on change in NAV was calculated using the sum of ending net asset value plus dividends to shareholders and other non-operating changes during the period, as divided by the beginning net asset value, and has

not been annualized.

## 15.SIGNIFICANT SUBSIDIARIES

Media Recovery, Inc.

Media Recovery, Inc. (MRI), 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.

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At June 30, 2017, the value of Media Recovery, Inc. represented 10.8% of our total assets. Below is certain selected key financial data from its Balance Sheet at June 30, 2017 and March 31, 2017 and Income Statement for the three months ended June 30, 2017 and 2016 (amounts in thousands).

	June 30, 2017	March 31, 2017
Current Assets	\$ 8,719	\$ 9,935
Non-Current Assets	24,521	23,173
Current Liabilities	2,351	2,083
Non-Current Liabilities	\$ 2,657	\$ 2,396

	Three months ended June 30, 2017	Three months ended June 30, 2016
Revenue	\$ 4,995	\$ 5,234
Income from continuing operations	291	809
Net income	291	809

## I-45 SLF LLC

In September 2015, we entered into an LLC agreement with Main Street to form I-45 SLF. I-45 SLF began investing in syndicated senior secured loans in the upper middle market during the quarter ended December 31, 2015. The initial equity capital commitment to I-45 SLF totaled \$85.0 million, consisting of \$68.0 million from us and \$17.0 million from Main Street. Approximately \$81.0 million was funded as of June 30, 2017, relating to these commitments, of which \$64.8 million was from CSWC. As of June 30, 2017, CSWC has unfunded equity commitments outstanding of \$3.2 million. We own 80.0% of I-45 SLF and have a profits interest of 75.6%, while Main Street owns 20.0% and has a profits interest of 24.4%. I-45 SLF's Board of Managers makes all investment and operational decisions for the fund, and consists of equal representation from CSWC and Main Street.

As of June 30, 2017, I-45 SLF had total assets of \$231.2 million. I-45 SLF currently has approximately \$209.9 million of credit investments at fair value as of June 30, 2017. The portfolio companies in I-45 SLF are in industries similar to those in which we may invest directly. As of June 30, 2017, approximately \$11.4 million were unsettled trades.

During the three months ended June 30, 2017, I-45 SLF declared a total dividend of \$3.0 million of which \$2.3 million was paid to CSWC in July 2017.

Additionally, I-45 SLF 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 to achieve leverage of approximately 2x debt-to-equity. Borrowings under the facility are secured by all of the assets of I-45 SLF and bear interest at a rate equal to LIBOR plus 2.5% per annum. During the year ended March 31, 2017, I-45 SLF 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. Under the I-45 credit facility, \$132.0 million has been drawn as of June 30, 2017.

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Below is a summary of I-45 SLF's portfolio, followed by a listing of the individual loans in I-45 SLF's portfolio as of June 30, 2017 and March 31, 2017:

## I-45 SLF LLC Loan Portfolio as of June 30, 2017

Portfolio Company	Industry	Investment Type	Maturity Date	Current Interest Rate <sup>1</sup>	Principal	Cost
AAC Holdings	Healthcare services	First Lien	6/28/2023	L+6.75% (Floor 1.00%)	\$ 6,700,000	\$ 6,532,500
Ahead, LLC	Business services	First Lien	11/2/2020	L+ 6.50% (Floor 1.00%)	4,625,000	4,531,787
American Scaffold Holdings	Aerospace & defense	First Lien	3/31/2022	L+6.50% (Floor 1.00%)	2,887,500	2,852,024
American Teleconferencing	Telecommunications	First Lien	12/8/2021	L+6.50% (Floor 1.00%)	5,635,955	5,199,037
		Second Lien	6/6/2022	L+9.50% (Floor 1.00%)	1,708,571	1,645,748
Ansira Partners	Business services	First Lien	12/20/2022	L+6.50% (Floor 1.00%)	4,480,363	3,866,517
Array Technologies	Technology products & components	First Lien	6/23/2021	L+7.25% (Floor 1.00%)	4,500,000	4,422,594
ATX Networks Corp.	Technology products & components	First Lien	6/11/2021	L+6.00% (Floor 1.00%)	4,899,749	4,855,562
Beaver-Visitec International	Healthcare products	First Lien	8/21/2023	L+5.00% (Floor 1.00%)	4,962,500	4,918,402
California Pizza Kitchen	Food, agriculture & beverage	First Lien	8/23/2022	L+6.00% (Floor 1.00%)	6,952,475	6,909,800
CMN.com (Higher Education)	Consumer services	First Lien	11/3/2021	L+6.00% (Floor 1.00%)	6,868,750	6,749,431
Contextmedia	Media, marketing & entertainment	First Lien	12/23/2021	L+6.50% (Floor 1.00%)	1,950,000	1,774,618
Digital River	Software & IT services	First Lien	2/12/2021	L+6.50% (Floor 1.00%)	7,015,452	6,989,989
Digital Room			5/22/2023		4,000,000	3,927,213

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	Paper & forest products	Second Lien		L+10.00% (Floor 1.00%)		
Highline Aftermarket	Automobile	First Lien	3/15/2024	L+4.25% (Floor 1.00%)	2,992,500	2,978,049
Hunter Defense Technologies	Aerospace & defense	First Lien	8/5/2019	L+6.00% (Floor 1.00%)	2,644,737	2,638,846
iEnergizer	Business services	First Lien	5/1/2019	L+8.75% (Floor 1.25%)	6,089,424	5,804,290
Imagine! Print Solutions	Media, marketing & entertainment	Second Lien	6/21/2023	L+5.00% (Floor 1.00%)	3,000,000	2,955,000
InfoGroup Inc.	Software & IT services	First Lien	4/3/2023	L+5.75% (Floor 1.00%)	2,992,500	2,963,555
Integro Parent Inc.	Business services	First Lien	10/28/2022	1.00% (Floor 1.00%)	4,926,424	4,785,301

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SRP Companies	Consumer services	First Lien	9/11/2023	L+6.50% (Floor 1.00%)	5,962,912	5,613,971
Teleguam Holdings	Telecommunications	Second Lien	4/12/2024	L+8.50% (Floor 1.00%)	2,000,000	1,960,000
Terra Millennium	Industrial products	First Lien	10/31/2022	L+6.25% (Floor 1.00%)	6,912,500	6,848,567
TestEquity	Capital equipment	First Lien	4/28/2022	L+5.50% (Floor 1.00%)	4,000,000	3,961,189
Time Manufacturing	Capital equipment	First Lien	2/3/2023	L+5.00% (Floor 1.00%)	2,992,500	2,978,504
Turning Point Brands	Consumer products & retail	First Lien	5/17/2022	L+6.00% (Floor 1.00%)	4,987,500	4,940,256
Tweddle Group	Media, marketing & entertainment	First Lien	10/24/2022	L+6.00% (Floor 1.00%)	2,475,000	2,430,703

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Portfolio Company	Industry	Investment Type	Maturity Date	Current Interest Rate 1 L+8.50% (Floor L+5.50% (Floor L+6.00% (Floor L+5.00% (Floor L+6.00% (Floor L+4.75% (Floor L+8.75% (Floor	Principal	Cost
UniTek Global Services	Telecommunications	First Lien	1/14/2019	1.00%)	4,584,809	4,584,809
Utility One Source	Capital equipment	First Lien	4/18/2023	1.00%)	1,000,000	990,308
US Joiner (IMECO and RAACI)	Transportation & logistics	First Lien	4/16/2020	1.00%)	4,590,629	4,542,658
US Telepacific	Telecommunications	First Lien	5/2/2023	1.00%)	5,000,000	4,968,150
VIP Cinema	Hotel, gaming & leisure	First Lien	3/1/2023	1.00%)	4,937,500	4,914,112
Water Pik, Inc.	Consumer products & retail	First Lien	7/8/2020	1.00%)	1,128,057	1,126,230
		Second Lien	1/8/2021	1.00%)	1,701,754	1,672,630
Total Investments						\$ 206,893,753

<sup>1</sup> Represents the interest rate as of June 30, 2017. 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 and the current contractual interest rate in effect at June 30, 2017. 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. 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.

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## I-45 SLF LLC Loan Portfolio as of March 31, 2017

Portfolio Company	Industry	Investment Type	Maturity Date	Current Interest Rate <sup>1</sup>	Principal	Cost
Ahead, LLC	Business services	First Lien	11/2/2020	L+ 6.50%	\$ 4,687,500	\$ 4,585,980
American Scaffold Holdings	Aerospace & defense	First Lien	3/31/2022	L+6.50% (Floor 1.00%)	2,925,000	2,887,177
American Teleconferencing	Telecommunications	First Lien	12/8/2021	L+9.50% (Floor 1.00%)	5,711,302	5,243,687
		Second Lien	6/6/2022	L+6.50% (Floor 1.00%)	1,708,571	1,643,620
Ansira Partners	Business services	First Lien	12/31/2022	L+7.25% (Floor 1.00%)	3,921,777	3,884,092
Array Technologies	Technology products & components	First Lien	6/22/2021	L+6.00% (Floor 1.00%)	4,325,000	4,542,126
ATX Networks Corp.	Technology products & components	First Lien	6/12/2021	L+5.00% (Floor 1.00%)	4,924,812	4,877,593
Beaver-Visitec International	Healthcare products	First Lien	8/21/2023	L+6.00% (Floor 1.00%)	4,975,000	4,928,997
California Pizza Kitchen	Food, agriculture & beverage	First Lien	8/23/2022	L+6.00% (Floor 1.00%)	6,969,987	6,925,133
CMN.com (Higher Education)	Consumer services	First Lien	10/15/2021	L+6.50% (Floor 1.00%)	6,912,500	6,785,531
Contextmedia	Media, marketing & entertainment	First Lien	12/31/2021	L+6.50% (Floor 1.00%)	1,975,000	1,787,489
Digital River	Software & IT services	First Lien	2/12/2021	L+10.00% (Floor 1.00%)	7,015,452	6,988,236
Digital Room	Paper & forest products	Second Lien	5/28/2023	L+4.25% (Floor 1.00%)	4,000,000	3,924,128
Highline Aftermarket	Automobile	First Lien	3/17/2024	L+6.00% (Floor 1.00%)	3,000,000	2,985,000
Hunter Defense Technologies	Aerospace & defense	First Lien	8/5/2019	(Floor 1.00%)	2,703,947	2,697,208



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ICSH, Inc.	Containers & packaging	First Lien	12/31/2018	L+5.75% (Floor 1.00%)	6,698,007	6,670,865
iEnergizer	Business services	First Lien	5/1/2019	L+6.00% (Floor 1.25%)	6,567,046	6,217,720
IG Investments Holdings	Business services	First Lien	10/31/2021	L+5.00% (Floor 1.00%)	2,480,470	2,469,439
Imagine! Print Solutions	Media, marketing & entertainment	First Lien	3/30/2022	L+6.00% (Floor 1.00%)	3,565,489	3,526,760
InfoGroup Inc.	Software & IT services	First Lien	5/28/2018	L+5.50% (Floor 1.50%)	5,913,550	5,813,451
		First Lien	4/3/2023	(Floor 1.50%)	3,000,000	2,970,000

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Portfolio Company	Industry	Investment Type	Maturity Date	Current Interest Rate 1 L+5.75% (Floor L+5.25% (Floor L+4.25% (Floor L+6.00% (Floor L+5.50% (Floor L+6.25% (Floor L+6.25% (Floor L+5.50% (Floor L+8.00% (Floor L+6.50% (Floor L+5.25% (Floor L+9.00% (Floor L+6.50% (Floor L+7.50% (Floor L+5.00% (Floor L+5.00%)	Principal	Cost
Integro Parent Inc.	Business services	First Lien	11/2/2022	1.00%)	4,938,924	4,790,756
iPayment, Inc.	Financial services	First Lien	5/8/2017	1.50%)	6,964,029	6,947,920
LTI Holdings, Inc.	Industrial products	First Lien	4/17/2022	1.00%)	1,974,874	1,780,886
Mood Media Corporation	Business services	First Lien	5/1/2019	1.00%)	4,503,289	4,427,043
MWI Holdings	Industrial products	First Lien	6/29/2020	1.00%)	4,962,500	4,921,442
New Media Holdings II LLC	Media, marketing & entertainment	First Lien	6/4/2020	1.00%)	6,901,894	6,886,200
Northstar Travel	Media, marketing & entertainment	First Lien	6/7/2022	1.00%)	4,090,625	4,036,655
PetValu	Consumer products & retail	First Lien	7/5/2022	1.00%)	4,975,000	4,931,261
Pike Corp.	Utilities	Second Lien	8/30/2024	1.00%)	1,000,000	990,000
Polycom	Telecommunications	First Lien	9/27/2023	1.00%)	6,445,833	6,445,833
Prepaid Legal Services, Inc.	Consumer services	First Lien	7/1/2019	1.25%)	4,474,279	4,470,626
		Second Lien	7/1/2020	1.25%)	405,000	395,663
PT Network	Healthcare products	First Lien	11/30/2021	1.00%)	3,930,277	3,883,735
Redbox Automated Retail	Gaming & leisure	First Lien	9/27/2021	1.00%)	6,125,000	5,958,692
Safe Guard	Automobile	First Lien	3/31/2024	1.00%)	3,250,000	3,152,500

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Sigma Electric	Industrial products	First Lien	8/31/2021	L+7.50% (Floor 1.00%)	5,000,000	4,886,637
SRP Companies	Consumer services	First Lien	9/8/2023	L+6.50% (Floor 1.00%)	5,152,273	5,106,492
TaxACT	Financial services	First Lien	12/31/2022	L+6.00% (Floor 1.00%)	1,269,915	1,238,463
Terra Millennium	Industrial products	First Lien	11/23/2022	L+6.25% (Floor 1.00%)	6,956,250	6,889,423
Time Manufacturing	Capital Equipment	First Lien	2/10/2022	L+5.00% (Floor 1.00%)	3,000,000	2,985,343
Turning Point Brands	Retail	First Lien	12/31/2021	L+6.00% (Floor 1.00%)	5,000,000	4,950,846
Tweddle Group	Media, marketing & entertainment	First Lien	10/24/2022	L+6.00% (Floor 1.00%)	2,506,731	2,459,763

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US Joiner (IMECO and RAACI)	Transportation & logistics	First Lien	4/16/2020	1.00%)	4,791,601	4,737,062	4,7
VIP Cinema	Hotel, gaming & leisure	First Lien	3/31/2023	1.00%)	5,000,000	4,975,275	5,0
Water Pik, Inc.	Consumer products & retail	First Lien	7/8/2020	1.00%)	1,137,090	1,135,097	1,1
		Second Lien	1/8/2021	1.00%)	1,789,474	1,756,683	1,8
Total Investments						\$ 197,494,528	