

CAPITAL SOUTHWEST CORP

Form 497

June 11, 2018

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**Filed pursuant to Rule 497  
File No. 333-220385**

## **PROSPECTUS SUPPLEMENT**

**(to Prospectus dated November 1, 2017)**

**Up to \$50,000,000**

**5.95% Notes due 2022**

We are an internally managed, closed-end, non-diversified management investment company that has elected to be treated as a business development company under the Investment Company Act of 1940, as amended. Our principal investment objective is to produce attractive risk-adjusted returns by generating current income from our debt investments and capital appreciation from our equity and equity related investments.

We have entered into a Debt Distribution Agreement, dated June 8, 2018, or the Distribution Agreement, pursuant to which we may offer for sale, from time to time, up to \$50,000,000 in aggregate principal amount of 5.95% notes due 2022, or the Notes, through B. Riley FBR, Inc., acting as our sales agent, or the Agent. Sales of the Notes, if any, may be made in negotiated transactions or transactions that are deemed to be at the market offerings as defined in Rule 415 under the Securities Act of 1933, as amended, or the Securities Act, including sales made directly on The Nasdaq Global Select Market or a similar securities exchange or sales made through a market maker other than on an exchange at prices related to prevailing market prices or at negotiated prices. If any of the Notes are sold at prices above the par value of \$25 per Note, the effective yield on such Notes to the purchasers may be less than 5.95%. The Agent will receive a commission from us equal to up to 2.0% of the gross sales of any Notes sold through the Agent under the Distribution Agreement. The Agent is not required to sell any specific principal amount of Notes, but will use its commercially reasonable efforts consistent with its sales and trading practices to sell the Notes offered by this

prospectus supplement and the accompanying prospectus. See Plan of Distribution beginning on page S-56 of this prospectus supplement.

The Notes offered hereby will be a further issuance of, are fungible with, rank equally in right of payment with, and form a single series for all purposes under the indenture governing the Notes including, without limitation, waivers, amendments, consents, redemptions and other offers to purchase and voting, with the \$50,000,000 and \$7,500,000 aggregate principal amount of the Notes issued by us on December 15, 2017 and December 28, 2017, respectively, or the Existing Notes. The Existing Notes and the Notes will mature on December 15, 2022. We will pay interest on the Notes on March 15, June 15, September 15 and December 15 of each year. The Notes are expected to trade flat, which means that purchasers in the secondary market will not pay, and sellers will not receive, any accrued and unpaid interest on the Notes that is not reflected in the trading price.

We may redeem the Notes in whole or in part at any time or from time to time on or after December 15, 2019, at the redemption price of 100% plus accrued and unpaid interest, as discussed under the section titled Description of the Notes Optional Redemption in this prospectus supplement. The Notes will be issued in minimum denominations of \$25 and integral multiples of \$25 in excess thereof.

The Notes will be our direct unsecured obligations and rank *pari passu*, which means equal in right of payment, with all outstanding and future unsecured unsubordinated indebtedness issued by us, including, without limitation, the Existing Notes. Because the Notes will not be secured by any of our assets, they will be effectively subordinated to all of our existing and future secured indebtedness (or any indebtedness that is initially unsecured as to which we subsequently grant security), to the extent of the value of the assets securing such indebtedness, including, without limitation, borrowings under our senior secured revolving credit facility, as amended, or the Credit Facility, of which we had \$70.0 million outstanding as of June 6, 2018. The Notes will be structurally subordinated to all existing and future indebtedness and other obligations of any of our subsidiaries since the Notes are obligations exclusively of Capital Southwest Corporation and not of any of our subsidiaries. None of our subsidiaries is a guarantor of the Notes and the Notes will not be required to be guaranteed by any subsidiary we may acquire or create in the future. In any liquidation, dissolution, bankruptcy or other similar proceeding, the holders of any of our existing or future secured indebtedness may assert rights against the assets pledged to secure that indebtedness in order to receive full payment of their indebtedness before the assets may be used to pay other creditors, including the holders of the Notes, and any assets of our subsidiaries will not be directly available to satisfy the claims of our creditors, including holders of the Notes. For further discussion, see the section titled Description of the Notes in this prospectus supplement.

The Notes will rank *pari passu* with, or equal to, our general liabilities (other than amounts outstanding under our Credit Facility). In total, these general liabilities were \$71.4 million as of March 31, 2018. We currently do not have outstanding debt that is subordinated to the Notes and do not currently intend to issue indebtedness that expressly provides that it is subordinated to the Notes. Therefore, the Notes will not be senior to any of our indebtedness or obligations.

The Existing Notes are listed on The Nasdaq Global Select Market, and trade on The Nasdaq Global Select Market under the symbol CSWCL. We intend to list the Notes offered hereby on The Nasdaq Global Select Market under the same trading symbol.

On June 7, 2018, there were 2,300,000 Existing Notes issued and outstanding and the last reported sales price on The Nasdaq Global Select Market of the Notes was \$26.47 per Note.

This prospectus supplement and the accompanying prospectus contain important information about us that a prospective investor should know before investing in the Notes. Please read this prospectus supplement and the accompanying prospectus before investing and keep them for future reference. We file annual, quarterly and current reports, proxy statements and other information with the Securities and Exchange Commission, or the SEC. This information is available free of charge by contacting us at 5400 Lyndon B. Johnson Freeway, Suite 1300, Dallas, Texas 75240, or by telephone at (214) 238-5700 or on our website at [www.capitalsouthwest.com](http://www.capitalsouthwest.com). Information contained on our website is not incorporated by reference into this prospectus supplement or the accompanying prospectus, and you should not consider that information to be part of this prospectus supplement or the accompanying prospectus. The SEC also maintains a website at [www.sec.gov](http://www.sec.gov) that contains information about us.

**Investing in the Notes involves a high degree of risk, and should be considered highly speculative. See Supplementary Risk Factors beginning on page S-16 of this prospectus supplement and Risk Factors beginning on page 12 of the accompanying prospectus to read about factors you should consider, including the risk of leverage, before investing in the Notes.**

*Neither the Securities and Exchange Commission nor any state securities commission, nor any other regulatory body, has approved or disapproved of these securities or determined if this prospectus supplement or the accompanying prospectus is truthful or complete. Any representation to the contrary is a criminal offense.*

**THE NOTES ARE NOT DEPOSITS OR OTHER OBLIGATIONS OF A BANK AND ARE NOT INSURED BY THE FEDERAL DEPOSIT INSURANCE CORPORATION OR ANY OTHER GOVERNMENT AGENCY.**

Delivery of the Notes in book-entry form only through The Depository Trust Company will be made on or about the second trading date following the date of purchase.

## **B. Riley FBR**

The date of this prospectus supplement is June 8, 2018

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**ABOUT THIS PROSPECTUS SUPPLEMENT**

This document is in two parts. The first part is this prospectus supplement, which describes the specific details regarding this offering of Notes and also adds to and updates information contained in the accompanying prospectus. The second part is the accompanying prospectus, which provides general information about us and the securities we may offer from time to time, some of which may not apply to this offering. To the extent the information contained in this prospectus supplement differs from the information contained in the accompanying prospectus, the information in this prospectus supplement shall control.

**You should rely only on the information contained in this prospectus supplement and the accompanying prospectus. Neither we nor the underwriters have authorized any other person to provide you with different information from that contained in this prospectus supplement or the accompanying prospectus. If anyone provides you with different or inconsistent information, you should not rely on it. This prospectus supplement and the accompanying prospectus do not constitute an offer to sell, or a solicitation of an offer to buy, any of the Notes by any person in any jurisdiction where it is unlawful for that person to make such an offer or solicitation or to any person in any jurisdiction to whom it is unlawful to make such an offer or solicitation. The information contained in this prospectus supplement and the accompanying prospectus is complete and accurate only as of their respective dates, regardless of the time of their delivery or sale of the Notes. This prospectus supplement supersedes the accompanying prospectus to the extent it contains information different from or additional to the information in the accompanying prospectus.**

**Table of Contents****PROSPECTUS SUPPLEMENT SUMMARY**

*This summary highlights some of the information in this prospectus supplement and the accompanying prospectus. It is not complete and may not contain all of the information that you may want to consider. To understand the terms of the Notes offered hereby, you should read the entire prospectus supplement and the accompanying prospectus carefully, including Supplementary Risk Factors, Risk Factors, Use of Proceeds, Selected Financial Data, Management's Discussion and Analysis of Financial Condition and Results of Operations, and the financial statements contained elsewhere in this prospectus supplement and/or the accompanying prospectus. Together, these documents describe the specific terms of the Notes we are offering. In this prospectus supplement and the accompanying prospectus, unless the context otherwise requires, the Company, Capital Southwest Corporation, we, us and our refer to Capital Southwest Corporation and our subsidiaries. You should also read and review the documents identified in the section titled Available Information in this prospectus supplement. On October 23, 2017, we entered into an indenture (the Base Indenture) between us and U.S. Bank National Association (the trustee). On December 15, 2017, we and the trustee entered into the first supplemental indenture to the Base Indenture (the first supplemental indenture and, together with the Base Indenture, the indenture) relating to our issuance, offer and sale of the Existing Notes. We will issue the Notes offered hereby under the same first supplemental indenture. The Notes offered hereby will be a further issuance of, be fungible with, rank equally in right of payment with, and form a single series for all purposes under the indenture, including, without limitation, waivers, amendments, consents, redemptions and other offers to purchase and voting, with the Existing Notes. We refer to the Notes and the Existing Notes separately within this prospectus supplement since only the Notes are being offered hereby, but any general discussion of the terms of the Notes would also apply to the Existing Notes since they are treated as the same under the indenture.*

**Organization**

Capital Southwest Corporation, which we refer to as CSWC or the Company, is an internally managed closed-end, non-diversified management 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. Prior to March 30, 1988, CSWC was registered as a closed-end, non-diversified investment company under the Investment Company Act of 1940 Act, as amended, or the 1940 Act. On that date, we elected to be treated as a business development company, or BDC, under the 1940 Act.

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

On September 30, 2015, we completed the spin-off, which we refer to as the Share Distribution, of CSW Industrials, Inc., or CSWI. CSWI is now an independent publicly traded company. The Share Distribution was effected through a tax-free, pro-rata distribution of 100.0% of CSWI's common stock to shareholders of the Company. Each Company shareholder received one share of CSWI common stock for every one share of Company common stock on the record date, September 18, 2015. Cash was paid in lieu of any fractional shares of CSWI common stock.

Following the Share Distribution, we have maintained operations as an internally-managed BDC and pursued a credit-focused investing strategy akin to similarly structured organizations. We intend to continue to provide

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capital to middle-market companies. We intend to invest primarily in debt securities, including senior debt, second lien and subordinated debt, and may also invest in preferred stock and common stock alongside our debt investments or through warrants.

The following diagram depicts CSWC's current summary organizational structure:

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

CSWC also has a direct wholly-owned subsidiary that has been elected to be a taxable entity, or 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 other forms of pass-through entities) and still allow us to satisfy the RIC tax requirement that at least 90.0% of our gross income for U.S. 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.

**Overview**

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

We focus on investing in companies with histories of generating revenues and positive cash flow, established market positions and proven management teams with strong operating discipline. We target senior debt, subordinated debt, and equity investments in LMM companies, as well as first and second lien syndicated loans

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in UMM companies. Our target LMM companies typically have annual earnings before interest, taxes, depreciation and amortization, or EBITDA, between \$3.0 million and \$15.0 million, and our LMM investments generally range in size from \$5.0 million to \$25.0 million. Our UMM investments generally include syndicated first and second lien loans in companies with EBITDA generally greater than \$50.0 million, and our UMM investments typically range in size from \$5.0 million to \$15.0 million.

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

Our investments in UMM companies primarily consist of direct investments in or secondary purchases of interest bearing debt securities in privately held companies that are generally larger in size than the LMM companies included in our portfolio. Our UMM debt investments are generally secured by either a first or second priority lien on the assets of the portfolio company and typically have an expected duration of between three and seven years from the original investment date.

We offer managerial assistance to our portfolio companies and provide them access to our investment experience, direct industry expertise and contacts. Our obligation to offer to make available significant managerial assistance to our portfolio companies is consistent with our belief that providing managerial assistance to a portfolio company is important to its business development activities.

Because we are internally managed, we do not pay external investment advisory fees, but instead directly incur the operating costs associated with employing investment and portfolio management professionals. We believe that our internally managed structure provides us with a beneficial operating expense structure when compared to other publicly traded and privately held investment firms which are externally managed, and our internally managed structure allows us the opportunity to leverage our non-interest operating expenses as we grow our investment portfolio.

Our principal executive offices are located at 5400 Lyndon B. Johnson Freeway, Suite 1300, Dallas, Texas 75240. We maintain a website at <http://www.capitalsouthwest.com>. Information contained on our website is not incorporated by reference into this prospectus supplement or the accompanying prospectus, and you should not consider that information to be part of this prospectus supplement or the accompanying prospectus.

## **Business Strategies**

Our business strategy is to achieve our investment objective of producing attractive risk-adjusted returns by generating current income from our debt investments and realizing capital appreciation from our equity and equity-related investments. We have adopted the following business strategies to achieve our investment objective:

**Leveraging the Experience of Our Management Team.** Our senior management team has extensive experience investing in and lending to middle market companies across changing market cycles. The

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members of our management team have diverse investment backgrounds, with prior experience at BDCs in the capacity of senior officers. We believe this extensive experience provides us with an in-depth understanding of the strategic, financial and operational challenges and opportunities of the middle market companies in which we invest. We believe this understanding allows us to select and structure better investments and to efficiently monitor and provide managerial assistance to our portfolio companies.

**Applying Rigorous Underwriting Policies and Active Portfolio Management.** Our senior management team has implemented rigorous underwriting policies that are followed in each transaction. These policies include a thorough analysis of each potential portfolio company's competitive position, financial performance, management team operating discipline, growth potential and industry attractiveness, which we believe allows us to better assess the company's prospects. After investing in a company, we monitor the investment closely, typically receiving monthly, quarterly and annual financial statements. Senior management, together with the deal team and accounting and finance departments, meets at least monthly to analyze and discuss in detail the company's financial performance and industry trends. We believe that our initial and ongoing portfolio review process allows us to monitor effectively the performance and prospects of our portfolio companies.

**Investing Across Multiple Companies, Industries, Regions and End Markets.** We seek to maintain a portfolio of investments that is appropriately diverse among various companies, industries, geographic regions and end markets. This portfolio balance is intended to mitigate the potential effects of negative economic events for particular companies, regions, industries and end markets. However, we may from time to time hold securities of an individual portfolio company that comprise more than 5% of our total assets and/or more than 10% of the outstanding voting securities of the portfolio company. For that reason, we are classified as a non-diversified management investment company that has elected to be regulated as a BDC under the 1940 Act.

**Utilizing Long-Standing Relationships to Source Deals.** Our senior management team and investment professionals maintain extensive relationships with entrepreneurs, financial sponsors, attorneys, accountants, investment bankers, commercial bankers and other non-bank providers of capital who refer prospective portfolio companies to us. These relationships historically have generated significant investment opportunities. We believe that our network of relationships will continue to produce attractive investment opportunities.

**Focusing on Underserved Markets.** The middle market has traditionally been underserved. We believe that operating margin and growth pressures, as well as regulatory concerns, have caused many financial institutions to de-emphasize services to middle market companies in favor of larger corporate clients and more liquid capital market transactions. We also invest in securities that would be rated below investment grade if they were rated. We believe these dynamics have resulted in the financing market for middle market companies being underserved, providing us with greater investment opportunities.

**Focus on Established Companies.** We generally invest in companies with established market positions, proven management teams with strong operating discipline, histories of generating revenues, and recurring cash flow streams. We believe that those companies generally possess better risk adjusted return profiles than earlier stage companies that are building their management teams and establishing their revenue base. We also believe that established companies in our target size range generally provide opportunities for capital appreciation.

**Capital Structures Appropriate for Potential Industry and Business Volatility.** Our investment team spends significant time understanding the performance of both the target portfolio company and its specific industry throughout a full economic cycle. The history of each specific industry and target portfolio company will demonstrate a different level of potential volatility in financial performance. We seek to

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understand this dynamic thoroughly and invest our capital at leverage levels in the capital structure that will remain within enterprise value and in securities that will receive interest payments if such downside volatility were to occur.

**Providing Customized Financing Solutions.** We offer a variety of financing structures and have the flexibility to structure our investments to meet the needs of our portfolio companies. Often we invest in senior and subordinated debt securities, coupled with equity interests. We believe our ability to customize financing structures makes us an attractive partner to middle market companies.

**Risk Factors**

Investing in our securities involves a high degree of risk. You should consider carefully the information found in the sections titled **Supplementary Risk Factors** beginning on page S-16 of this prospectus supplement and **Risk Factors** beginning on page 12 of the accompanying prospectus, including, but not limited to, the following risks:

Our financial condition and results of operations will depend on our ability to effectively allocate and manage capital.

Our investments in portfolio companies involve a number of significant risks:

They may have unpredictable operating results, could become parties to litigation, may be engaged in rapidly changing businesses with products subject to a substantial risk of obsolescence and may require substantial additional capital to support their operations, finance expansion or maintain their competitive position.

Most of our portfolio companies are private companies. Private companies may not have readily publicly available information about their businesses, operations and financial condition. Consequently, we rely on the ability of our management team and investment professionals to obtain adequate information to evaluate the potential returns from making investments in these portfolio companies. If we are unable to uncover all material information about the target portfolio company, we may not make a fully informed investment decision and may lose all or part of our investment.

The lack of liquidity in our investments may adversely affect our business.

Any unrealized losses or defaults we experience may be an indication of future realized losses, which could reduce our income available to make distributions.

Our investments in equity securities involve a substantial degree of risk. We may not realize gains from our equity investments.

Prepayments of our debt investments by our portfolio companies could adversely impact our results of operations and reduce our return on equity.

Our business model depends to a significant extent upon strong referral relationships. Our inability to maintain or develop these relationships, as well as the failure of these relationships to generate investment opportunities, could adversely affect our business.

In addition to regulatory limitations on our ability to raise capital, our current debt obligations contain various covenants, which, if not complied with, could accelerate our repayment obligations under the Credit Facility or the Existing Notes, thereby materially and adversely affecting our liquidity, financial condition, results of operations and ability to pay distributions.

All of our assets are subject to security interests under our secured Credit Facility and if we default on our obligations under the Credit Facility, we may suffer adverse consequences, including foreclosure on our assets.

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Because we borrow money to make investments, the potential for gain or loss on amounts invested in us is magnified and may increase the risk of investing in us.

Changes in interest rates may affect our cost of capital, the value of investments and net investment income.

If we do not invest a sufficient portion of our assets in qualifying assets, we could fail to qualify as a BDC or be precluded from investing according to our current business strategy.

A failure on our part to maintain our status as a BDC would significantly reduce our operating flexibility.

We will be subject to corporate-level U.S. federal income tax if we are unable to qualify as a RIC under Subchapter M of the Code.

Even if we qualify as a RIC, we may face tax liabilities that reduce our cash flow.

Our historical financial statements are not necessarily representative of the results we would have achieved as a stand-alone publicly-traded company and therefore may not be indicative of our future performance.

Our investment portfolio is and will continue to be recorded at fair value. Our board of directors, or the Board, has final responsibility for overseeing, reviewing and approving, in good faith, our fair value determination. As a result of recording our investments at fair value, there is and will continue to be subjectivity as to the value of our portfolio investments.

The capital markets may experience periods of disruption and instability. Such market conditions may materially and adversely affect debt and equity capital markets in the United States, which may have a negative impact on our business and operations.

Changes in the laws or regulations governing our business, or changes in the interpretations thereof, and any failure by us to comply with these laws or regulations, could negatively affect the profitability of our operations.

The market price of our common stock may fluctuate significantly.

**Investment Criteria**

Our investment team has identified the following investment criteria that we believe are important in evaluating prospective investment opportunities. However, not all of these criteria have been or will be met in connection with each of our investments:



**Companies with Positive and Sustainable Cash Flow:** We generally seek to invest in established companies with sound historical financial performance.

**Excellent Management:** Management teams with a proven record of achievement, exceptional ability, unyielding determination and integrity. We believe management teams with these attributes are more likely to manage the companies in a manner that protects and enhances value.

**Industry:** We primarily focus on companies having competitive advantages in their respective markets and/or operating in industries with barriers to entry, which may help protect their market position.

**Strong Private Equity Sponsors:** We focus on developing relationships with leading private equity firms in order to partner with these firms and provide them capital to support the acquisition and growth of their portfolio companies.

**Appropriate Risk-Adjusted Returns:** We focus on and price opportunities to generate returns that are attractive on a risk-adjusted basis, taking into consideration factors, in addition to the ones depicted above, including credit structure, leverage levels and the general volatility and potential volatility of cash flows.

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**Recent Developments**

On April 2, 2018, the Company paid regular dividends declared on February 28, 2018 in the amount of \$4.5 million, or \$0.28 per share.

On April 16, 2018 and May 11, 2018, the Company entered into Incremental Assumption Agreements, which increased the total commitments under the Credit Facility by \$20 million and \$10 million, respectively. The increases were executed under the accordion feature of the Credit Facility and increased total commitments from \$180 million to \$210 million.

On April 25, 2018, the Board unanimously approved the application of the recently modified asset coverage requirements set forth in Section 61(a)(2) of the 1940 Act. As a result, the minimum asset coverage ratio applicable to the Company will be decreased from 200% to 150%, effective April 25, 2019. The Board also approved a resolution which limits the Company's issuance of senior securities such that the asset coverage ratio, taking into account any such issuance, would not be less than 166%, effective April 25, 2019.

On June 1, 2018, the Board declared a \$0.29 dividend per share for the quarter ended June 30, 2018. The record date for the dividend is June 26, 2018. The payment date for the dividend is July 2, 2018.

On June 7, 2018, the Board declared a \$0.60 supplemental dividend per share for the quarter ended June 30, 2018. The record date for the dividend is June 26, 2018. The payment date for the dividend is July 2, 2018.

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*This summary sets forth certain terms of the Notes that we are offering pursuant to this prospectus supplement and the accompanying prospectus. On December 15, 2017, we and the trustee entered into the first supplemental indenture, between us and the trustee relating to our issuance, offer and sale of the Existing Notes. We will issue the Notes offered hereby under the same first supplemental indenture. The Notes offered hereby will be a further issuance of, be fungible with, rank equally in right of payment with, and form a single series for all purposes under the indenture, including, without limitation, waivers, amendments, consents, redemptions and other offers to purchase and voting, with the Existing Notes. We refer to the Notes and the Existing Notes separately within this prospectus supplement since only the Notes are being offered hereby, but any general discussion of the terms of the Notes would also apply to the Existing Notes since they are treated as the same under the indenture. This section and the Description of the Notes section in this prospectus supplement outline the specific legal and financial terms of the Notes. You should read this section of the prospectus supplement together with the section titled Description of the Notes beginning on page S-44 of this prospectus supplement and the more general description of the Notes in the section titled Description of Our Debt Securities beginning on page 99 of the accompanying prospectus before investing in the Notes. Capitalized terms used in this prospectus supplement and not otherwise defined shall have the meanings ascribed to them in the accompanying prospectus or in the indenture governing the Notes.*

<b>Issuer</b>	Capital Southwest Corporation
<b>Title of the securities</b>	5.95% Notes due 2022
<b>Initial aggregate principal amount being offered</b>	Up to \$50,000,000
<b>Manner of offering</b>	At the market offering that may be made, from time to time, through the Agent, as sales agent, using commercially reasonable efforts. See Plan of Distribution.
<b>Principal payable at maturity</b>	100% of the aggregate principal amount; the principal amount of each Note will be payable on its stated maturity date at the office of the trustee for the Notes or at such other office as we may designate.
<b>Type of Note</b>	Fixed rate note
<b>Listing</b>	The Existing Notes are listed on The Nasdaq Global Select Market and trade on The Nasdaq Global Select Market under the symbol CSWCL. We intend to list the Notes offered hereby on The Nasdaq Global Select Market under the same trading symbol.
<b>Interest rate</b>	5.95% per year. However, if any of the Notes are sold at prices above the par value of \$25 per Note, the effective yield on such Notes to the purchasers may be less than 5.95%.
<b>Day count basis</b>	360-day year of twelve 30-day months
<b>Original issue date</b>	December 15, 2017
<b>Issue date of the Notes</b>	The second trading date following the date of the at the market purchase of the Notes.

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**Stated maturity date**

December 15, 2022

**Date interest starts accruing**

The interest payment date prior to the at the market purchase of the Notes, except that, if you purchase Notes after the record dates noted below (or your settlement of a purchase of Notes otherwise occurs after such record date), your Notes will not begin to accrue interest until the interest payment date immediately following such record date (i.e., your Notes will not accrue interest for the period from such purchase date to the interest payment date immediately following such record date).

**Interest payment dates**

Every March 15, June 15, September 15 and December 15, commencing on the first applicable interest payment date following a given purchase of the Notes under this prospectus supplement, except that, if you purchase Notes after the record date in a given interest period (or your settlement of a purchase of Notes otherwise occurs after such record date), the first interest payment will not occur until the applicable interest payment date at the end of the next interest period (i.e., you will not receive an interest payment on the interest payment date immediately following such record date). The interest payable on each interest payment date will be paid only to holders of record of the Notes at the close of business on the record date immediately preceding the applicable interest payment date. Interest payments on the Existing Notes have been made since March 15, 2018. If an interest payment date falls on a non-business day, the applicable interest payment will be made on the next business day and no additional interest will accrue as a result of such delayed payment.

**Interest periods**

The interest period for the Notes will be the periods from and including an interest payment date to, but excluding, the next interest payment date or the stated maturity date, as the case may be. Interest on the Notes will accrue from the most recent interest payment date immediately preceding the date of issuance of the Notes from time to time, except that, if you purchase Notes after a record date noted below (or your settlement of a purchase of Notes otherwise occurs after such record date), your Notes will not begin to accrue interest until the interest payment date immediately following such record date (i.e., your Notes will not accrue interest for the period from such purchase date to the interest

payment date immediately following such record date).

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<b>Regular record dates for interest</b>	Every March 1, June 1, September 1 and December 1, commencing with the first such date to follow a given purchase of the Notes under this prospectus supplement.
<b>Specified currency</b>	U.S. Dollars
<b>Place of payment</b>	New York City and/or such other places that may be specified in the indenture or a notice to holders.
<b>Ranking of notes</b>	<p>The Notes will be our direct unsecured obligations and will rank:</p> <p style="padding-left: 40px;"><i>pari passu</i> with our other outstanding and future unsecured unsubordinated indebtedness, including, without limitation, the Existing Notes;</p> <p style="padding-left: 40px;">senior to any of our future indebtedness that expressly provides it is subordinated to the Notes;</p> <p style="padding-left: 40px;">effectively subordinated to all of our existing and future secured indebtedness (including indebtedness that is initially unsecured in respect of which we subsequently grant security), to the extent of the value of the assets securing such indebtedness, including, without limitation, borrowings under our Credit Facility, of which \$70.0 million was outstanding as of June 6, 2018; and</p> <p style="padding-left: 40px;">structurally subordinated to all future indebtedness and other obligations of any of our subsidiaries.</p>
<b>Denominations</b>	We will issue the Notes in denominations of \$25 and integral multiples of \$25 in excess thereof.
<b>Business day</b>	Each Monday, Tuesday, Wednesday, Thursday and Friday that is not a day on which banking institutions in New York City or another place of payment are authorized or obligated by law or executive order to close.
<b>Optional redemption</b>	The Notes may be redeemed in whole or in part at any time or from time to time at our option on or after December 15, 2019 upon not less than 30 days

nor more than 60 days written notice by mail prior to the date fixed for redemption thereof, at a redemption price of 100% of the outstanding principal amount of the Notes plus accrued and unpaid interest payments otherwise payable for the then-current quarterly interest period accrued to the date fixed for redemption.

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You may be prevented from exchanging or transferring the Notes when they are subject to redemption. In case any Notes are to be redeemed in part only, the redemption notice will provide that, upon surrender of such Note, you will receive, without a charge, a new Note or Notes of authorized denominations representing the principal amount of your remaining unredeemed Notes.

Before redeeming any Notes, we would have to comply with certain requirements under our Credit Facility, to the extent such requirements remain in effect at such time, or otherwise obtain consent from the lenders.

Any exercise of our option to redeem the Notes will be done in compliance with the 1940 Act.

If we redeem only some of the Notes, the trustee or DTC, as applicable, will determine the method for selection of the particular Notes to be redeemed, in accordance with the indenture governing the Notes and in accordance with the rules of any national securities exchange or quotation system on which the Notes are listed. Unless we default in payment of the redemption price, on and after the date of redemption, interest will cease to accrue on the Notes called for redemption.

The Notes will not be subject to any sinking fund.

Holder will not have the option to have the Notes repaid prior to the stated maturity date.

We may satisfy and discharge our obligations under the indenture and the Notes by delivering to the trustee for cancellation all outstanding Notes or, in certain circumstances, by depositing with the trustee after the Notes have become due and payable, will become due and payable at their stated maturity within one year, or are to be called for redemption moneys sufficient to pay all of the outstanding Notes, and paying all other sums payable under the indenture by us. See Description of the Notes Satisfaction and Discharge in this prospectus supplement.

The Notes are subject to defeasance by us.

Defeasance means that, by depositing with a trustee an amount of cash and/or government securities sufficient to pay all principal and interest, if any, on the Notes when due and satisfying any additional conditions required under

**Sinking fund**

**Repayment at option of holders**

**Satisfaction and discharge**

**Defeasance**

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**Covenant defeasance**

the indenture relating to the Notes, we will be deemed to have been discharged from our obligations under the Notes. See Description of the Notes Defeasance in this prospectus supplement.

The Notes are subject to covenant defeasance by us. In the event of a covenant defeasance, upon depositing such funds and satisfying conditions similar to those for defeasance we would be released from certain covenants under the indenture relating to the Notes. The consequences to the holders of the Notes would be that, while they would no longer benefit from certain covenants under the indenture, and while the Notes could not be accelerated for any reason, the holders of the Notes nonetheless could look to the Company for repayment of the Notes if there were a shortfall in the funds deposited with the trustee or the trustee is prevented from making a payment. See Description of the Notes Defeasance in this prospectus supplement.

**Form of notes**

The Notes will be represented by global securities that will be deposited and registered in the name of DTC or its nominee. This means that, except in limited circumstances, you will not receive certificates for the Notes. Beneficial interests in the Notes will be represented through book-entry accounts of financial institutions acting on behalf of beneficial owners as direct and indirect participants in DTC. Investors may elect to hold interests in the Notes through either DTC, if they are a participant, or indirectly through organizations that are participants in DTC.

**Trustee, paying agent, and security registrar**

U.S. Bank National Association

**Other covenants**

In addition to any covenants described elsewhere in this prospectus supplement or the accompanying prospectus, the following covenants shall apply to the Notes:

We agree that for the period of time during which the Notes are outstanding, we will not violate Section 18(a)(1)(A) as modified by Section 61(a)(1) of the 1940 Act or any successor provisions, whether or not we continue to be subject to such provisions of the 1940 Act, but giving effect, in either case, to any exemptive relief granted to us by the SEC. Currently, these provisions generally prohibit us from incurring additional

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borrowings, including through the issuance of additional debt securities, unless our asset coverage, as defined in the 1940 Act, equals at least 200% (or 150% on or after April 25, 2019) after such borrowings. See [Supplementary Risk Factors](#) [Risks Related to the Notes](#) Recent legislation may allow us to incur additional leverage, which could increase the risk of investing in the Company in this prospectus supplement.

We agree that, for the period of time during which the Notes are outstanding, we will not violate Section 18(a)(1)(B) as modified by (i) Section 61(a)(1) of the 1940 Act or any successor provisions and after giving effect to any exemptive relief granted to us by the SEC and (ii) the two other exceptions set forth below. These statutory provisions of the 1940 Act are not currently applicable to us and will not be applicable to us as a result of this offering. However, if Section 18(a)(1)(B) as modified by Section 61(a)(1) of the 1940 Act were currently applicable to us in connection with this offering, these provisions would generally prohibit us from declaring any cash dividend or distribution upon any class of our capital stock, or purchasing any such capital stock if our asset coverage, as defined in the 1940 Act, were below 200% (or 150% on or after April 25, 2019) at the time of the declaration of the dividend or distribution or the purchase and after deducting the amount of such dividend, distribution, or purchase. Under the covenant, we will be permitted to declare a cash dividend or distribution notwithstanding the prohibition contained in Section 18(a)(1)(B) as modified by Section 61(a)(1) of the 1940 Act or any successor provisions, but only up to such amount as is necessary for us to maintain our status as a RIC under Subchapter M of the Code. Furthermore, the covenant will not be triggered unless and until such time as our asset coverage has not been in compliance with the minimum asset coverage required by Section 18(a)(1)(B) as modified by Section 61(a)(1) of the 1940 Act or any successor provisions (after giving effect to any exemptive relief granted to us by the

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SEC) for more than six consecutive months. See Supplementary Risk Factors Risks Related to the Notes Recent legislation may allow us to incur additional leverage, which could increase the risk of investing in the Company in this prospectus supplement.

If, at any time, we are not subject to the reporting requirements of Sections 13 or 15(d) of the Securities Exchange Act of 1934, or the Exchange Act, to file any periodic reports with the SEC, we agree to furnish to holders of the Notes and the trustee, for the period of time during which the Notes are outstanding, our audited annual consolidated financial statements, within 90 days of our fiscal year end, and unaudited interim consolidated financial statements, within 45 days of our fiscal quarter end (other than our fourth fiscal quarter). All such financial statements will be prepared, in all material respects, in accordance with applicable Generally Accepted Accounting Principles in the United States of America, or U.S. GAAP.

You will have rights if an Event of Default occurs with respect to the Notes and is not cured.

The term Event of Default in respect of the Notes means any of the following:

We do not pay the principal of, or any premium on, any Note when due and payable at maturity;

We do not pay interest on any Note when due and payable, and such default is not cured within 30 days of its due date;

We remain in breach of any other covenant in respect of the Notes for 60 days after we receive a written notice of default stating we are in breach (the notice must be sent by either the trustee or holders of at least 25% of the principal amount of the

**Events of default**

outstanding Notes);

We file for bankruptcy or certain other events of bankruptcy, insolvency or reorganization occur and remain undischarged or unstayed for a period of 60 days; or

On the last business day of each of twenty-four consecutive calendar months, the Notes have an asset coverage of less than 100%, giving effect to any exemptive relief granted to us by the SEC.

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**Further issuances**

We have the ability to issue additional debt securities under the indenture with terms different from the Notes and, without the consent of the holders of the Notes, to reopen the Notes and issue additional Notes. If we issue additional debt securities, these additional debt securities could have a lien or other security interest greater than that accorded to the holders of the Notes, which are unsecured.

**Use of proceeds**

We estimate that the net proceeds we will receive from the sale of the Notes in this offering will be approximately \$48.7 million, after deducting the Agent's discount of approximately \$1.0 million payable by us and estimated offering expenses of approximately \$0.3 million payable by us.

We intend to use the net proceeds from this offering to repay outstanding indebtedness under our Credit Facility. However, through re-borrowings under our Credit Facility, we intend to make investments in LMM and UMM portfolio companies in accordance with our investment objective and strategies, to make investments in marketable securities and other temporary investments, and for other general corporate purposes, including payment of operating expenses. As of June 6, 2018, we had \$70.0 million of indebtedness outstanding under our Credit Facility. Our Credit Facility matures on November 16, 2021, and borrowings under the Credit Facility currently bear interest on a per annum basis equal to LIBOR plus 3.00%. See "Use of Proceeds" in this prospectus supplement.

**Governing law**

The Notes and the indenture will be governed by and construed in accordance with the laws of the State of New York.

**Global clearance and settlement procedures**

Interests in the Notes will trade in DTC's Same Day Funds Settlement System, and any permitted secondary market trading activity in such Notes will, therefore, be required by DTC to be settled in immediately available funds. None of the Company, the trustee or the paying agent will have any responsibility for the performance by DTC or its participants or indirect participants of their respective obligations under the rules and procedures governing their operations.

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**SUPPLEMENTARY RISK FACTORS**

*Investing in the Notes involves a high degree of risk. Before you invest in the Notes, you should be aware of various significant risks, including those described below. You should carefully consider these risks, together with all of the other information included in this prospectus supplement and the accompanying prospectus, before you decide whether to make an investment in the Notes. The risks set forth below are not the only risks we face. If any of the following risks occur, our business, financial condition and results of our operations could be materially adversely affected. In such case, you could lose all or part of your investment.*

**Risks Related to the Notes**

***The Notes will be unsecured and therefore will be effectively subordinated to any secured indebtedness we have currently incurred or may incur in the future and will rank pari passu with, or equal to, all outstanding and future unsecured unsubordinated indebtedness issued by us and our general liabilities.***

The Notes will not be secured by any of our assets or any of the assets of any of our subsidiaries. As a result, the Notes will effectively be subordinated to any secured indebtedness we or our subsidiaries have outstanding as of the date of this prospectus supplement (including our Credit Facility) or that we or our subsidiaries may incur in the future (or any indebtedness that is initially unsecured as to which we subsequently grant security) to the extent of the value of the assets securing such indebtedness. In any liquidation, dissolution, bankruptcy or other similar proceeding, the holders of any of our secured indebtedness or secured indebtedness of our subsidiaries may assert rights against the assets pledged to secure that indebtedness in order to receive full payment of their indebtedness before the assets may be used to pay other creditors, including the holders of the Notes. As of June 6, 2018, we had \$70.0 million in outstanding indebtedness under our Credit Facility, which 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.

***The Notes will be structurally subordinated to the indebtedness and other liabilities of our subsidiaries.***

The Notes will be obligations exclusively of Capital Southwest Corporation, and not of any of our subsidiaries. None of our subsidiaries will be a guarantor of the Notes and the Notes will not be required to be guaranteed by any subsidiary we may acquire or create in the future. Any assets of our subsidiaries will not be directly available to satisfy the claims of our creditors, including holders of the Notes. Except to the extent we are a creditor with recognized claims against our subsidiaries, all claims of creditors of our subsidiaries will have priority over our equity interests in such entities (and therefore the claims of our creditors, including holders of the Notes) with respect to the assets of such entities. Even if we are recognized as a creditor of one or more of these entities, our claims would still be effectively subordinated to any security interests in the assets of any such entity and to any indebtedness or other liabilities of any such entity senior to our claims. Consequently, the Notes will be structurally subordinated to all indebtedness and other liabilities, including trade payables, of any of our existing or future subsidiaries. These entities may incur substantial indebtedness in the future, all of which would be structurally senior to the Notes.

***The indenture under which the Notes will be issued contains limited protection for holders of the Notes.***

The indenture under which the Notes will be issued offers limited protection to holders of the Notes. The terms of the indenture and the Notes do not restrict our or any of our subsidiaries' ability to engage in, or otherwise be a party to, a variety of corporate transactions, circumstances or events that could have a material adverse impact on your investment in the Notes. In particular, the terms of the indenture and the Notes will not place any restrictions on our or our subsidiaries' ability to:

issue securities or otherwise incur additional indebtedness or other obligations, including (1) any indebtedness or other obligations that would be equal in right of payment to the Notes, (2) any indebtedness

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or other obligations that would be secured and therefore rank effectively senior in right of payment to the Notes to the extent of the values of the assets securing such debt, (3) indebtedness of ours that is guaranteed by one or more of our subsidiaries and which therefore is structurally senior to the Notes and (4) securities, indebtedness or obligations issued or incurred by our subsidiaries that would be senior to our equity interests in those entities and therefore rank structurally senior to the Notes with respect to the assets of our subsidiaries, in each case other than an incurrence of indebtedness or other obligation that would cause a violation of Section 18(a)(1)(A) as modified by Section 61(a)(1) of the 1940 Act or any successor provisions, whether or not we continue to be subject to such provisions of the 1940 Act, but giving effect, in each case, to any exemptive relief granted to us by the SEC. Currently, these provisions generally prohibit us from making additional borrowings, including through the issuance of additional debt or the sale of additional debt securities, unless our asset coverage, as defined in the 1940 Act, equals at least 200% (or 150% on or after April 25, 2019) after such borrowings. See

Recent legislation may allow us to incur additional leverage, which could increase the risk of investing in the Company below;

pay dividends on, or purchase or redeem or make any payments in respect of, capital stock or other securities ranking junior in right of payment to the Notes, including subordinated indebtedness, except that we have agreed that, for the period of time during which the Notes are outstanding, we will not violate Section 18(a)(1)(B) as modified by (i) Section 61(a)(1) of the 1940 Act or any successor provisions and after giving effect to any exemptive relief granted to us by the SEC and (ii) the following two exceptions: (A) we will be permitted to declare a cash dividend or distribution notwithstanding the prohibition contained in Section 18(a)(1)(B) as modified by Section 61(a)(1) of the 1940 Act or any successor provisions, but only up to such amount as is necessary for us to maintain our status as a RIC under Subchapter M of the Code; and (B) this restriction will not be triggered unless and until such time as our asset coverage has not been in compliance with the minimum asset coverage required by Section 18(a)(1)(B) as modified by Section 61(a)(1) of the 1940 Act or any successor provisions (after giving effect to any exemptive relief granted to us by the SEC) for more than six consecutive months. If Section 18(a)(1)(B) as modified by Section 61(a)(1) of the 1940 Act were currently applicable to us in connection with this offering, these provisions would generally prohibit us from declaring any cash dividend or distribution upon any class of our capital stock, or purchasing any such capital stock if our asset coverage, as defined in the 1940 Act, were below 200% (or 150% on or after April 25, 2019) at the time of the declaration of the dividend or distribution or the purchase and after deducting the amount of such dividend, distribution or purchase; see Recent legislation may allow us to incur additional leverage, which could increase the risk of investing in the Company below;

sell assets (other than certain limited restrictions on our ability to consolidate, merge or sell all or substantially all of our assets);

enter into transactions with affiliates;

create liens (including liens on the shares of our subsidiaries) or enter into sale and leaseback transactions;

make investments; or

create restrictions on the payment of dividends or other amounts to us from our subsidiaries. In addition, the indenture (as defined in Description of the Notes ) will not require us to make an offer to purchase the Notes in connection with a change of control or any other event.

Furthermore, the terms of the indenture and the Notes do not protect holders of the Notes in the event that we experience changes (including significant adverse changes) in our financial condition, results of operations or credit ratings, if any, as they do not require that we or our subsidiaries adhere to any financial tests or ratios or specified levels of net worth, revenues, income, cash flow, or liquidity other than as described under Description of the Notes Events of Default elsewhere herein. Our ability to recapitalize, incur additional debt (including additional debt that matures sooner than the Notes), and take a number of other actions that are not limited by the

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terms of the Notes may have important consequences for you as a holder of the Notes, including making it more difficult for us to satisfy our obligations with respect to the Notes or negatively affecting the trading value of the Notes.

Other debt we issue or incur in the future could contain more protections for its holders than the indenture and the Notes, including additional covenants and events of default. The issuance or incurrence of any such debt with incremental protections could affect the market for, trading levels, and prices of the Notes.

***An active trading market for the Notes may not develop, which could limit your ability to sell the Notes.***

Although the Existing Notes are listed on The Nasdaq Global Select Market under the trading symbol CSWCL, we cannot provide any assurances that an active trading market will develop or be maintained for the Notes or that you will be able to sell your Notes. If the Notes are traded after their initial issuance, they may trade at a discount from their initial offering price depending on prevailing interest rates, the market for similar securities, our credit ratings, if any, general economic conditions, our financial condition, performance and prospects and other factors. The Agent has advised us that they intend to make a market in the Notes, but they are not obligated to do so.

***Our amount of debt outstanding will increase as a result of this offering, and if we default on our obligations to pay our other indebtedness, we may not be able to make payments on the Notes.***

Any default under the agreements governing our indebtedness, including a default under our Credit Facility or other indebtedness to which we may be a party that is not waived by the required lenders, and the remedies sought by lenders or the holders of such indebtedness could make us unable to pay principal, premium, if any, and interest on the Notes and substantially decrease the market value of the Notes. If we are unable to generate sufficient cash flow and are otherwise unable to obtain funds necessary to meet required payments of principal, premium, if any, and interest on our indebtedness, or if we otherwise fail to comply with the various covenants, including financial and operating covenants, in the instruments governing our indebtedness (including the Credit Facility), we could be in default under the terms of the agreements governing such indebtedness, including the Notes. In the event of such default, the holders of such indebtedness could elect to declare all the funds borrowed thereunder to be due and payable, together with accrued and unpaid interest, the lenders under the Credit Facility or other debt we may incur in the future could elect to terminate their commitment, cease making further loans and institute foreclosure proceedings against our assets, and we could be forced into bankruptcy or liquidation. Our ability to generate sufficient cash flow in the future is, to some extent, subject to general economic, financial, competitive, legislative and regulatory factors as well as other factors that are beyond our control. We cannot assure you that our business will generate cash flow from operations, or that future borrowings will be available to us under the Credit Facility or otherwise, in an amount sufficient to enable us to meet our payment obligations under the Notes, our other debt, and to fund other liquidity needs.

If our operating performance declines and we are not able to generate sufficient cash flow to service our debt obligations, we may in the future need to refinance or restructure our debt, including any Notes sold, sell assets, reduce or delay capital investments, seek to raise additional capital or seek to obtain waivers from the lenders under the Credit Facility or other debt that we may incur in the future to avoid being in default. If we are unable to implement one or more of these alternatives, we may not be able to meet our payment obligations under the Notes and our other debt. If we breach our covenants under the Credit Facility or any of our other debt and seek a waiver, we may not be able to obtain a waiver from the required lenders or holders thereof. If this occurs, we would be in default under the Credit Facility or other debt, the lenders or holders could exercise rights as described above, and we could be forced into bankruptcy or liquidation. If we are unable to repay debt, lenders having secured obligations could proceed against the collateral securing the debt. Because the Credit Facility has, and any future credit facilities will likely have, customary cross-default provisions, if the indebtedness under the Notes, the Credit Facility or under any

future credit facility is accelerated, we may be unable to repay or finance the amounts due.

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***A downgrade, suspension or withdrawal of the credit rating assigned by a rating agency to us or the Notes, if any, or change in the debt markets could cause the liquidity or market value of the Notes to decline significantly.***

Our credit ratings are an assessment by rating agencies of our ability to pay our debts when due. Consequently, real or anticipated changes in our credit ratings will generally affect the market value of the Notes. These credit ratings may not reflect the potential impact of risks relating to the structure or marketing of the Notes. Credit ratings are not a recommendation to buy, sell or hold any security, and may be revised or withdrawn at any time by the issuing organization in its sole discretion. We do not undertake any obligation to maintain our credit ratings or to advise holders of Notes of any changes in our credit ratings. There can be no assurance that our credit ratings will remain for any given period of time or that such credit ratings will not be lowered or withdrawn entirely by the rating agencies if in their judgment future circumstances relating to the basis of the credit ratings, such as adverse changes in our company, so warrant. The conditions of the financial markets and prevailing interest rates have fluctuated in the past and are likely to fluctuate in the future, which could have an adverse effect on the market prices of the Notes.

***We may choose to redeem the Notes when prevailing interest rates are relatively low.***

On or after December 15, 2019, we may choose to redeem the Notes from time to time, especially if prevailing interest rates are lower than the rate borne by the Notes. Before redeeming any Notes, we would have to comply with certain requirements under our Credit Facility, to the extent such requirements remain in effect at such time, or otherwise obtain consent from the lenders. If prevailing rates are lower at the time of redemption, and we redeem the Notes, you likely would not be able to reinvest the redemption proceeds in a comparable security at an effective interest rate as high as the interest rate on the Notes being redeemed. Our redemption right also may adversely impact your ability to sell the Notes as the optional redemption date or period approaches.

***Changes relating to LIBOR may adversely affect the value of the LIBOR-indexed, floating-rate debt securities in our portfolio.***

In July 2017, the head of the United Kingdom Financial Conduct Authority announced the desire to phase out the use of LIBOR by the end of 2021. As of March 31, 2018, approximately 92.1% of our debt investment portfolio (at fair value) bore interest rates indexed upon LIBOR. Additionally, our Credit Facility accrues interest at the applicable LIBOR rate plus 3.00%, with a step-down to LIBOR plus 2.75% at the time our net worth exceeds \$325 million. The use of a new index could reduce our interest income and therefore have an adverse effect on our results of operations. Management continues to monitor the status and discussions regarding LIBOR.

***Recent legislation may allow us to incur additional leverage, which could increase the risk of investing in the Company.***

The 1940 Act generally prohibits us from incurring indebtedness unless immediately after such borrowing we have an asset coverage for total borrowings of at least 200% (i.e., the amount of debt may not exceed 50% of the value of our total assets). However, on March 23, 2018, the Small Business Credit Availability Act (the SBCA) was signed into law, which included various changes to regulations under the federal securities laws that impact BDCs. The SBCA included changes to the 1940 Act to allow BDCs to decrease their asset coverage requirement from 200% to 150%, if certain requirements are met. Under the SBCA, we are allowed to reduce our asset coverage requirement to 150%, and thereby increase our leverage capacity, if shareholders representing at least a majority of the votes cast, when a quorum is present, approve a proposal to do so. If we receive shareholder approval, we would be allowed to reduce our asset coverage requirement to 150% on the first day after such approval. Alternatively, the SBCA allows the majority of our independent directors to approve the reduction in our asset coverage requirement to 150%, and such approval would become effective on the one-year anniversary of such approval. In either case, we would be required

to make certain disclosures on our website and in SEC

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filings regarding, among other things, the receipt of approval to reduce our asset coverage requirement to 150%, our leverage capacity and usage, and risks related to leverage.

On April 25, 2018, the Board, including a required majority (as such term is defined in Section 57(o) of the 1940 Act) of the Board, approved the application of the modified asset coverage requirements set forth in Section 61(a)(2) of the 1940 Act. As a result, the minimum asset coverage ratio applicable to the Company will be decreased from 200% to 150%, effective April 25, 2019. The Board also approved a resolution which limits the Company's issuance of senior securities such that the asset coverage ratio, taking into account such issuance, would not be less than 166%, effective April 25, 2019.

Leverage is generally considered a speculative investment technique and increases the risk of investing in our securities. Leverage magnifies the potential for loss on investments in our indebtedness and on invested equity capital. As we use leverage to partially finance our investments, you will experience increased risks of investing in our securities. If the value of our assets increases, then leveraging would cause the net asset value attributable to our common stock to increase more sharply than it would have had we not leveraged. Conversely, if the value of our assets decreases, leveraging would cause net asset value to decline more sharply than it otherwise would have had we not leveraged our business. Similarly, any increase in our income in excess of interest payable on the borrowed funds would cause our net investment income to increase more than it would without the leverage, while any decrease in our income would cause net investment income to decline more sharply than it would have had we not borrowed. Such a decline could negatively affect our ability to pay common stock dividends, scheduled debt payments or other payments related to our securities. If we incur additional leverage, you will experience increased risks of investing in our common stock.

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**SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS**

*This prospectus supplement and the accompanying prospectus include forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, Section 21E of the Exchange Act and the Private Securities Litigation Reform Act of 1995. Information contained in this prospectus supplement and the accompanying prospectus contain forward-looking statements, which can be identified by the use of forward-looking terminology such as may, predict, will, continue, likely, would, could, should, expect, anticipate, potential, estimate, indicate, seek, believe, target, intend or project or the negative of these words or other variations on these words or comparable terminology. The matters described in the section titled *Supplementary Risk Factors* in this prospectus supplement and the section titled *Risk Factors* in the accompanying prospectus and certain other factors noted throughout this prospectus supplement and the accompanying prospectus constitute cautionary statements identifying important factors with respect to any such forward-looking statements, including certain risks and uncertainties that could cause actual results to differ materially from those in such forward-looking statements. We undertake no obligation to revise or update any forward-looking statements but advise you to consult any additional disclosures that we may make directly to you or through reports that we may file in the future with the SEC, including annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K. Accordingly, there are or will be important factors that could cause our actual results to differ materially from those expressed or implied by the forward-looking statements. We believe these factors include, but are not limited to, the following:*

our future operating results;

market conditions and our ability to access debt and equity capital and our ability to manage our capital resources effectively;

the timing of cash flows, if any, from the operations of our portfolio companies;

our business prospects and the prospects of our prospective portfolio companies;

the financial condition and ability of our existing and prospective portfolio companies to achieve their objectives;

the adequacy of our cash resources and working capital;

our ability to recover unrealized losses;

our expected financings and investments;

our contractual arrangements and other relationships with third parties;

the impact of fluctuations in interest rates on our business;

the impact of a protracted decline in the liquidity of credit markets on our business;

our ability to operate as a BDC and a RIC, including the impact of changes in laws or regulations governing our operations or the operations of our portfolio companies;

the dependence of our future success on the general economy and its impact on the industries in which we invest;

our ability to successfully invest any capital raised in an offering;

the return or impact of current and future investments;

our transition to a debt focused investment strategy;

the valuation of our investments in portfolio companies, particularly those having no liquid trading market;

our regulatory structure and tax treatment;

the impact of the recently enacted U.S. tax reform legislation, including as a result of future regulation and guidance interpreting the statute; and

the timing, form and amount of any dividend distributions.

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**USE OF PROCEEDS**

We estimate that the net proceeds we will receive from the sale of the Notes in this offering will be approximately \$48.7 million, after deducting the Agent's discount of approximately \$1.0 million payable by us and estimated offering expenses of approximately \$0.3 million payable by us.

We intend to use the net proceeds from this offering to repay outstanding indebtedness under our Credit Facility. However, through re-borrowings under our Credit Facility, we intend to make investments in LMM and UMM portfolio companies in accordance with our investment objective and strategies, to make investments in marketable securities and other temporary investments, and for other general corporate purposes, including payment of operating expenses. As of June 6, 2018, we had \$70.0 million of indebtedness outstanding under our Credit Facility. Our Credit Facility matures on November 16, 2021, and borrowings under the Credit Facility currently bear interest on a per annum basis equal to LIBOR plus 3.00%.

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**Table of Contents****CAPITALIZATION**

The following table sets forth our cash and cash equivalents and capitalization:

(a) on an actual basis as of March 31, 2018; and

(b) on an as adjusted basis for the sale of \$50 million aggregate principal amount of the Notes offered hereby, after deducting the Agent's discount of approximately \$1.0 million payable by us and estimated offering expenses of approximately \$0.3 million payable by us.

This table should be read together with Use of Proceeds and Management's Discussion and Analysis of Financial Condition and Results of Operations, each included in this prospectus supplement, and our most recent consolidated financial statements and notes thereto included in this prospectus supplement and the accompanying prospectus.

	<b>As of March 31, 2018</b>	
	<b>Actual</b>	<b>As Adjusted for this Offering</b>
	<b>(in thousands, except share and per share numbers)</b>	
Cash and cash equivalents	\$ 7,907	\$ 16,632
Borrowings:		
Credit Facility <sup>(1)</sup>	40,000	
Notes offered hereby (net of deferred issuance costs)	55,305	104,030
<b>Total borrowings</b>	<b>\$ 95,305</b>	<b>\$ 104,030</b>
<b>Net Assets:</b>		
Common stock, par value \$0.25 per share, 25,000,000 common shares authorized, and 18,358,808 common shares issued and outstanding	\$ 4,625	\$ 4,625
Additional paid-in capital	260,713	260,713
Net investment income in excess of (less than) distributions	6,147	6,147
Accumulated undistributed net realized gain	3,231	3,231
Unrealized appreciation of investments, net of income taxes	57,509	57,509
Treasury stock at cost, 2,339,512 shares	(23,937)	(23,937)
<b>Total net assets</b>	<b>\$ 308,288</b>	<b>\$ 308,288</b>
<b>Total liabilities and net assets</b>	<b>\$ 417,490</b>	<b>\$ 417,490</b>

(1) The above table reflects the carrying value of indebtedness outstanding as of March 31, 2018. As of June 6, 2018, outstanding indebtedness under our Credit Facility was \$70.0 million. The net proceeds from the sale of the Notes in this offering are expected to be used to pay down outstanding indebtedness under our Credit Facility. On an as adjusted for this offering basis and reflecting the use of proceeds from this offering, the line item Credit Facility would be \$21.3 million as of June 6, 2018. See Use of Proceeds in this prospectus supplement.

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**Table of Contents****SELECTED FINANCIAL DATA**

The selected financial and other data below reflects the historical financial condition and the results of operations of Capital Southwest Corporation as of and for the years ended March 31, 2018, 2017, 2016, 2015, and 2014. The selected financial data as of and for the year ended March 31, 2018 has been derived from consolidated financial statements that have been audited by RSM US LLP, an independent registered public accounting firm. The selected financial data as of and for the year ended March 31, 2017, 2016, 2015, and 2014 has been derived from consolidated financial statements that have been audited by Grant Thornton LLP, an independent registered public accounting firm. You should read this selected financial and other data in conjunction with our Management's Discussion and Analysis of Financial Condition and Results of Operations, Senior Securities and the financial statements and related notes in this prospectus supplement and the accompanying prospectus.

	<b>Year ended March 31,</b>				
	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>
<b>Income statement data:</b>					
Investment income:					
Interest and dividends	\$ 34,233	\$ 22,324	\$ 8,033	\$ 9,231	\$ 11,915
Interest income from cash and cash equivalents	21	166	386	122	67
Fees and other income	872	984	741	595	625
<b>Total investment income</b>	<b>35,126</b>	<b>23,474</b>	<b>9,160</b>	<b>9,948</b>	<b>12,607</b>
Operating expenses:					
Compensation-related expenses	9,238	8,217	9,515	6,440	5,489
Interest expense	4,875	989			
General, administrative and other	4,585	4,601	11,610	5,683	2,963
<b>Total operating expenses</b>	<b>18,698</b>	<b>13,807</b>	<b>21,125</b>	<b>12,123</b>	<b>8,452</b>
Income (loss) before income taxes	16,428	9,667	(11,965)	(2,175)	4,155
Income tax expense (benefit)	195	1,779	(1,278)	270	(739)
<b>Net investment income (loss)</b>	<b>16,233</b>	<b>7,888</b>	<b>(10,687)</b>	<b>(2,445)</b>	<b>4,894</b>
Net realized gains (losses):					
Non-control/Non-affiliate investments	1,492	3,992	(9,575)	8,226	14,084
Affiliate investments	90	3,876	(1,458)	157,213	
Control investments		28	231	(1,175)	
<b>Net realized gains (losses) on investments</b>	<b>1,582</b>	<b>7,896</b>	<b>(10,802)</b>	<b>164,264</b>	<b>14,084</b>
Net unrealized appreciation (depreciation) on investments	21,492	7,690	16,089	(108,377)	93,032
<b>Net realized and unrealized gains on investments</b>	<b>23,074</b>	<b>15,586</b>	<b>5,287</b>	<b>55,887</b>	<b>107,116</b>
	<b>\$ 39,307</b>	<b>\$ 23,474</b>	<b>\$ (5,400)</b>	<b>\$ 53,442</b>	<b>\$ 112,010</b>

Net increase (decrease) in net assets resulting from operations

Net investment income (loss) per share basic and diluted	\$ 1.01	\$ 0.50	\$ (0.68)	\$ (0.16)	\$ 0.32
Net realized earnings per share basic and diluted	\$ 1.11	\$ 1.00	\$ (1.37)	\$ 10.45	\$ 1.24
Net increase (decrease) in net assets from operations basic and diluted	\$ 2.45	\$ 1.48	\$ (0.35)	\$ 3.44	\$ 7.32
Net asset value per common share	\$ 19.08	\$ 17.80	\$ 17.34	\$ 49.30	\$ 49.98
Total dividends/distributions declared per common share	\$ 0.99	\$ 0.79	\$ 0.14	\$ 0.20	\$ 0.20
Weighted average number of shares outstanding basic	16,074	15,825	15,636	15,492	15,278
Weighted average number of shares outstanding diluted	16,139	15,877	15,724	15,531	15,298

<sup>1</sup> Net realized earnings per share basic and diluted is calculated as the sum of Net investment income (loss) and Net realized gain (loss) on investments divided by weighted average shares outstanding basic and diluted.

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	Year ended March 31,				
	2018	2017	2016	2015	2014
<b>Balance sheet data:</b>					
Assets:					
Investments at fair value	\$ 393,095	\$ 286,880	\$ 178,436	\$ 535,536	\$ 677,920
Cash and cash equivalents	7,907	22,386	95,969	225,797	88,163
Interest, escrow and other receivables	5,894	4,308	6,405	4,418	1,371
Net pension assets				10,294	10,962
Deferred tax asset	2,050	2,017	2,342		
Other assets	8,544	10,161	1,341	827	278
<b>Total assets</b>	<b>\$ 417,490</b>	<b>\$ 325,752</b>	<b>\$ 284,493</b>	<b>\$ 776,872</b>	<b>\$ 778,694</b>
Liabilities:					
Notes	\$ 55,305	\$	\$	\$	\$
Credit facility	40,000	25,000			
Other liabilities	6,245	5,996	9,028	4,923	3,263
Dividends payable	4,525	7,191	625		
Accrued restoration plan liability	2,937	2,170	2,205	3,119	3,103
Deferred income taxes	190	323		1,412	1,940
<b>Total liabilities</b>	<b>109,202</b>	<b>40,680</b>	<b>11,858</b>	<b>9,454</b>	<b>8,306</b>
<b>Net assets</b>	<b>308,288</b>	<b>285,072</b>	<b>272,635</b>	<b>767,418</b>	<b>770,388</b>
<b>Total liabilities and net assets</b>	<b>\$ 417,490</b>	<b>\$ 325,752</b>	<b>\$ 284,493</b>	<b>\$ 776,872</b>	<b>\$ 778,694</b>
<b>Other data:</b>					
Number of portfolio companies	30	28	23	22	27
Weighted average yield on debt investments at end of period	11.46%	10.28%	10.67%	3.14%	NM
Weighted average yield on total investments at end of period	10.48%	10.49%	9.46%	0.46%	NM
<b>Expense ratios (as percentage of average net assets):</b>					
Total expenses, excluding interest expense	4.70%	4.59%	4.48%	1.59%	1.18

NM = not meaningful

**Table of Contents****SENIOR SECURITIES**

Information about our senior securities is shown in the following table as of March 31 for the years indicated in the table, unless otherwise noted.

<b>Class and Year</b>	<b>Total Amount Outstanding Exclusive of Treasury Securities<sup>(1)</sup> (dollars in thousands)</b>	<b>Asset Coverage per Unit<sup>(2)</sup></b>	<b>Involuntary Liquidating Preference per Unit<sup>(3)</sup></b>	<b>Average Market Value per Unit<sup>(4)</sup></b>
<b>Credit Facility</b>				
2018	\$ 40,000	\$ 4.16		N/A
2017	25,000	\$ 12.40		N/A
<b>2022 Notes</b>				
2018	\$ 57,500	\$ 4.16		\$ 25.40
2017				

(1) Total amount of each class of senior securities outstanding at the end of the period presented.

(2) Asset coverage per unit is the ratio of the carrying value of our total consolidated assets, less all liabilities and indebtedness not represented by senior securities, to the aggregate amount of senior securities representing indebtedness. Asset coverage per unit is expressed in terms of dollar amounts per \$1,000 of indebtedness.

(3) The amount to which such class of senior security would be entitled upon the involuntary liquidation of the issuer in preference to any security junior to it. The - indicates information which the SEC expressly does not require to be disclosed for certain types of senior securities.

(4) Average market value per unit for our Credit Facility is not applicable because this is not registered for public trading.

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**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND  
RESULTS OF OPERATIONS**

*The information contained in this section should be read in conjunction with our consolidated financial statements and notes thereto appearing elsewhere in this prospectus supplement and the accompanying prospectus.*

*The information contained herein may contain forward-looking statements based on our current expectations, assumptions and estimates about us and our industry. These forward-looking statements involve risks and uncertainties. Words such as believe, seek, estimate, expect, intend, target, will, would, may, could, continue and other similar expressions identify forward-looking statements. In addition, any statements that refer to expectations, projections or other characterizations of future events or circumstances are forward-looking statements that are subject to risks, uncertainties and assumptions. Our actual results could differ materially from those we express in the forward-looking statements as a result of several factors more fully described in the section titled *Supplementary Risk Factors* in this prospectus supplement, the section titled *Risk Factors* in the accompanying prospectus, the section titled *Special Note Regarding Forward-Looking Statements* in this prospectus supplement and the section titled *Cautionary Statement Concerning Forward-Looking Statements* in the accompanying prospectus.*

**OVERVIEW**

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

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

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

which may either be secured or unsecured subordinated loans. Our LMM debt investments typically have a term of between five and seven years from the original investment date. We also often seek to invest in the equity securities of our LMM portfolio companies.

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Our investments in UMM companies primarily consist of direct investments in or secondary purchases of interest bearing debt securities in privately held companies that are generally larger in size than the LMM companies included in our portfolio. Our UMM debt investments are generally secured by either a first or second priority lien on the assets of the portfolio company and typically have an expected duration of between three and seven years from the original investment date.

Since the Share Distribution on September 30, 2015 through March 31, 2018, our exited investments resulted in a weighted average internal rate of return to the Company of approximately 16.9% (based on original cash invested of approximately \$119.4 million). Internal rate of return is the discount rate that makes the net present value of all cash flows related to a particular investment equal to zero. Internal rate of return is gross of expenses related to investments as these expenses are not allocable to specific investments. Investments are considered to be exited when the original investment objective has been achieved through the receipt of cash and/or non-cash consideration upon the repayment of a debt investment or sale of an investment or through the determination that no further consideration was collectible and, thus, a loss may have been realized. Approximately 78.9% of these exited investments resulted in an aggregate cash flow realized internal rate of return to the Company of 10% or greater.

Because we are internally managed, we do not pay any external investment advisory fees, but instead directly incur the operating costs associated with employing investment and portfolio management professionals. We believe that our internally managed structure provides us with a beneficial operating expense structure when compared to other publicly traded and privately held investment firms which are externally managed, and our internally managed structure allows us the opportunity to leverage our non-interest operating expenses as we grow our investment portfolio. For the years ended March 31, 2018 and 2017, the ratio of our annualized fourth quarter operating expenses, excluding interest expense, as a percentage of our quarterly average total assets was 3.36% and 4.54%, respectively.

## **CRITICAL ACCOUNTING POLICIES AND USE OF ESTIMATES**

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

### **Valuation of Investments**

The most significant determination inherent in the preparation of our consolidated financial statements is the valuation of our investment portfolio and the related amounts of unrealized appreciation and depreciation. As of March 31, 2018 and 2017, our investment portfolio at fair value represented approximately 94.2% and 88.0% of our total assets, respectively. We are required to report our investments at fair value. We follow the provisions of ASC 820. ASC 820 defines fair value, establishes a framework for measuring fair value, establishes a fair value hierarchy based on the quality of inputs used to measure fair value, and enhances disclosure requirements for fair value measurements. ASC 820 requires us to assume that the portfolio investment is to be sold in the principal market to independent market participants, which may be a hypothetical market. See Note 4 Fair Value Measurements in the notes to consolidated financial statements for a detailed discussion of our investment portfolio valuation process and procedures.





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

Our Board of Directors is responsible for determining, in good faith, the fair value for our investment portfolio and our valuation procedures, consistent with 1940 Act requirements. Our Board of Directors believes that our investment portfolio as of March 31, 2018 and 2017 reflects fair value as of those dates based on the markets in which we operate and other conditions in existence on those reporting dates.

**Revenue Recognition***Interest and Dividend Income*

Interest and dividend income is recorded on an accrual basis to the extent amounts are expected to be collected. Dividend income is recognized on the date dividends are declared by the portfolio company or at the point an obligation exists for the portfolio company to make a distribution. Discounts/premiums received to par on loans purchased are capitalized and accreted or amortized into income over the life of the loan. 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 ability to service debt or other obligations, it will be restored to accrual basis. As of March 31, 2018 and March 31, 2017, we did not have any investments on non-accrual status or past due its contractual payment obligation.

**Recently Issued Accounting Standards**

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

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

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

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

**INVESTMENT PORTFOLIO COMPOSITION**

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

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

The total value of our investment portfolio was \$393.1 million as of March 31, 2018, as compared to \$286.9 million as of March 31, 2017. As of March 31, 2018, we had investments in 30 portfolio companies with an aggregate cost of \$335.4 million. As of March 31, 2017, we had investments in 28 portfolio companies with an aggregate cost of \$250.5 million.

As of March 31, 2018 and 2017, approximately \$220.3 million, or 92.1%, and \$155.0 million, or 92.6%, respectively, of our debt investment portfolio (at fair value) bore interest at floating rates, of which 94.2% and 100%, respectively were subject to contractual minimum interest rates. As of March 31, 2018 and 2017, approximately \$18.8 million, or 7.9%, and \$12.4 million, or 7.4%, respectively, of our debt investment portfolio (at fair value) bore interest at fixed rates.



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The following tables provide a summary of our investments in LMM and UMM companies as of March 31, 2018 and 2017 (excluding our investment in I-45 SLF LLC):

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

- (a) At March 31, 2018, we had equity ownership in approximately 73.7% of our LMM investments.
- (b) The weighted-average annual effective yields were computed using the effective interest rates for all debt investments at cost as of March 31, 2018, including accretion of original issue discount but excluding fees payable upon repayment of the debt instruments and any debt investments on non-accrual status. As of March 31, 2018, there were no investments on non-accrual status. Weighted-average annual effective yield is higher than what an investor in shares in our common stock will realize on its investment because it does not reflect our expenses or any sales load paid by an investor.
- (c) Weighted average metrics are calculated using investment cost basis weighting.
- (d) Includes CSWC debt investments only. Calculated as the amount of each portfolio company's debt (including CSWC's position and debt senior or pari passu to CSWC's position, but excluding debt subordinated to CSWC's position) in the capital structure divided by each portfolio company's adjusted EBITDA. Management uses this metric as a guide to evaluate the relative risk of its position in each portfolio debt investment.

	<b>As of March 31, 2017</b>	
	<b>LMM<sup>(a)</sup></b>	<b>UMM</b>
	<b>(dollars in thousands)</b>	
Number of portfolio companies	10	17
Fair value	\$ 126,305	\$ 97,180
Cost	\$ 93,822	\$ 95,918
% of portfolio at cost debt	74.8%	100.0%
% of portfolio at cost equity	25.2%	
% of debt investments at cost secured by first lien	61.5%	51.2%
Weighted average annual effective yield <sup>(b)(c)</sup>	11.4%	9.6%
Weighted average EBITDA <sup>(c)</sup>	\$ 7,400	\$ 101,300
Weighted average leverage through CSWC security <sup>(c)(d)</sup>	3.1x	4.0x

- (a) At March 31, 2017, we had equity ownership in approximately 70.0% of our LMM investments.

- (b) The weighted-average annual effective yields were computed using the effective interest rates for all debt investments at cost as of March 31, 2017, including accretion of original issue discount but excluding fees payable upon repayment of the debt instruments and any debt investments on non-accrual status. As of March 31, 2017, there were no investments on non-accrual status. Weighted-average annual effective yield is higher than what an investor in shares in our common stock will realize on its investment because it does not reflect our expenses or any sales load paid by an investor.
- (c) Weighted average metrics are calculated using investment cost basis weighting.
- (d) Includes CSWC debt investments only. Calculated as the amount of each portfolio company's debt (including CSWC's position and debt senior or pari passu to CSWC's position, but excluding debt subordinated to CSWC's position) in the capital structure divided by each portfolio company's adjusted EBITDA. Management uses this metric as a guide to evaluate the relative risk of its position in each portfolio debt investment.

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As of March 31, 2018 and March 31, 2017, our investment portfolio consisted of the following investments:

	Fair Value	Percentage of Total Portfolio at Fair Value (dollars in thousands)	Cost	Percentage of Total Portfolio at Cost
<b>March 31, 2018:</b>				
First lien loans <sup>1</sup>	\$ 197,110	50.1%	\$ 194,820	58.1%
Second lien loans	23,229	5.9	23,092	6.9
Subordinated debt	18,783	4.8	18,885	5.6
Preferred equity	36,545	9.3	16,666	5.0
Common equity & warrants	50,315	12.8	17,134	5.1
I-45 SLF LLC <sup>2</sup>	67,113	17.1	64,800	19.3
	\$ 393,095	100.0%	\$ 335,397	100.0%
<b>March 31, 2017<sup>3</sup>:</b>				
First lien loans <sup>1</sup>	\$ 107,817	37.6%	\$ 106,799	42.6%
Second lien loans	47,176	16.5	46,856	18.7
Subordinated debt	12,453	4.3	12,402	4.9
Preferred equity	19,343	6.7	15,782	6.3
Common equity & warrants	36,696	12.8	7,901	3.2
I-45 SLF LLC <sup>2</sup>	63,395	22.1	60,800	24.3
	\$ 286,880	100.0%	\$ 250,540	100.0%

<sup>1</sup> Included in first lien loans are loans structured as first lien last out loans. These loans may in certain cases be subordinated in payment priority to other senior secured lenders. As of March 31, 2018 and 2017, the fair value of the first lien last out loans are \$26.9 million and \$21.8 million, respectively.

<sup>2</sup> I-45 SLF LLC is a joint venture between CSWC and Main Street Capital. This entity primarily invests in syndicated senior secured loans in the UMM. The I-45 SLF LLC portfolio consists of 93.7% first lien loans and 6.3% second lien loans. The portfolio companies held by I-45 SLF LLC represent a diverse set of industry classifications similar to those in which CSWC invests directly. We own 80% of I-45 SLF LLC and have a profits interest of 75.6%, while Main Street Capital owns 20% and has a profits interest of 24.4%. I-45 SLF LLC's Board of Managers makes all investment and operational decisions for the fund, and consists of equal representation from our Company and Main Street Capital. The Company does not guarantee or otherwise obligate itself to make payments on debts owed by I-45 SLF LLC.

<sup>3</sup> Presentation of the March 31, 2017 disclosure is updated to conform to current period presentation.

**Portfolio Asset Quality**

We utilize an internally developed investment rating system to rate the performance and monitor the expected level of returns for each debt investment in our portfolio. The investment rating system takes into account both quantitative and qualitative factors of the portfolio company and the investments held therein, including each investment's expected

level of returns and the collectability of our debt investments, comparisons to competitors and other industry participants and the portfolio company's future outlook. The ratings are not intended to reflect the performance or expected level of returns of our equity investments.

Investment Rating 1 represents the least amount of risk in our portfolio. The investment is performing materially above underwriting expectations and the trends and risk factors are generally favorable.

Investment Rating 2 indicates the investment is performing as expected at the time of underwriting and the trends and risk factors are generally favorable to neutral.

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Investment Rating 3 involves an investment performing below underwriting expectations and the trends and risk factors are generally neutral to negative. The portfolio company or investment may be out of compliance with financial covenants and interest payments may be impaired, however principal payments are generally not past due.

Investment Rating 4 indicates that the investment is performing materially below underwriting expectations, the trends and risk factors are generally negative and the risk of the investment has increased substantially. Interest and principal payments on our investment are likely to be impaired.

The following table shows the distribution of our debt portfolio investments on the 1 to 4 investment rating scale at fair value as of March 31, 2018 and 2017:

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

<b>Investment Rating</b>	<b>As of March 31, 2017</b>	
	<b>Investments at Fair Value</b>	<b>Percentage of Debt Portfolio</b>
	<b>(dollars in thousands)</b>	
1	\$ 12,173	7.3%
2	155,276	92.7
3		
4		
<b>Total</b>	<b>\$ 167,449</b>	<b>100.0%</b>

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

As of March 31, 2018 and 2017, we did not have any investments on non-accrual status or past due its contractual payment obligation.

**Investment Activity**

During the year ended March 31, 2018, we made new debt investments in 14 portfolio companies totaling \$142.9 million, follow-on debt investments in four portfolio companies totaling \$9.4 million, and equity investments in one existing and seven new portfolio companies totaling \$9.8 million. We also funded \$4.0 million on our existing equity commitment to I-45 SLF LLC. We received partial repayments totaling approximately \$11.7 million and full prepayments of approximately \$72.2 million from 13 portfolio companies.

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During the year ended March 31, 2017, we made new debt investments in 15 portfolio companies totaling \$117.9 million, follow-on debt investments in two portfolio companies totaling \$1.1 million, and equity investments in three new portfolio companies totaling \$2.8 million. We also funded \$24.0 million on our existing equity commitment to I-45 SLF LLC. We received proceeds from sales and repayments of debt investments in portfolio companies of \$45.8 million. In addition, we received proceeds from sales and return of capital of equity investments in portfolio companies totaling \$7.7 million and recognized net realized gains on those sales totaling \$7.2 million in the year ended March 31, 2017.

Total portfolio investment activity for the years ended March 31, 2018 and 2017 was as follows (in thousands):

<b>Year ended March 31, 2018</b>	<b>First Lien Loans</b>	<b>Second Lien Loans</b>	<b>Subordinated Debt</b>	<b>Preferred &amp; Common Equity &amp; Warrants</b>	<b>I-45 SLF LLC</b>	<b>Total</b>
Fair value, beginning of period	\$ 107,817	\$ 47,176	\$ 12,453	\$ 56,039	\$ 63,395	\$ 286,880
New investments	128,189	9,765	14,406	9,821	4,000	166,181
Proceeds from sales of investments				(104)		(104)
Principal repayments received	(41,687)	(34,179)	(8,100)			(83,966)
PIK interest earned			11	295		306
Accretion of loan discounts	705	100	52			857
Realized gain	814	550	114	104		1,582
Unrealized gain (loss)	1,272	(183)	(153)	20,705	(282)	21,359
<b>Fair value, end of period</b>	<b>\$ 197,110</b>	<b>\$ 23,229</b>	<b>\$ 18,783</b>	<b>\$ 86,860</b>	<b>\$ 67,113</b>	<b>\$ 393,095</b>

Weighted average yield on debt investments at end of period 11.46%

Weighted average yield on total investments at end of period 10.48%

<b>Year ended March 31, 2017</b>	<b>First Lien Loans</b>	<b>Second Lien Loans</b>	<b>Subordinated Debt</b>	<b>Preferred &amp; Common Equity &amp; Warrants</b>	<b>I-45 SLF LLC</b>	<b>Total</b>
Fair value, beginning of period	\$ 39,491	\$ 38,227	\$ 15,114	\$ 49,267	\$ 36,337	\$ 178,436
New investments	101,858	17,133		2,787	24,000	145,778
Proceeds from sales of investments		(2,507)		(7,692)		(10,199)
Principal repayments received	(36,168)	(7,051)	(60)			(43,279)
PIK interest earned				63		63
Accretion of loan discounts	303	97	34			434
Realized gain	1,514	207	28	5,885		7,634

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Unrealized gain	819	1,070	52	3,014	3,058	8,013
Conversion of security from debt to equity			(2,715)	2,715		
Fair value, end of period	\$ 107,817	\$ 47,176	\$ 12,453	\$ 56,039	\$ 63,395	\$ 286,880
Weighted average yield on debt investments at end of period						10.28%
Weighted average yield on total investments at end of period						10.49%

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**Table of Contents****RESULTS OF OPERATIONS**

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

**Comparison of years ended March 31, 2018 and March 31, 2017**

	Year ended March 31,		Net Change	
	2018	2017	Amount	%
			(in thousands)	
Total investment income	\$ 35,126	\$ 23,474	\$ 11,652	49.6%
Interest expense	(4,875)	(989)	(3,886)	392.9%
Other operating expenses	(13,823)	(12,818)	(1,005)	7.8%
Income before taxes	16,428	9,667	6,761	69.9%
Income tax expense	195	1,779	(1,584)	(89.0)%
Net investment income	16,233	7,888	8,345	105.8%
Net realized gain on investments before income tax	1,582	7,896	(6,314)	(80.0)%
Net change in net unrealized appreciation on investments, net of tax	21,492	7,690	13,802	179.5%
Net increase in net assets from operations	\$ 39,307	\$ 23,474	\$ 15,833	67.4%

**Investment Income**

Total investment income consisted of interest income, management fees, dividend income and other income for each applicable period. For the year ended March 31, 2018, total investment income was \$35.1 million, a \$11.7 million, or 49.6%, increase over total investment income of \$23.5 million for the year ended March 31, 2017. The increase was primarily due to a \$9.4 million, or 76.0% increase in interest income generated from our debt investments due to a 42.6% increase in the cost basis of debt investments held from \$166.1 million to \$236.8 million year over year in addition to an increase in the weighted average yield on debt investments from 10.28% to 11.46%.

We receive management fees primarily from our controlled affiliate investments which aggregated \$0.4 million for both the years ended March 31, 2018 and 2017. We also received other miscellaneous fees and income of

approximately \$0.5 million and \$0.6 million during the years ended March 31, 2018 and 2017, respectively, related primarily to other portfolio company activity.

***Operating Expenses***

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

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**Table of Contents***Interest and Fees on our Borrowings*

For the year ended March 31, 2018, total interest expense was \$4.9 million, an increase of \$3.9 million as compared to the total interest expense of \$1.0 million for the year ended March 31, 2017. The increase was primarily attributable to an increase of \$24.4 million in average borrowings on our Credit Facility during the year ended March 31, 2018, as well as the additional \$57.5 million of December 2022 Notes.

*Salaries, General and Administrative Expenses*

For the year ended March 31, 2018, total employee compensation expense (including both cash and share-based compensation) was \$9.2 million, a \$1.0 million, or 12.4%, increase over total employee compensation expense of \$8.2 million for the year ended March 31, 2017. The increase was primarily due to an increase in headcount, as well as additional restricted stock award grants. For both the years ended March 31, 2018 and 2017, total general and administrative expense was \$4.6 million.

*Net Investment Income*

For the year ended March 31, 2018, net investment income was \$16.2 million, an \$8.3 million, or 105.8%, increase over net investment income of \$7.9 million for the year ended March 31, 2017. The increase was driven by an \$11.7 million increase in total investment income and a \$1.6 million decrease in income tax expense primarily due to the tax reform, offset by a \$3.9 million increase in interest expense and a \$1.0 million increase in employee compensation expense.

*Increase in Net Assets from Operations*

During the fiscal year ended March 31, 2018, we recognized realized gains on investments before income tax totaling \$1.6 million, which consisted of gains on the partial repayments of five non-control/non-affiliate investments and full repayments on 13 non-control/non-affiliate investments.

In addition, for the fiscal year ended March 31, 2018, we recorded a net increase in unrealized appreciation on investments, net of tax, totaling \$21.5 million, consisting of net unrealized appreciation on our current portfolio of \$22.0 million, the reversal of \$0.6 million of net unrealized appreciation recognized in prior periods due to the realized gains noted above, and net unrealized appreciation related to deferred tax associated with the Taxable Subsidiary of \$0.1 million. Net unrealized appreciation on our current portfolio included unrealized gains on TitanLiner, Inc. of \$20.3 million and Media Recovery, Inc. of \$5.3 million, partially offset by unrealized losses on Deepwater Corrosion Services of \$5.3 million. These unrealized gains and losses were due to changes in fair value based on the overall EBITDA performance and cash flows of each investment.

During the fiscal year ended March 31, 2017, we recognized realized gains on investments before income tax totaling \$7.9 million, which consisted of net gains on the partial repayments of 22 non-control/non-affiliate investments, full repayments on five non-control/non-affiliate investments and the sale of certain equity securities.

In addition, for the fiscal year ended March 31, 2017, we recorded a net increase in unrealized appreciation, net of tax, on investments totaling \$7.7 million, consisting of net unrealized appreciation on our current portfolio of \$12.5 million, the reversal of \$4.5 million of net unrealized appreciation recognized in prior periods due to the realized gains noted above, and net unrealized depreciation related to deferred tax associated with the Taxable Subsidiary of \$0.3 million. Net unrealized appreciation on our current portfolio included unrealized gains on Media Recovery, Inc. of \$5.6 million, Deepwater Corrosion Services, Inc. of \$4.9 million and I-45 SLF LLC of \$3.1 million,

partially offset by unrealized losses on TitanLiner, Inc. of \$3.3 million. These unrealized gains and losses were due to changes in fair value based on the overall EBITDA performance and cash flows of each investment.

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**Table of Contents****Comparison of years ended March 31, 2017 and March 31, 2016**

	<b>Year ended March 31,</b>		<b>Net Change</b>	
	<b>2017</b>	<b>2016</b>	<b>Amount</b>	<b>%</b>
	<b>(in thousands)</b>			
Total investment income	\$ 23,474	\$ 9,160	\$ 14,314	156.3%
Interest expense	(989)		(989)	100.0%
Other operating expenses	(12,818)	(21,125)	8,307	(39.3)%
Income (loss) before taxes	9,667	(11,965)	21,632	180.8%
Income tax expense (benefit)	1,779	(1,278)	3,057	239.2%
Net investment income (loss)	7,888	(10,687)	18,575	173.8%
Net realized gain (loss) on investments before income tax	7,896	(10,802)	18,698	173.1%
Net change in net unrealized appreciation on investments, net of tax	7,690	16,089	(8,399)	(52.2)%
Net increase (decrease) in net assets from operations	\$ 23,474	\$ (5,400)	\$ 28,874	534.7%

**Investment Income**

Total investment income consisted of interest income, management fees, dividend income and other income for each applicable period. For the year ended March 31, 2017, total investment income was \$23.5 million, a \$14.3 million, or 156.3%, increase over total investment income of \$9.2 million for the year ended March 31, 2016. This increase was primarily due to a \$7.9 million, or 173.2%, increase in interest income generated from our debt investments due to a 78% increase in the cost basis of debt investments held from \$93.4 million to \$166.1 million year over year, partially offset by a decrease in the weighted average yield on debt investments from 10.67% to 10.28% year over year.

Additionally, there was a \$6.4 million, or 184.0%, increase in dividend income due to dividends received from I-45 SLF LLC and Media Recovery, Inc. Total investment income also includes interest income we earn from the short-term investment of cash funds, and the annual amount of such income varies based upon the average level of funds invested during the year and fluctuations in short-term interest rates. During the two years ended March 31, we had interest income from cash and cash equivalents of \$0.2 million in 2017 and \$0.4 million in 2016.

We receive management fees primarily from our controlled affiliate investments which aggregated \$0.4 million in 2017 and \$0.7 million in 2016. We also received other miscellaneous income of approximately \$0.6 million and \$0.1 million during the years ended March 31, 2017 and 2016, respectively, related primarily to other portfolio company activity.

**Operating Expenses**

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

**Interest and Fees on our Borrowings**

For the year ended March 31, 2017, total interest expense was \$1.0 million. We entered into the Credit Facility in August 2016. As such, there was no interest expense incurred during the year ended March 31, 2016.

*Salaries, General and Administrative Expenses*

For the year ended March 31, 2017, total employee compensation expense (including both cash and share-based compensation) was \$8.2 million, a \$1.6 million, or 16.2%, decrease from the total employee compensation expense of \$9.8 million for the year ended March 31, 2016. The decrease was primarily due to approximately \$1.6 million of compensation expense incurred in fiscal 2016 for employees who transferred to CSWI following

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the Share Distribution. For the year ended March 31, 2017, total general and administrative expense was \$4.6 million, a \$6.7 million, or 59.4%, decrease over total general and administrative expenses of \$11.3 million for the year ended March 31, 2016. The decrease was primarily due to expenses of \$7.0 million related to the Share Distribution.

***Net Investment Income/Loss***

For the year ended March 31, 2017, net investment income was \$7.9 million, a \$18.6 million, or 173.8%, increase over net investment loss of \$10.7 million during the fiscal year ended March 31, 2016, primarily as a result of the \$14.3 million increase in total investment income and the \$7.3 million decrease in operating expenses.

***Increase/Decrease in Net Assets from Operations***

During the fiscal year ended March 31, 2017, we recognized realized gains on investments before income tax totaling \$7.9 million, which consisted of net gains on the partial repayments of 22 non-control/non-affiliate investments, full repayments on five non-control/non-affiliate investments and the sale of certain equity securities.

In addition, for the fiscal year ended March 31, 2017, we recorded a net increase in unrealized appreciation on investments totaling \$7.7 million, consisting of net unrealized appreciation on our current portfolio of \$12.5 million, the reversal of \$4.5 million of net unrealized appreciation recognized in prior periods due to the realized gains noted above, and net unrealized depreciation related to deferred tax associated with the Taxable Subsidiary of \$0.3 million. Net unrealized appreciation on our current portfolio included unrealized gains on Media Recovery, Inc. of \$5.6 million, Deepwater Corrosion Services, Inc. of \$4.9 million and I-45 SLF LLC of \$3.1 million, partially offset by unrealized losses on TitanLiner, Inc. of \$3.3 million. These unrealized gains and losses were due to changes in fair value based on the overall EBITDA performance and cash flows of each investment.

During the fiscal year ended March 31, 2016, we recognized a total net realized loss before income taxes of \$10.8 million consisting of the difference between \$19.7 million of proceeds from disposition of investments and \$30.5 million of cost from four partial repayments of investments and the disposition of 12 investments.

In addition, for the fiscal year ended March 31, 2016, we recorded a net increase in unrealized appreciation on investments of \$16.1 million, consisting of net unrealized appreciation on our current portfolio of \$7.6 million and the reversal of \$8.5 million of net unrealized appreciated recognized in prior periods due to the realized gains and losses noted above.

**FINANCIAL LIQUIDITY AND CAPITAL RESOURCES**

Our liquidity and capital resources are generated primarily from cash flows from operations, the net proceeds of public offerings of debt securities and advances from the Credit Facility. Management believes that the Company's cash and cash equivalents, cash available from investments, and commitments under the Credit Facility are adequate to meet its needs for the next twelve months.

We may from time to time seek to retire or repurchase our common stock through cash purchases, as well as retire, cancel or purchase our outstanding debt through cash purchases and/or exchanges, in open market purchases, privately negotiated transactions or otherwise. In addition, we may from time to time enter into additional debt facilities, increase the size of existing facilities or issue additional debt securities. Any repurchase or issuance would be subject to prevailing market conditions, our liquidity requirements, contractual and regulatory restrictions and other factors. In accordance with the 1940 Act, with certain limited exceptions, we are only allowed to borrow amounts such that our asset coverage, calculated pursuant to the 1940 Act, is at least

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200% (or, pursuant to recent legislation, 150% if certain requirements are met as described in the Business Section under Regulation as a Business Development Company Senior Securities ) after such borrowing. As of March 31, 2018, our asset coverage was 416%.

**Cash Flows**

For the year ended March 31, 2018, we experienced a net decrease in cash and cash equivalents in the amount of \$14.5 million. During that period, our operating activities used \$63.9 million in cash, consisting primarily of new portfolio investments of \$166.2 million, partially offset by \$82.5 million of repayments received from debt investments in portfolio companies. In addition, our financing activities increased cash by \$49.4 million, consisting primarily of proceeds from the issuance of the December 2022 Notes of \$55.8 million and net borrowings under the Credit Facility of \$15.0 million, partially offset by cash dividends paid in the amount of \$18.6 million. At March 31, 2018, the Company had cash and cash equivalents of approximately \$7.9 million.

For the year ended March 31, 2017, we experienced a net decrease in cash and cash equivalents in the amount of \$73.6 million. During that period, our operating activities used \$89.6 million in cash, consisting primarily of new portfolio investments of \$145.8 million, partially offset by \$44.6 million of sales and repayments received from debt investments in portfolio companies and \$7.7 million in proceeds from sales of equity investments in portfolio companies. In addition, our financing activities increased cash by \$16.0 million, consisting primarily of proceeds from the Credit Facility of \$25.0 million, partially offset by cash dividends paid in the amount of \$6.0 million and debt issuance costs paid of \$2.5 million. At March 31, 2017, the Company had cash and cash equivalents of approximately \$22.4 million.

**Financing Transactions***Credit Facility*

In August 2016, CSWC entered into the Credit Facility to provide additional liquidity to support its investment and operational activities, which included total commitments of \$100.0 million. The Credit Facility 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. In August 2017, we increased our total commitments by \$15 million through adding an additional lender using the accordion feature.

On November 16, 2017, CSWC entered into Amendment No. 1 (the Amendment ) to its Credit Facility. Prior to the Amendment, borrowings under the Credit Facility accrued interest on a per annum basis at a rate equal to the applicable LIBOR rate plus 3.25% with no LIBOR floor. CSWC paid unused commitment fees of 0.50% to 1.50% per annum, based on utilization, on the unused lender commitments under the Credit Facility. The Amendment (1) increased the total borrowing capacity under the Credit Facility to \$180.0 million, with commitments from a diversified group of eight lenders, (2) increased the Credit Facility's accordion feature that allows for an increase in total commitments of up to \$250 million under the Credit Facility from new and existing lenders on the same terms and conditions as the existing commitments, (3) reduced the interest rate on borrowings to LIBOR plus 3.00%, with a step-down to LIBOR plus 2.75% at the time the Company's net worth exceeds \$325 million, (4) reduced unused commitment fees to a range of 0.50% to 1.0% per annum based on utilization, and (5) extended the Credit Facility's revolving period that ended on August 30, 2019 through November 16, 2020. Additionally, the final maturity of the Credit Facility was extended from August 30, 2020 to November 16, 2021. Subsequent to March 31, 2018, on April 16, 2018 and May 11, 2018, CSWC entered into Incremental Assumption Agreements, which increased the total commitments under the Credit Facility by \$20 million and \$10 million, respectively. The increases were executed under the accordion feature of the Credit Facility and increased total commitments from \$180 million to \$210 million.

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

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

The Credit Facility is secured by (1) substantially all of the present and future property and assets of the Company and the guarantors and (2) 100% of the equity interests in the Company's wholly-owned subsidiaries. As of March 31, 2018, substantially all of the Company's assets were pledged as collateral for the Credit Facility.

At March 31, 2018, CSWC had \$40.0 million in borrowings outstanding under the Credit Facility. CSWC recognized interest expense related to the Credit Facility, including unused commitment fees and amortization of deferred loan costs of \$3.7 million and \$1.0 million, respectively, for the years ended March 31, 2018 and 2017. The weighted average interest rate on the Credit Facility was 4.66% and 4.28%, respectively, for the years ended March 31, 2018 and 2017. Average borrowings for the years ended March 31, 2018 and 2017 were \$42.2 million and \$17.8 million, respectively. As of March 31, 2018 and 2017, CSWC was in compliance with all financial covenants under the Credit Facility.

*December 2022 Notes*

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

As of March 31, 2018, the carrying amount of the December 2022 Notes was \$55.3 million. As of March 31, 2018, the fair value of the December 2022 Notes was \$58.4 million. The fair value is based on the closing price of the security of The Nasdaq Global Select Market, which is a Level 1 input under ASC 820. The Company recognized interest expense related to the December 2022 Notes, including amortization of deferred issuance costs, of \$1.2 million for the year ended March 31, 2018.

The indenture governing the December 2022 Notes contains certain covenants including but not limited to (i) a requirement that the Company comply with the asset coverage requirement of Section 61 of the 1940 Act or any successor provisions thereto, after giving effect to any exemptive relief granted to the Company by the SEC, (ii) a requirement, subject to a limited exception, that the Company will not declare any cash dividend, or declare any other cash distribution, upon a class of its capital stock, or purchase any such capital stock, unless, in every such case, at the time of the declaration of any such dividend or distribution, or at the time of any such purchase, the Company has the

minimum asset coverage required pursuant to Section 61 of the 1940 Act or any successor provision thereto after deducting the amount of such dividend, distribution or purchase price, as the case may be,

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giving effect to any exemptive relief granted to the Company by the SEC and (iii) a requirement to provide financial information to the holders of the December 2022 Notes and the trustee under the indenture if the Company should no longer be subject to the reporting requirements under the Exchange Act. The indenture and supplement relating to the December 2022 Notes also provides for customary events of default. As of March 31, 2018, the Company was in compliance with all covenants of the December 2022 Notes.

*Equity Capital Activities*

In January 2016, our board of directors approved a share repurchase program authorizing us to repurchase up to \$10 million in the aggregate of our outstanding common stock in the open market at certain thresholds below our net asset value per share, in accordance with Rules 10b-18 under the Exchange Act. As of March 31, 2018, we had repurchased a total of 35,911 shares of our common stock in the open market under the stock repurchase program, at an average price of \$16.37, including commissions paid, leaving approximately \$9.4 million available for additional repurchases under the program.

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

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

**OFF-BALANCE SHEET ARRANGEMENTS**

We may be a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financial needs of our portfolio companies. These instruments may include commitments to extend credit and fund equity capital and involve, to varying degrees, elements of liquidity and credit risk in excess of the amount recognized in the balance sheet. At March 31, 2018, we had a total of approximately \$11.6 million in currently unfunded commitments, consisting of \$3.2 million in equity capital commitments to I-45 SLF LLC that had not been fully called, a \$2.0 million revolver to Clickbooth.com, a \$2.0 million revolver to ITA Holdings Group, LLC, a \$0.9 million delayed draw term loan to LGM Pharma, a \$1.5 million revolver to Prism Spectrum Holdings LLC, and a \$2.0 million revolver to Zenfolio Inc. We believe our assets will provide adequate coverage to satisfy these commitments. As of March 31, 2018, we had cash and cash equivalents of \$7.9 million and \$140 million in available borrowings under the Credit Facility.

**CONTRACTUAL OBLIGATIONS**

As shown below, we had the following contractual obligations as of March 31, 2018. For information on our unfunded investment commitments, see Note 12 of the Notes to Consolidated Financial Statements.

	Total	Payments Due By Period (In thousands)			
		Less than 1 Year	1-3 Years	3-5 Years	More Than 5 Years
<b>Contractual Obligations</b>					

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Operating lease obligations	\$ 1,019	\$ 248	\$ 771	\$	\$
Credit Facility <sup>(1)</sup>	47,350	2,022	45,328		
December 2022 Notes <sup>(2)</sup>	73,846	3,469	10,416	59,961	
Total	\$ 122,215	\$ 5,739	\$ 56,515	\$ 59,961	\$

(1) Amounts include interest payments calculated at an average rate 5.00% of outstanding Credit Facility borrowings, which were \$40.0 million as of March 31, 2018.

(2) Includes interest payments.

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**RECENT DEVELOPMENTS**

On April 2, 2018, CSWC paid regular dividends declared on February 28, 2018 in the amount of \$4.5 million, or \$0.28 per share.

On April 16, 2018 and May 11, 2018, CSWC entered into Incremental Assumption Agreements, which increased the total commitments under the Credit Facility by \$20 million and \$10 million, respectively. The increases were executed under the accordion feature of the Credit Facility and increased total commitments from \$180 million to \$210 million.

On April 25, 2018, the Board of Directors unanimously approved the application of the recently modified asset coverage requirements set forth in Section 61(a)(2) of the 1940 Act. As a result, the minimum asset coverage ratio applicable to the Company will be decreased from 200% to 150%, effective April 25, 2019. The Board of Directors also approved a resolution which limits the Company's issuance of senior securities such that the asset coverage ratio, taking into account any such issuance, would not be less than 166%, effective April 25, 2019.

On June 1, 2018, the Company's Board of Directors declared a \$0.29 dividend per share for the quarter ended June 30, 2018. The record date for the dividend is June 26, 2018. The payment date for the dividend is July 2, 2018.

On June 7, 2018, the Company's Board of Directors declared a \$0.60 supplemental dividend per share for the quarter ended June 30, 2018. The record date for the dividend is June 26, 2018. The payment date for the dividend is July 2, 2018.

**Table of Contents****RATIO OF EARNINGS TO FIXED CHARGES**

The following table contains our ratio of earnings to fixed charges for the periods indicated, computed as set forth below. You should read these ratios of earnings to fixed charges in connection with our financial statements, including the notes to those statements, included in this prospectus supplement and the accompanying prospectus.

	<b>For the Year Ended March 31, 2018</b>	<b>For the Year Ended March 31, 2017</b>	<b>For the Year Ended March 31, 2016</b>	<b>For the Year Ended March 31, 2015</b>	<b>For the Year Ended March 31, 2014</b>
Earnings to Fixed Charges <sup>(1)</sup>	9.10	26.53	(2)	(2)	(2)

<sup>(1)</sup> Earnings include net realized and unrealized gains or losses. Net realized and unrealized gains or losses can vary substantially from period to period.

Excluding net realized and unrealized gains and losses, the earnings to fixed charges ratio would be 4.37 and 10.77 for the year ended March 31, 2018 and 2017, respectively, and unchanged for the years ended March 31, 2016, 2015, and 2014.

<sup>(2)</sup> There were no fixed charges for the years ended March 31, 2016, 2015, and 2014.

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**Table of Contents****DESCRIPTION OF THE NOTES**

On December 15, 2017, we and the trustee entered into the first supplemental indenture relating to our issuance, offer and sale of the Existing Notes. We will issue the Notes offered hereby under the same first supplemental indenture. The Notes offered hereby will be a further issuance of, be fungible with, rank equally in right of payment with, and form a single series for all purposes under the indenture, including, without limitation, waivers, amendments, consents, redemptions and other offers to purchase and voting, with the Existing Notes. We refer to the Notes and the Existing Notes separately within this prospectus supplement since only the Notes are being offered hereby, but any general discussion of the terms of the Notes would also apply to the Existing Notes since they are treated as the same under the indenture. We refer to the indenture and the first supplemental indenture collectively as the indenture and to U.S. Bank National Association as the trustee. The Notes are governed by the indenture, as required by federal law for all bonds and notes of companies that are publicly offered. An indenture is a contract between us and the financial institution acting as trustee on your behalf, and is subject to and governed by the Trust Indenture Act of 1939, as amended. The trustee has two main roles. First, the trustee can enforce your rights against us if we default. There are some limitations on the extent to which the trustee acts on your behalf, described in the second paragraph under Events of Default Remedies if an Event of Default Occurs below. Second, the trustee performs certain administrative duties for us with respect to the Notes.

This section includes a summary description of the material terms of the Notes and the indenture. Because this section is a summary, however, it does not describe every aspect of the Notes and the indenture. We urge you to read the indenture because it, and not this description, defines your rights as a holder of the Notes. The Base indenture has been attached as an exhibit to the registration statement of which this prospectus supplement is a part and the first supplemental indenture will be attached as an exhibit to a post-effective amendment to the registration statement of which this prospectus supplement is a part, in each case, as filed with the SEC. See Available Information in this prospectus supplement for information on how to obtain a copy of the indenture.

**General**

The Notes will mature on December 15, 2022. The principal payable at maturity will be 100% of the aggregate principal amount. The interest rate of the Notes is 5.95% per year and will be paid every March 15, June 15, September 15 and December 15, beginning on the first applicable interest payment date following a given purchase of the Notes under this prospectus supplement, except that, if you purchase Notes after the record date in a given interest period (or your settlement of a purchase of Notes otherwise occurs after such record date), the first interest payment will not occur until the applicable interest payment date at the end of the next interest period (i.e., you will not receive an interest payment on the interest payment date immediately following such record date). The regular record dates for interest payments will be every March 1, June 1, September 1 and December 1, commencing with the first such date to follow a given purchase of the Notes under this prospectus supplement. The interest payable on each interest payment date will be paid only to holders of record of the Notes at the close of business on the record date immediately preceding the applicable interest payment date. If an interest payment date falls on a non-business day, the applicable interest payment will be made on the next business day and no additional interest will accrue as a result of such delayed payment. Interest on the Notes will accrue from the most recent interest payment date immediately preceding the date of issuance of the Notes from time to time, except that, if you purchase Notes after the record dates noted below (or your settlement of a purchase of Notes otherwise occurs after such record date), your Notes will not begin to accrue interest until the interest payment date immediately following such record date (i.e., your Notes will not accrue interest for the period from such purchase date to the interest payment date immediately following such record date). Subsequent interest periods will be the periods from and including an interest payment date to, but excluding, the next interest payment date or the stated maturity date, as the case may be.

We will issue the Notes in denominations of \$25 and integral multiples of \$25 in excess thereof. The Notes will not be subject to any sinking fund and holders of the Notes will not have the option to have the Notes repaid prior to the stated maturity date.

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The indenture does not limit the amount of debt (including secured debt) that may be issued by us or our subsidiaries under the indenture or otherwise, but does contain a covenant regarding our asset coverage that would have to be satisfied at the time of our incurrence of additional indebtedness. See **Other Covenants** and **Events of Default**. Other than the foregoing and as described under **Other Covenants** and **Events of Default** below, the indenture does not contain any financial covenants and does not restrict us from paying dividends or issuing or repurchasing our other securities. Other than restrictions described under **Merger or Consolidation** below, the indenture does not contain any covenants or other provisions designed to afford holders of the Notes protection in the event of a highly leveraged transaction involving us or if our credit rating declines as the result of a takeover, recapitalization, highly leveraged transaction or similar restructuring involving us that could adversely affect your investment in the Notes.

We have the ability to issue indenture securities with terms different from the Notes and, without the consent of the holders of the Notes, to reopen the Notes and issue additional Notes.

## **Optional Redemption**

The Notes may be redeemed in whole or in part at any time or from time to time at our option on or after December 15, 2019, upon not less than 30 days nor more than 60 days written notice by mail prior to the date fixed for redemption thereof, at a redemption price of 100% of the outstanding principal amount of the Notes to be redeemed plus accrued and unpaid interest payments otherwise payable thereon for the then-current quarterly interest period accrued to the date fixed for redemption.

You may be prevented from exchanging or transferring the Notes when they are subject to redemption. In case any Notes are to be redeemed in part only, the redemption notice will provide that, upon surrender of such Note, you will receive, without a charge, a new Note or Notes of authorized denominations representing the principal amount of your remaining unredeemed Notes. Any exercise of our option to redeem the Notes will be done in compliance with the 1940 Act, to the extent applicable.

If we redeem only some of the Notes, the trustee or, with respect to global securities, DTC will determine the method for selection of the particular Notes to be redeemed, in accordance with the indenture and the 1940 Act, to the extent applicable, and in accordance with the rules of any national securities exchange or quotation system on which the Notes are listed. Unless we default in payment of the redemption price, on and after the date of redemption, interest will cease to accrue on the Notes called for redemption.

Before redeeming any Notes, we would have to comply with certain requirements under our Credit Facility, to the extent such requirements remain in effect at such time, or otherwise obtain consent from the lenders.

## **Global Securities**

Each Note will be issued in book-entry form and represented by a global security that we deposit with and register in the name of The Depository Trust Company, New York, New York, known as DTC, or its nominee. A global security may not be transferred to or registered in the name of anyone other than the depository or its nominee, unless special termination situations arise. As a result of these arrangements, the depository, or its nominee, will be the sole registered owner and holder of all the Notes represented by a global security, and investors will be permitted to own only beneficial interests in a global security. For more information about these arrangements, see **Book-Entry Procedures** below.

## **Termination of a Global Security**

If a global security is terminated for any reason, interests in it will be exchanged for certificates in non-book-entry form (certificated securities). After that exchange, the choice of whether to hold the certificated Notes

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directly or in street name will be up to the investor. Investors must consult their own banks or brokers to find out how to have their interests in a global security transferred on termination to their own names, so that they will be holders.

### **Payment and Paying Agents**

We will pay interest to the person listed in the trustee's records as the owner of the Notes at the close of business on a particular day in advance of each due date for interest, even if that person no longer owns the Note on the interest due date. That day, usually about two weeks in advance of the interest due date, is called the record date. Because we will pay all the interest for an interest period to the holders on the record date, holders buying and selling the Notes must work out between themselves the appropriate purchase price. The most common manner is to adjust the sales price of the Notes to prorate interest fairly between buyer and seller based on their respective ownership periods within the particular interest period. This prorated interest amount is called accrued interest.

### **Payments on Global Securities**

We will make payments on the Notes so long as they are represented by a global security in accordance with the applicable policies of the depositary as in effect from time to time. Under those policies, we will make payments directly to the depositary, or its nominee, and not to any indirect holders who own beneficial interests in the global security. An indirect holder's right to those payments will be governed by the rules and practices of the depositary and its participants, as described under Book-Entry Procedures below.

### **Payments on Certificated Securities**

In the event the Notes become represented by certificated securities, we will make payments on the Notes as follows. We will pay interest that is due on an interest payment date to the holder of the Notes as shown on the trustee's records as of the close of business on the regular record date. We will make all payments of principal and premium, if any, by check at the office of the applicable trustee in New York, New York and/or at other offices that may be specified in the indenture or a notice to holders against surrender of the Note.

Alternatively, at our option, we may pay any cash interest that becomes due on the Notes by mailing a check to the holder at his, her or its address shown on the trustee's records as of the close of business on the regular record date or by transfer to an account at a bank in the United States, in either case, on the due date.

### **Payment When Offices Are Closed**

If any payment is due on the Notes on a day that is not a business day, we will make the payment on the next day that is a business day. Payments made on the next business day in this situation will be treated under the indenture as if they were made on the original due date. Such payment will not result in a default under the Notes or the indenture, and no interest will accrue on the payment amount from the original due date to the next day that is a business day.

**Book-entry and other indirect holders should consult their banks or brokers for information on how they will receive payments on the Notes.**

### **Events of Default**

You will have rights if an Event of Default occurs in respect of the Notes and the Event of Default is not cured, as described later in this subsection.

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The term "Event of Default" in respect of the Notes means any of the following:

We do not pay the principal of, or any premium on, any Note when due and payable at maturity;

We do not pay interest on any Note when due and payable, and such default is not cured within 30 days of its due date;

We remain in breach of any other covenant in respect of the Notes for 60 days after we receive a written notice of default stating we are in breach (the notice must be sent by either the trustee or holders of at least 25% of the principal amount of the outstanding Notes);

We file for bankruptcy or certain other events of bankruptcy, insolvency or reorganization occur and remain undischarged or unstayed for a period of 60 days; or

On the last business day of each of twenty-four consecutive calendar months, the Notes have an asset coverage of less than 100%, giving effect to any exemptive relief granted to us by the SEC.

An Event of Default for the Notes may, but does not necessarily, constitute an Event of Default for any other series of debt securities issued under the same or any other indenture. The trustee may withhold notice to the holders of the Notes of any default, except in the payment of principal or interest, if it in good faith considers the withholding of notice to be in the best interests of the holders.

*Remedies if an Event of Default Occurs*

If an Event of Default has occurred and is continuing, the trustee or the holders of not less than 25% in principal amount of the Notes may declare the entire principal amount of all the Notes to be due and immediately payable, but this does not entitle any holder of Notes to any redemption payout or redemption premium. If an Event of Default referred to in the second to last bullet point above with respect to us has occurred, the entire principal amount of all of the Notes will automatically become due and immediately payable. This is called a declaration of acceleration of maturity. In certain circumstances, a declaration of acceleration of maturity may be canceled by the holders of a majority in principal amount of the Notes if (1) we have deposited with the trustee all amounts due and owing with respect to the Notes (other than principal or any payment that has become due solely by reason of such acceleration) and certain other amounts, and (2) any other Events of Default have been cured or waived.

Except in cases of default, where the trustee has some special duties, the trustee is not required to take any action under the indenture at the request of any holders unless the holders offer the trustee reasonable protection from expenses and liability (called an "indemnity"). If reasonable indemnity is provided, the holders of a majority in principal amount of the Notes may direct the time, method and place of conducting any lawsuit or other formal legal action seeking any remedy available to the trustee. The trustee may refuse to follow those directions in certain circumstances. No delay or omission in exercising any right or remedy will be treated as a waiver of that right, remedy or Event of Default.

Before you are allowed to bypass the trustee and bring your own lawsuit or other formal legal action or take other steps to enforce your rights or protect your interests relating to the Notes, the following must occur:

You must give the trustee written notice that an Event of Default has occurred and remains uncured;

The holders of at least 25% in principal amount of all the Notes must make a written request that the trustee take action because of the default and must offer reasonable indemnity to the trustee against the cost and other liabilities of taking that action;

The trustee must not have taken action for 60 days after receipt of the above notice and offer of indemnity; and

The holders of a majority in principal amount of the Notes must not have given the trustee a direction inconsistent with the above notice during that 60-day period.

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However, you are entitled at any time to bring a lawsuit for the payment of money due on your Notes on or after the due date.

**Book-entry and other indirect holders should consult their banks or brokers for information on how to give notice or direction to or make a request of the trustee and how to declare or cancel an acceleration of maturity.**

Each year, we will furnish to the trustee a written statement of certain of our officers certifying that to their knowledge we are in compliance with the indenture and the Notes, or else specifying any default.

### *Waiver of Default*

The holders of a majority in principal amount of the Notes may waive any past defaults other than a default:

in the payment of principal (or premium, if any) or interest; or

in respect of a covenant that cannot be modified or amended without the consent of each holder of the Notes.

### **Merger or Consolidation**

Under the terms of the indenture, we are generally permitted to consolidate or merge with another entity. We are also permitted to sell all or substantially all of our assets to another entity. However, we may not take any of these actions unless all the following conditions are met where:

we merge out of existence or convey or transfer all or substantially all of our assets, the resulting entity must agree to be legally responsible for our obligations under the Notes;

the merger or sale of assets must not cause a default on the Notes and we must not already be in default (unless the merger or sale would cure the default). For purposes of this no-default test, a default would include an Event of Default that has occurred and has not been cured, as described under *Events of Default* above. A default for this purpose would also include any event that would be an Event of Default if the requirements for giving us a notice of default or our default having to exist for a specific period of time were disregarded; and

we must deliver certain certificates and documents to the trustee.

Notwithstanding any of the foregoing and subject to the 1940 Act, any subsidiary of ours may consolidate with, merge into or transfer all or part of its property and assets to other subsidiaries of ours or to us. Additionally, this covenant shall not apply to: (1) our merger or the merger of one of our subsidiaries with an affiliate solely for the purpose of reincorporating in another jurisdiction; (2) any conversion by us or a subsidiary from an entity formed under the laws of one state to any entity formed under the laws of another state; or (3) any combination of (1) and (2) above.

### **Modification or Waiver**

There are three types of changes we can make to the indenture and the Notes issued thereunder.

*Changes Requiring Your Approval*

First, there are changes that we cannot make to your Notes without your specific approval. The following is a list of those types of changes:

change the stated maturity of the principal of (or premium, if any, on) or any installment of principal of or interest on the Notes;

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reduce any amounts due on the Notes or reduce the rate of interest on the Notes;

reduce the amount of principal payable upon acceleration of the maturity of a Note following a default;

change the place or currency of payment on a Note;

impair your right to sue for payment;

reduce the percentage of holders of Notes whose consent is needed to modify or amend the indenture; and

reduce the percentage of holders of Notes whose consent is needed to waive compliance with certain provisions of the indenture or to waive certain defaults or reduce the percentage of holders of Notes required to satisfy quorum or voting requirements at a meeting of holders of the Notes.

*Changes Not Requiring Approval*

The second type of change does not require any vote by the holders of the Notes. This type is limited to clarifications and certain other changes that would not adversely affect holders of the Notes in any material respect.

*Changes Requiring Majority Approval*

Any other change to the indenture and the Notes would require the following approval:

if the change affects only the Notes, it must be approved by the holders of a majority in principal amount of the Notes; and

if the change affects more than one series of debt securities issued under the same indenture, it must be approved by the holders of a majority in principal amount of all of the series affected by the change, with all affected series voting together as one class for this purpose.

In each case, the required approval must be given by written consent.

The holders of a majority in principal amount of all of the series of debt securities issued under an indenture, voting together as one class for this purpose, may waive our compliance with some of our covenants in that indenture. However, we cannot obtain a waiver of a payment default or of any of the matters covered by the bullet points included above under Changes Requiring Your Approval.

*Further Details Concerning Voting*

When taking a vote, we will use the following rules to decide how much principal to attribute to the Notes:

The Notes will not be considered outstanding, and therefore not eligible to vote, if we have deposited or set aside in trust money for their payment or redemption or if we or any affiliate of ours own any Notes. The Notes will also not be eligible to vote if they have been fully defeased as described later under Defeasance Full Defeasance below.

We will generally be entitled to set any day as a record date for the purpose of determining the holders of the Notes that are entitled to vote or take other action under the indenture. However, the record date may not be earlier than 30 days before the date of the first solicitation of holders to vote on or take such action and not later than the date such solicitation is completed. If we set a record date for a vote or other action to be taken by holders of the Notes, that vote or action may be taken only by persons who are holders of the Notes on the record date and must be taken within eleven months following the record date.

**Book-entry and other indirect holders should consult their banks or brokers for information on how approval may be granted or denied if we seek to change the indenture or the Notes or request a waiver.**



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**Satisfaction and Discharge**

The indenture will be discharged and will cease to be of further effect with respect to the Notes when:

Either

all the Notes that have been authenticated have been delivered to the trustee for cancellation; or

all the Notes that have not been delivered to the trustee for cancellation:

have become due and payable, or

will become due and payable at their stated maturity within one year, or

are to be called for redemption,

and we, in the case of the first, second and third sub-bullets above, have irrevocably deposited or caused to be deposited with the trustee as trust funds in trust solely for the benefit of the holders of the Notes, in amounts in the currency payable for the Notes as will be sufficient, to pay and discharge the entire indebtedness (including all principal, premium, if any, and interest) on such Notes delivered to the trustee for cancellation (in the case of Notes that have become due and payable on or prior to the date of such deposit) or to the stated maturity or redemption date, as the case may be;

we have paid or caused to be paid all other sums payable by us under the indenture with respect to the Notes; and

we have delivered to the trustee an officers' certificate and legal opinion, each stating that all conditions precedent provided for in the indenture relating to the satisfaction and discharge of the indenture and the Notes have been complied with.

**Defeasance**

The following provisions will be applicable to the Notes. Defeasance means that, by depositing with a trustee an amount of cash and/or government securities sufficient to pay all principal and interest, if any, on the Notes when due and satisfying any additional conditions noted below, we will be deemed to have been discharged from our obligations under the Notes. In the event of a covenant defeasance, upon depositing such funds and satisfying similar conditions discussed below we would be released from certain covenants under the indenture relating to the Notes.

*Covenant Defeasance*

Under current U.S. federal income tax law and the indenture, we can make the deposit described below and be released from some of the restrictive covenants in the indenture under which the Notes were issued. This is called covenant defeasance. In that event, you would lose the protection of those restrictive covenants but would gain the protection of having money and government securities set aside in trust to repay your Notes. In order to achieve covenant defeasance, the following must occur:

Since the Notes are denominated in U.S. dollars, we must deposit in trust for the benefit of all holders of the Notes a combination of cash and U.S. government or U.S. government agency notes or bonds that will generate enough cash to make interest, principal and any other payments on the Notes on their various due dates;

We must deliver to the trustee a legal opinion of our counsel confirming that, under current U.S. federal income tax law, we may make the above deposit without causing you to be taxed on the Notes any differently than if we did not make the deposit;

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We must deliver to the trustee a legal opinion of our counsel stating that the above deposit does not require registration by us under the 1940 Act, and a legal opinion and officers' certificate stating that all conditions precedent to covenant defeasance have been complied with;

Defeasance must not result in a breach or violation of, or result in a default under, the indenture or any of our other material agreements or instruments; and

No default or event of default with respect to the Notes shall have occurred and be continuing and no defaults or events of default related to bankruptcy, insolvency or reorganization shall occur during the next 90 days. If we accomplish covenant defeasance, you can still look to us for repayment of the Notes if there were a shortfall in the trust deposit or the trustee is prevented from making payment. In fact, if one of the remaining Events of Default occurred (such as our bankruptcy) and the Notes became immediately due and payable, there might be a shortfall. Depending on the event causing the default, you may not be able to obtain payment of the shortfall.

### *Full Defeasance*

If there is a change in U.S. federal income tax law, as described below, we can legally release ourselves from all payment and other obligations on the Notes (called "full defeasance") if we put in place the following other arrangements for you to be repaid:

Since the Notes are denominated in U.S. dollars, we must deposit in trust for the benefit of all holders of the Notes a combination of money and U.S. government or U.S. government agency notes or bonds that will generate enough cash to make interest, principal and any other payments on the Notes on their various due dates;

We must deliver to the trustee a legal opinion confirming that there has been a change in current U.S. federal tax law or an Internal Revenue Service ("IRS") ruling that allows us to make the above deposit without causing you to be taxed on the Notes any differently than if we did not make the deposit;

We must deliver to the trustee a legal opinion of our counsel stating that the above deposit does not require registration by us under the 1940 Act, and a legal opinion and officers' certificate stating that all conditions precedent to defeasance have been complied with;

Defeasance must not result in a breach or violation of, or constitute a default under, the indenture or any of our other material agreements or instruments; and

No default or event of default with respect to the Notes shall have occurred and be continuing and no defaults or events of default related to bankruptcy, insolvency or reorganization shall occur during the next 90 days. If we ever did accomplish full defeasance, as described above, you would have to rely solely on the trust deposit for repayment of the Notes. You could not look to us for repayment in the unlikely event of any shortfall. Conversely, the

trust deposit would most likely be protected from claims of our lenders and other creditors if we ever became bankrupt or insolvent.

**Other Covenants**

In addition to any other covenants described in this prospectus supplement and the accompanying prospectus, as well as standard covenants relating to payment of principal and interest, maintaining an office where payments may be made or securities can be surrendered for payment, payment of taxes by the Company and related matters, the following covenants will apply to the Notes:

We agree that for the period of time during which the Notes are outstanding, we will not violate Section 18(a)(1)(A) as modified by Section 61(a)(1) of the 1940 Act or any successor provisions, whether

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or not we continue to be subject to such provisions of the 1940 Act, but giving effect, in either case, to any exemptive relief granted to us by the SEC. Currently, these provisions generally prohibit us from incurring additional borrowings, including through the issuance of additional debt securities, unless our asset coverage, as defined in the 1940 Act, equals at least 200% (or 150% on or after April 25, 2019) after such borrowings. See [Supplementary Risk Factors](#) [Risks Related to the Notes](#) Recent legislation may allow us to incur additional leverage, which could increase the risk of investing in the Company in this prospectus supplement.

We agree that, for the period of time during which the Notes are outstanding, we will not violate Section 18(a)(1)(B) as modified by (i) Section 61(a)(1) of the 1940 Act or any successor provisions and after giving effect to any exemptive relief granted to us by the SEC and (ii) the two other exceptions set forth below. These statutory provisions of the 1940 Act are not currently applicable to us and will not be applicable to us as a result of this offering. However, if Section 18(a)(1)(B) as modified by Section 61(a)(1) of the 1940 Act were currently applicable to us in connection with this offering, these provisions would generally prohibit us from declaring any cash dividend or distribution upon any class of our capital stock, or purchasing any such capital stock if our asset coverage, as defined in the 1940 Act, were below 200% (or 150% on or after April 25, 2019) at the time of the declaration of the dividend or distribution or the purchase and after deducting the amount of such dividend, distribution, or purchase. Under the covenant, we will be permitted to declare a cash dividend or distribution notwithstanding the prohibition contained in Section 18(a)(1)(B) as modified by Section 61(a)(1) of the 1940 Act or any successor provisions, but only up to such amount as is necessary for us to maintain our status as a RIC under Subchapter M of the Code. Furthermore, the covenant will not be triggered unless and until such time as our asset coverage has not been in compliance with the minimum asset coverage required by Section 18(a)(1)(B) as modified by Section 61(a)(1) of the 1940 Act or any successor provisions (after giving effect to any exemptive relief granted to us by the SEC) for more than six consecutive months. See [Supplementary Risk Factors](#) [Risks Related to the Notes](#) Recent legislation may allow us to incur additional leverage, which could increase the risk of investing in the Company in this prospectus supplement.

If, at any time, we are not subject to the reporting requirements of Sections 13 or 15(d) of the Exchange Act to file any periodic reports with the SEC, we agree to furnish to holders of the Notes and the trustee, for the period of time during which the Notes are outstanding, our audited annual consolidated financial statements, within 90 days of our fiscal year end, and unaudited interim consolidated financial statements, within 45 days of our fiscal quarter end (other than our fourth fiscal quarter). All such financial statements will be prepared, in all material respects, in accordance with applicable U.S. GAAP.

**Form, Exchange and Transfer of Certificated Registered Securities**

If registered Notes cease to be issued in book-entry form, they will be issued:

only in fully registered certificated form;

without interest coupons; and

unless we indicate otherwise, in denominations of \$25 and amounts that are multiples of \$25.

Holders may exchange their certificated securities for Notes of smaller denominations or combined into fewer Notes of larger denominations, as long as the total principal amount is not changed and as long as the denomination is equal to or greater than \$25.

Holders may exchange or transfer their certificated securities at the office of the trustee. We have appointed the trustee to act as our agent for registering Notes in the names of holders transferring Notes. We may appoint another entity to perform these functions or perform them ourselves.

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Holders will not be required to pay a service charge to transfer or exchange their certificated securities, but they may be required to pay any tax or other governmental charge associated with the transfer or exchange. The transfer or exchange will be made only if our transfer agent is satisfied with the holder's proof of legal ownership.

We may appoint additional transfer agents or cancel the appointment of any particular transfer agent. We may also approve a change in the office through which any transfer agent acts.

If any certificated securities of a particular series are redeemable and we redeem less than all the Notes, we may block the transfer or exchange of those Notes selected for redemption during the period beginning 15 days before the day we mail the notice of redemption and ending on the day of that mailing, in order to freeze the list of holders to prepare the mailing. We may also refuse to register transfers or exchanges of any certificated Notes selected for redemption, except that we will continue to permit transfers and exchanges of the unredeemed portion of any Note that will be partially redeemed.

If registered Notes are issued in book-entry form, only the depository will be entitled to transfer and exchange the Notes as described in this subsection, since it will be the sole holder of the Notes.

## **Resignation of Trustee**

The trustee may resign or be removed with respect to the Notes provided that a successor trustee is appointed to act with respect to the Notes. In the event that two or more persons are acting as trustee with respect to different series of indenture securities under the indenture, each of the trustees will be a trustee of a trust separate and apart from the trust administered by any other trustee.

## **Indenture Provisions Ranking**

The Notes will be our direct unsecured obligations and will rank:

*pari passu* with our existing and future unsubordinated unsecured indebtedness, including, without limitation, the Existing Notes;

senior to any of our future indebtedness that expressly provides it is subordinated to the Notes; and

effectively subordinated to all of our existing and future secured indebtedness (including indebtedness that is initially unsecured to which we subsequently grant security), to the extent of the value of the assets securing such indebtedness, including, without limitation, borrowings under our Credit Facility; and

structurally subordinated to all future indebtedness and other obligations of any of our subsidiaries.

## **Book-Entry Procedures**

The Notes will be represented by global securities that will be deposited and registered in the name of DTC or its nominee. This means that, except in limited circumstances, you will not receive certificates for the Notes. Beneficial interests in the Notes will be represented through book-entry accounts of financial institutions acting on behalf of

beneficial owners as direct and indirect participants in DTC. Investors may elect to hold interests in the Notes through either DTC, if they are a participant, or indirectly through organizations that are participants in DTC.

The Notes will be issued as fully registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully registered certificate will be issued for each issuance of the Notes, in the aggregate principal amount thereof, and will be deposited with DTC. Interests in the Notes will trade in DTC's Same Day Funds Settlement System, and any permitted secondary market trading activity in such Notes will, therefore, be required by DTC to be settled in



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immediately available funds. None of the Company, the trustee or the Paying Agent will have any responsibility for the performance by DTC or its participants or indirect participants of their respective obligations under the rules and procedures governing their operations.

DTC is a limited-purpose trust company organized under the New York Banking Law, a banking organization within the meaning of the New York Banking Law, a member of the Federal Reserve System, a clearing corporation within the meaning of the New York Uniform Commercial Code, and a clearing agency registered pursuant to the provisions of Section 17A of the Exchange Act. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity, corporate and municipal debt issues, and money market instruments from over 100 countries that DTC's participants ( Direct Participants ) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly owned subsidiary of The Depository Trust & Clearing Corporation ( DTCC ).

DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ( Indirect Participants ). DTC has Standard & Poor's Ratings Services' highest rating: AAA. The DTC Rules applicable to its participants are on file with the SEC. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com) and [www.dtc.org](http://www.dtc.org).

Purchases of the Notes under the DTC system must be made by or through Direct Participants, which will receive a credit for the Notes on DTC's records. The ownership interest of each actual purchaser of each security, or the Beneficial Owner, is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Notes are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Notes, except in the event that use of the book-entry system for the Notes is discontinued.

To facilitate subsequent transfers, all Notes deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. or such other name as may be requested by an authorized representative of DTC. The deposit of the Notes with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Notes; DTC's records reflect only the identity of the Direct Participants to whose accounts the Notes are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.



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Redemption notices shall be sent to DTC. If less than all of the Notes within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Redemption proceeds, distributions, and interest payments on the Notes will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants accounts upon DTC's receipt of funds and corresponding detail information from us or the trustee on the payment date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in street name, and will be the responsibility of such Participant and not of DTC nor its nominee, the trustee, or us, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and interest payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of us or the trustee, but disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the Notes at any time by giving reasonable notice to us or to the trustee. Under such circumstances, in the event that a successor securities depository is not obtained, certificates are required to be printed and delivered. We may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, certificates will be printed and delivered to DTC.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that we believe to be reliable, but we take no responsibility for the accuracy thereof.

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**PLAN OF DISTRIBUTION**

The Agent is acting as our sales agent in connection with the offer and sale of the Notes pursuant to this prospectus supplement and the accompanying prospectus. Upon written instructions from us, the Agent will use its commercially reasonable efforts consistent with its sales and trading practices to sell, as our sales agent, the Notes under the terms and subject to the conditions set forth in our Distribution Agreement with the Agent dated June 8, 2018. We will instruct the Agent as to the amount of the Notes to be sold by it. We may instruct the Agent not to sell the Notes if the sales cannot be effected at or above the price designated by us in any instruction. We will instruct the Agent not to sell the Notes if the sales cannot be effected at or above prices that will allow the Notes to be treated as fungible with the Existing Notes for U.S. federal income tax purposes. We or the Agent may suspend the offering of Notes upon proper notice and subject to other conditions.

Sales of the Notes, if any, under this prospectus supplement and the accompanying prospectus may be made in negotiated transactions or transactions that are deemed to be at the market, as defined in Rule 415 under the Securities Act. If any of the Notes are sold at prices above par, the effective yield on such Notes to the purchasers may be less than 5.95%.

The Agent will provide written confirmation of a sale to us no later than the opening of the trading day on The Nasdaq Global Select Market following each trading day in which the Notes are sold under the Distribution Agreement. Each confirmation will include the principal amount of Notes sold on the preceding day, the sales price of Notes sold, the aggregate gross sales proceeds of such Notes, the net proceeds to us and the compensation payable by us to the Agent in connection with the sales.

The Agent will receive a commission from us equal to up to 2.0% of the gross sales of any Notes sold through the Agent under the Distribution Agreement. We estimate that the total expenses for the offering, excluding compensation payable to the Agent under the terms of the Distribution Agreement, will be approximately \$0.3 million. This estimate includes the reimbursement by the Company of approximately \$40,000 for the reasonable fees and expenses of the Agent in connection with the transactions contemplated by the Distribution Agreement.

Settlement for sales of the Notes will occur on the third trading day following the date on which such sales are made, or on some other date that is agreed upon by us and the Agent in connection with a particular transaction, in return for payment of the net proceeds to us. There is no arrangement for funds to be received in an escrow, trust or similar arrangement.

We will report at least quarterly the principal amount of Notes sold through the Agent under the Distribution Agreement, the net proceeds to us and the compensation paid by us to the Agent, if any.

In connection with the sale of the Notes on our behalf, the Agent will be deemed to be an underwriter within the meaning of the Securities Act, and the compensation of the Agent will be deemed to be underwriting commissions or discounts. We have agreed to provide indemnification and contribution to the Agent against certain civil liabilities, including liabilities under the Securities Act.

The offering of the Notes pursuant to the Distribution Agreement will terminate upon the earlier of (i) the sale of the dollar amount of Notes subject to the Distribution Agreement or (ii) the termination of the Distribution Agreement as permitted therein.



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**Other Relationships**

The Agent and certain of its affiliates are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, investment research, principal investment, hedging, financing and brokerage activities. The Agent and certain of its affiliates have, from time to time, performed, and may in the future perform, various commercial and investment banking and financial advisory services for the Company and our affiliates, for which they received or may in the future receive customary fees and expenses.

In the ordinary course of its various business activities, the Agent and certain of its affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers, and such investment and securities activities may involve securities and/or instruments of the Company or our affiliates. If the Agent or its affiliates have a lending relationship with us, they routinely hedge their credit exposure to us consistent with their customary risk management policies. The Agent and its affiliates may hedge such exposure by entering into transactions which consist of either the purchase of credit default swaps or the creation of short positions in our securities or the securities of our affiliates, including potentially the Notes offered hereby. Any such credit default swaps or short positions could adversely affect future trading prices of the Notes offered hereby. The Agent and certain of its affiliates may also communicate independent investment recommendations, market color or trading ideas and/or publish or express independent research views in respect of such securities or instruments and may at any time hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

The principal business address of the Agent is 299 Park Avenue, 7<sup>th</sup> Floor, New York, NY 10171.

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**Table of Contents****CERTAIN U.S. FEDERAL INCOME TAX CONSEQUENCES**

The following summary describes certain U.S. federal income tax consequences applicable to an investment in the Notes. This summary does not purport to be a complete description of the income tax considerations applicable to such an investment. The summary is based upon the Code, U.S. Treasury regulations, and administrative and judicial interpretations, each as of the date of this prospectus supplement and all of which are subject to change, potentially with retroactive effect, or to different interpretations. We cannot assure you that the Internal Revenue Services, or IRS, will not challenge one or more of the tax consequences described in this summary, and we have not obtained, nor do we intend to obtain, any ruling from the IRS or opinion of counsel with respect to the tax consequences of an investment in the Notes. Investors should consult their own tax advisors with respect to tax considerations that pertain to their investment in the Notes.

This summary discusses only Notes held as capital assets within the meaning of the Code (generally, property held for investment purposes) and does not purport to address persons in special tax situations, such as banks and other financial institutions, insurance companies, controlled foreign corporations, passive foreign investment companies, real estate investment trusts and regulated investment companies (and shareholders of such corporations), dealers in securities or currencies, traders in securities, former citizens of the United States, persons holding the Notes as a position in a straddle, hedge, constructive sale transaction, conversion transaction, wash sale or other integrated transaction for U.S. federal income tax purposes, entities that are tax-exempt for U.S. federal income tax purposes, retirement plans, individual retirement accounts, tax-deferred accounts, persons subject to the alternative minimum tax, pass-through entities (including partnerships and entities and arrangements classified as partnerships for U.S. federal income tax purposes) and beneficial owners of pass-through entities, or U.S. holders (as defined below) whose functional currency (as defined in the Code) is not the U.S. dollar. It also does not address beneficial owners of the Notes other than original purchasers of the Notes who acquire the Notes in this offering for cash at a price equal to their issue price (*i.e.*, the first price at which a substantial amount of the Notes is sold for money to investors (other than to bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placements agents or wholesalers)). This discussion also does not address the U.S. federal income tax consequences to beneficial owners of the Notes subject to the special tax accounting rules under Section 451(b) of the Code. In addition, this summary only addresses U.S. federal income tax consequences, and does not address other U.S. federal tax consequences, including, for example, estate or gift tax consequences. This summary also does not address any U.S. state or local or non-U.S. tax consequences. Investors considering purchasing the Notes should consult their own tax advisors concerning the application of the U.S. federal income tax laws to their individual circumstances, as well as any consequences to such investors relating to purchasing, owning and disposing of the Notes under the laws of any state, local, foreign or other taxing jurisdiction.

If a partnership (including an entity or arrangement treated as a partnership for U.S. federal income tax purposes) holds any Notes, the U.S. federal income tax treatment of a partner of the partnership generally will depend upon the status of the partner, the activities of the partnership and certain determinations made at the partner level. Partnerships holding Notes, and persons holding interests in such partnerships, should each consult their own tax advisors as to the consequences of investing in the Notes in their individual circumstances.

**Taxation of U.S. Holders**

For purposes of this discussion, the term **U.S. holder** means a beneficial owner of a Note that is, for U.S. federal income tax purposes:

an individual who is a citizen or resident of the United States;

a corporation created or organized in or under the laws of the United States, any state thereof, or the District of Columbia;

a trust (i) the administration of which is subject to the primary supervision of a U.S. court and that has one or more United States persons (within the meaning of the Code) that have the authority to control all

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substantial decisions of the trust or (ii) that has made a valid election under applicable U.S. Treasury regulations to be treated as a United States person (within the meaning of the Code); or

an estate the income of which is subject to U.S. federal income taxation regardless of its source.

### *Payments of Interest*

Payments or accruals of interest on a Note generally will be taxable to a U.S. holder as ordinary interest income at the time they are received (actually or constructively) or accrued, in accordance with the U.S. holder's regular method of tax accounting.

### *Sale, Exchange, Redemption, Retirement or Other Taxable Disposition of a Note*

Upon the sale, exchange, redemption, retirement or other taxable disposition of a Note, a U.S. holder generally will recognize capital gain or loss equal to the difference between the amount realized on the sale, exchange, redemption, retirement or other taxable disposition (excluding amounts representing accrued and unpaid interest, which are treated as ordinary interest income to the extent not previously included in income) and the U.S. holder's adjusted tax basis in the Note. A U.S. holder's adjusted tax basis in a Note generally will equal the U.S. holder's initial investment in the Note. Capital gain or loss generally will be long-term capital gain or loss if the Note was held for more than one year. Long-term capital gains recognized by individuals and certain other non-corporate U.S. holders generally are eligible for reduced rates of taxation. The deductibility of capital losses is subject to limitations under the Code.

### *Additional Tax on Net Investment Income*

An additional tax of 3.8% is imposed on certain net investment income (or undistributed net investment income, in the case of certain U.S. holders that are estates and trusts) received by certain U.S. holders with adjusted gross income above certain threshold amounts. Net investment income generally includes interest payments on, and gain recognized from the sale, exchange, redemption, retirement or other taxable disposition of, the Notes, less certain deductions. U.S. holders should consult their own tax advisors regarding the effect, if any, of this tax on their ownership and disposition of the Notes.

### *Backup Withholding and Information Reporting*

In general, a U.S. holder will be subject to U.S. federal backup withholding tax at the applicable rate with respect to payments on the Notes and the proceeds of a sale, exchange, redemption, retirement or other taxable disposition of the Notes, unless the U.S. holder is an exempt recipient and appropriately establishes that exemption, or provides its taxpayer identification number to the paying agent and certifies, under penalty of perjury, that it is not subject to backup withholding on an Internal Revenue Service ( IRS ) Form W-9 and otherwise complies with the applicable requirements of the backup withholding rules. Backup withholding is not an additional tax. The amount of any backup withholding from a payment to a U.S. holder may be allowed as a credit against such U.S. holder's U.S. federal income tax liability and may entitle such U.S. holder to a refund, provided the required information is furnished to the IRS in a timely manner. In addition, payments on the Notes made to, and the proceeds of a sale, exchange, redemption, retirement or other taxable disposition by, a U.S. holder generally will be subject to information reporting requirements, unless such U.S. holder is an exempt recipient and appropriately establishes that exemption.

## **Taxation of Non-U.S. Holders**

For purposes of this discussion, the term **non-U.S. holder** means a beneficial owner of a Note that is neither a U.S. holder nor a partnership for U.S. federal income tax purposes.

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### *Interest on the Notes*

Subject to the discussions of backup withholding and Foreign Account Tax Compliance Act, or FATCA, withholding below, payments to a non-U.S. holder of interest on the Notes generally will not be subject to U.S. federal income tax and will be exempt from withholding of U.S. federal income tax under the portfolio interest exemption if such non-U.S. holder properly certifies as to such non-U.S. holder's foreign status, as described below, and:

such non-U.S. holder does not own, actually or constructively, 10% or more of the total combined voting power of all classes of our stock entitled to vote;

such non-U.S. holder is not a controlled foreign corporation that is related to us (actually or constructively);

such non-U.S. holder is not a bank whose receipt of interest on the Notes is in connection with an extension of credit made pursuant to a loan agreement entered into in the ordinary course of such non-U.S. holder's trade or business; and

interest on the Notes is not effectively connected with such non-U.S. holder's conduct of a U.S. trade or business (or, in the case of an applicable income tax treaty, such interest is not attributable to a permanent establishment maintained by such non-U.S. holder in the United States).

The portfolio interest exemption generally applies only if a non-U.S. holder also appropriately certifies as to such non-U.S. holder's foreign status. A non-U.S. holder can generally meet the certification requirement by providing a properly executed IRS Form W-8BEN or IRS Form W-8BEN-E (or applicable successor form) to the applicable withholding agent. If a non-U.S. holder holds the Notes through a financial institution or other agent acting on such non-U.S. holder's behalf, such non-U.S. holder may be required to provide appropriate certifications to the agent. Such non-U.S. holder's agent will then generally be required to provide appropriate certifications to the applicable withholding agent, either directly or through other intermediaries.

If a non-U.S. holder cannot satisfy the requirements described above, payments of interest made to such non-U.S. holder will be subject to U.S. federal withholding tax at a 30% rate, unless (i) such non-U.S. holder provides the applicable withholding agent with a properly executed IRS Form W-8BEN or IRS Form W-8BEN-E (or applicable successor form) claiming an exemption from (or a reduction of) withholding under the benefits of an income tax treaty, or (ii) the payments of such interest are effectively connected with such non-U.S. holder's conduct of a trade or business in the United States and such non-U.S. holder meets the certification requirements described below. See *Income or Gain Effectively Connected with a U.S. Trade or Business* below.

### *Disposition of the Notes*

Subject to the discussions of backup withholding and FATCA withholding below, a non-U.S. holder generally will not be subject to U.S. federal income tax on any gain realized on the sale, redemption, exchange, retirement, or other taxable disposition of a Note unless:

the gain is effectively connected with the conduct by such non-U.S. holder of a U.S. trade or business (and, if required by an applicable income tax treaty, such non-U.S. holder maintains a permanent establishment in the United States to which such gain is attributable); or

such non-U.S. holder is a non-resident alien individual who has been present in the United States for 183 days or more in the taxable year of disposition and certain other requirements are met.

If a non-U.S. holder's gain is described in the first bullet point above, such non-U.S. holder generally will be subject to U.S. federal income tax in the manner described under **Income or Gain Effectively Connected with a U.S. Trade or Business** below. A non-U.S. holder described in the second bullet point above will be subject to a flat 30% (or lower applicable income tax treaty rate) U.S. federal income tax on the gain derived from the sale

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or other disposition, which may be offset by certain U.S. source capital losses. To the extent that any portion of the amount realized on a sale, redemption, exchange, retirement or other taxable disposition of a Note is attributable to accrued but unpaid interest on the Note, this amount generally will be taxed in the same manner as described above in Interest on the Notes.

*Income or Gain Effectively Connected with a U.S. Trade or Business*

If any interest on the Notes or gain from the sale, redemption, exchange, retirement, or other taxable disposition of the Notes is effectively connected with a non-U.S. holder's conduct of a U.S. trade or business (and, if required by an applicable income tax treaty, such non-U.S. holder maintains a permanent establishment in the United States to which such interest or gain is attributable), then the interest income or gain will be subject to U.S. federal income tax at regular graduated income tax rates generally in the same manner as if such non-U.S. holder were a U.S. holder (but without regard to the additional tax on net investment income described above). Effectively connected interest income will not be subject to U.S. federal withholding tax if a non-U.S. holder satisfies certain certification requirements by providing to the applicable withholding agent a properly executed IRS Form W-8ECI (or successor form). In addition, if a non-U.S. holder is a corporation, that portion of such non-U.S. holder's earnings and profits that are effectively connected with such non-U.S. holder's conduct of a U.S. trade or business may also be subject to a branch profits tax at a 30% rate, unless an applicable income tax treaty provides for a lower rate. For this purpose, interest received on a Note and gain recognized on the disposition of a Note will be included in earnings and profits if the interest or gain is effectively connected with the conduct by such non-U.S. holder of a U.S. trade or business.

*Backup Withholding and Information Reporting*

Under current U.S. Treasury regulations, the amount of interest paid to a non-U.S. holder and the amount of tax withheld, if any, from those payments must be reported annually to the IRS and each non-U.S. holder. These reporting requirements apply regardless of whether U.S. withholding tax on such payments was reduced or eliminated by any applicable tax treaty or otherwise. Copies of the information returns reporting those payments and the amounts withheld may also be made available to the tax authorities in the country where a non-U.S. holder is a resident under the provisions of an applicable income tax treaty or agreement.

Backup withholding generally will not apply to payments of interest to a non-U.S. holder on a Note if the certification described above in Interest on the Notes is duly provided or such non-U.S. holder otherwise establishes an exemption.

Additionally, the gross proceeds from a non-U.S. holder's disposition of Notes may be subject under certain circumstances to information reporting and backup withholding unless the non-U.S. holder provides an IRS Form W-8BEN or W-8BEN-E (or other applicable form) certifying that the non-U.S. holder is not a United States person or otherwise qualifies for an exemption.

Non-U.S. holders should consult their own tax advisors regarding application of the backup withholding rules to their particular circumstances and the availability of and procedure for obtaining an exemption from backup withholding. Backup withholding is not an additional tax and any amounts withheld under the backup withholding rules may be credited against a non-U.S. holder's U.S. federal income tax liability (which may result in such non-U.S. holder being entitled to a refund of U.S. federal income tax), provided that the required information is timely provided to the IRS.

*FATCA*

Legislation commonly referred to as the Foreign Account Tax Compliance Act, or FATCA, generally imposes a 30% withholding tax on payments of certain types of income to foreign financial institutions (FFIs) unless such FFIs either

(i) enter into an agreement with the U.S. Treasury to report certain required information

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with respect to accounts held by U.S. persons (or held by foreign entities that have U.S. persons as substantial owners) or (ii) reside in a jurisdiction that has entered into an intergovernmental agreement ( IGA ) with the United States to collect and share such information and are in compliance with the terms of such IGA and any enabling legislation or regulations. The types of income subject to the tax include U.S. source interest (including interest on a Note) and dividends and, after December 31, 2018, the gross proceeds from the sale of any property that could produce U.S. source interest (such as a Note) or dividends. The information required to be reported includes the identity and taxpayer identification number of each account holder that is a U.S. person and transaction activity within the holder s account. In addition, subject to certain exceptions, this legislation also imposes a 30% withholding on payments to foreign entities that are not FFIs unless the foreign entity certifies that it does not have a greater than 10% U.S. owner or provides the withholding agent with identifying information on each greater than 10% U.S. owner. Depending on the status of a beneficial owner and the status of the intermediary through which it holds the Notes, a beneficial owner could be subject to this 30% withholding tax with respect to interest paid on the Notes and proceeds from the sale of the Notes. Under certain circumstances, a beneficial owner might be eligible for a refund or credit of such taxes.

Holders and beneficial owners should consult their own tax advisors regarding FATCA and whether it may be relevant to their acquisition, ownership and disposition of the Notes.

***You should consult your own tax advisor with respect to the particular tax consequences to you of an investment in the Notes, including the possible effect of any pending legislation or proposed regulations.***

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**LEGAL MATTERS**

Certain legal matters regarding the Notes offered hereby will be passed upon for us by Eversheds Sutherland (US) LLP, Washington, D.C., and certain legal matters in connection with this offering will be passed upon for the Agent by Duane Morris LLP, New York, New York.

**INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

The audited consolidated financial statements, including the selected per share data and ratios and Schedule 12-14 as of March 31, 2017 and March 31, 2016 and senior securities table as of March 31, 2017 of Capital Southwest Corporation and its subsidiaries included in this prospectus supplement, the accompanying prospectus and elsewhere in the registration statement have been so included in reliance upon the reports of Grant Thornton LLP, independent registered public accountants, as stated in their reports appearing herein. Grant Thornton LLP's principal business address is 171 N. Clark Street, Chicago, Illinois, 60601.

The consolidated financial statements and the related consolidated financial statement schedule of Capital Southwest Corporation and its subsidiaries as of and for the year ended March 31, 2018 and the effectiveness of internal control over financial reporting as of March 31, 2018 incorporated in this prospectus supplement by reference from the Capital Southwest Corporation's Annual Report on Form 10-K for the year ended March 31, 2018 have been audited by RSM US LLP, an independent registered public accounting firm, as stated in their reports thereon (which report expresses an unqualified opinion), and included in this prospectus supplement in reliance upon such reports and upon the authority of such firm as experts in accounting and auditing.

The audited consolidated financial statements of I-45 SLF LLC and its subsidiary included in this prospectus supplement and the accompanying prospectus have been so included in reliance upon the reports of RSM US LLP, independent registered public accountants, as stated in their reports appearing herein. RSM US LLP's principal business address is 1 South Wacker, Chicago, Illinois 60606.

The audited financial statements of TitanLiner, Inc. included in this prospectus supplement have been so included in reliance upon the report of Weaver and Tidwell, LLP, independent auditors, as stated in their report appearing herein. Weaver and Tidwell LLP's principal business address is 2821 W. Seventh Street, Suite 700, Fort Worth, Texas 76107.

**CHANGE IN INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

On June 12, 2017, the Audit Committee of Capital Southwest Corporation, following careful deliberation, approved the decision to change independent registered public accounting firms. On June 12, 2017, the Company notified Grant Thornton LLP, or Grant Thornton, of its decision to dismiss Grant Thornton as the Company's independent registered public accounting firm, effective as of that date.

The reports of Grant Thornton on the Company's consolidated financial statements for the fiscal years ended March 31, 2017 and 2016 did not contain an adverse opinion or a disclaimer of opinion, and they were not qualified or modified as to uncertainty, audit scope, or accounting principles.

On June 12, 2017, the Company engaged RSM US LLP, or RSM, as its new independent registered public accounting firm, effective immediately. The decision to engage RSM as the Company's independent registered public accounting firm was approved by the Company's Audit Committee. During the years ended March 31, 2017 and 2016, and during the subsequent interim period preceding RSM's engagement, neither the Company nor anyone on its behalf has consulted with RSM regarding either: (1) the application of accounting principles to a specified transaction, either



completed or proposed, or the type of audit opinion that might be rendered on the Company's consolidated financial statements, and no written report or oral advice was provided that RSM concluded was an important factor considered by the Company in reaching a decision as to the accounting, auditing or financial reporting issue; or (2) any matter that was either the subject of a disagreement, as that term is defined in Item 304(a)(1)(iv) of Regulation S-K or a reportable event, as that term is defined in Item 304 (a)(1)(v) of Regulation S-K. RSM US LLP's principal business address is 1 South Wacker, Chicago, Illinois 60606.

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**AVAILABLE INFORMATION**

We have filed with the SEC a registration statement on Form N-2, together with all amendments and related exhibits, under the Securities Act, with respect to the Notes offered by this prospectus supplement. The registration statement contains additional information about us and the Notes being offered by this prospectus supplement.

We file with or submit to the SEC annual, quarterly and current reports, proxy statements, code of ethics and other information meeting the informational requirements of the Exchange Act. This information is available free of charge by calling us at (214) 238-5700 or on our website at [www.capitalsouthwest.com](http://www.capitalsouthwest.com). Information contained on our website is not incorporated into this prospectus supplement and you should not consider such information to be part of this document. You also may inspect and copy these reports, proxy statements and other information, as well as the registration statement and related exhibits and schedules, at the Public Reference Room of the SEC at 100 F Street, N.E., Washington, D.C. 20549. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC maintains an Internet site that contains reports, proxy and information statements and other information filed electronically by us with the SEC, which are available on the SEC's website at [www.sec.gov](http://www.sec.gov). Copies of these reports, proxy and information statements and other information may be obtained, after paying a duplicating fee, by electronic request at the following e-mail address: [publicinfo@sec.gov](mailto:publicinfo@sec.gov), or by writing the SEC's Public Reference Section, 100 F Street, N.E., Washington, D.C. 20549.

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**Report of Independent Registered Public Accounting Firm**

To the Board of Directors and Shareholders

Capital Southwest Corporation

**Opinion on the Financial Statements**

We have audited the accompanying consolidated statement of assets and liabilities, including the consolidated schedule of investments, of Capital Southwest Corporation and Subsidiaries (the Company) as of March 31, 2018, and the related consolidated statements of operations, changes in net assets and cash flows for the year then ended, the related notes to the consolidated financial statements, and the Schedule of Investments in and Advances to Affiliates of the Company listed in Schedule 12-14 (collectively, the financial statements). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of March 31, 2018, and the results of its operations and its cash flows for the year ended March 31, 2018 in conformity with accounting principles generally accepted in the United States of America, and in our opinion, the related Schedule of Investments in and Advances to Affiliates, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly in all material respects the information set forth therein.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of March 31, 2018, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013, and our report dated June 5, 2018, expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

**Basis for Opinion**

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. Our procedures included confirmation of investments owned as of March 31, 2018, by correspondence with the custodians, portfolio companies or agents or by other appropriate procedures where replies from custodians, portfolio companies or agents were not received. We believe that our audit provides a reasonable basis for our opinion.

/s/ RSM US LLP

We have served as the Company's auditor since 2017.

Chicago, Illinois

June 5, 2018

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**Report of Independent Registered Public Accounting Firm**

To the Board of Directors and Shareholders

Capital Southwest Corporation

**Opinion on the Internal Control Over Financial Reporting**

We have audited Capital Southwest Corporation and Subsidiaries (the Company) internal control over financial reporting as of March 31, 2018, based on criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013. In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of March 31, 2018, based on criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated statements of assets and liabilities, including the consolidated schedules of investments, of the Company as of March 31, 2018, and the related consolidated statements of operations, changes in net assets and cash flows for the year then ended, the related notes to the consolidated financial statements, and our report dated June 5, 2018 expressed an unqualified opinion.

**Basis for Opinion**

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

**Definition and Limitations of Internal Control Over Financial Reporting**

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding

prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the financial statements.

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Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ RSM US LLP

Chicago, Illinois

June 5, 2018

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**Report of Independent Registered Public Accounting Firm**

Board of Directors and Shareholders

Capital Southwest Corporation

We have audited the accompanying consolidated statements of assets and liabilities of Capital Southwest Corporation (a Texas corporation) and subsidiaries (the Company), including the consolidated schedules of investments, as of March 31, 2017, and the related consolidated statements of operations, changes in net assets, and cash flows for each of the two years in the period ended March 31, 2017 and the selected per share data and ratios for each of the four years in the period ended March 31, 2017. Our audits of the basic consolidated financial statements included the Schedule of Investments In and Advances to Affiliates listed in the index appearing under Item 15(2). These financial statements, per share data and ratios, and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements, per share data and ratios, and financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements, including the consolidated schedules of investments, referred to above present fairly, in all material respects, the financial position of Capital Southwest Corporation and subsidiaries as of March 31, 2017, and the results of their operations, changes in their net assets and their cash flows for each of the two years in the period ended March 31, 2017, and the selected per share data and ratios for each of the four years in the period ended March 31, 2017, in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the related financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

/s/ Grant Thornton LLP

Dallas, Texas

June 1, 2017

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**CAPITAL SOUTHWEST CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF ASSETS AND LIABILITIES**

(In thousands except share and per share data)

	March 31, 2018	March 31, 2017
<b>Assets</b>		
Investments at fair value:		
Non-control/Non-affiliate investments (Cost: \$200,981 and \$172,437, respectively)	\$ 199,949	\$ 175,731
Affiliate investments (Cost: \$51,648 and \$5,925, respectively)	53,198	7,138
Control investments (Cost: \$82,768 and \$72,178, respectively)	139,948	104,011
Total investments (Cost: \$335,397 and \$250,540, respectively)	393,095	286,880
Cash and cash equivalents	7,907	22,386
Receivables:		
Dividends and interest	5,219	3,137
Escrow	119	545
Other	447	626
Income tax receivable	109	
Deferred tax asset	2,050	2,017
Debt issuance costs (net of accumulated amortization of \$1,041 and \$366, respectively)	2,575	2,137
Other assets	5,969	8,024
Total assets	\$ 417,490	\$ 325,752
<b>Liabilities</b>		
Notes (Par value: \$57,500 and \$ , respectively)	\$ 55,305	\$
Credit facility	40,000	25,000
Other liabilities	6,245	5,996
Dividends payable	4,525	7,191
Accrued restoration plan liability	2,937	2,170
Deferred income taxes	190	323
Total liabilities	109,202	40,680
<b>Commitments and contingencies (Note 12)</b>		
<b>Net Assets</b>		
Common stock, \$0.25 par value per share: authorized, 25,000,000 shares; issued, 18,501,298 shares at March 31, 2018 and 18,350,808 shares at March 31, 2017	4,625	4,588
Additional capital	260,713	261,472
Accumulated net investment income (loss)	6,147	(1,457)
Accumulated net realized gain	3,231	8,390
Unrealized appreciation on investments, net of income taxes	57,509	36,016

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Treasury stock at cost, 2,339,512 shares	(23,937)	(23,937)
<b>Total net assets</b>	<b>308,288</b>	<b>285,072</b>
Total liabilities and net assets	\$ 417,490	\$ 325,752
<b>Net asset value per share (16,161,786 shares outstanding at March 31, 2018 and 16,011,296 shares outstanding at March 31, 2017)</b>	<b>\$ 19.08</b>	<b>\$ 17.80</b>

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

(In thousands except share and per share data)

	Years Ended March 31,		
	2018	2017	2016
<b>Investment income</b>			
Interest income:			
Non-control/Non-affiliate investments	\$ 18,257	\$ 11,739	\$ 4,172
Affiliate investments	3,513	560	135
Control investments	82	116	237
Dividend income:			
Non-control/Non-affiliate investments		20	
Affiliate investments	127	163	
Control investments	12,254	9,726	3,489
Interest income from cash and cash equivalents	21	166	386
Fees and other income	872	984	741
Total investment income	35,126	23,474	9,160
Operating expenses:			
Compensation	7,013	6,330	7,310
Spin-off compensation plan	517	690	1,303
Share-based compensation	1,708	1,197	1,181
Interest	4,875	989	
Professional fees	1,580	1,774	1,749
Net pension expense (benefit)	164	166	(99)
Spin-off professional fees			7,040
General and administrative	2,841	2,661	2,641
Total operating expenses	18,698	13,807	21,125
Income (loss) before taxes	16,428	9,667	(11,965)
Income tax expense (benefit)	195	1,779	(1,278)
<b>Net investment income (loss)</b>	<b>\$ 16,233</b>	<b>\$ 7,888</b>	<b>\$ (10,687)</b>
<b>Realized gain (loss)</b>			
Non-control/Non-affiliate investments	1,492	3,992	(9,575)
Affiliate investments	90	3,876	(1,458)
Control investments		28	231
<b>Total net realized gain (loss) on investments before income tax</b>	<b>1,582</b>	<b>7,896</b>	<b>(10,802)</b>

<b>Change in unrealized appreciation of investments</b>			
<b>Non-control/Non-affiliate investments</b>	(4,325)	(884)	5,585
<b>Affiliate investments</b>	337	184	2,860
<b>Control investments</b>	25,347	8,713	7,644
<b>Income tax provision</b>	133	(323)	
<b>Total net change in unrealized appreciation of investments, net of tax</b>	21,492	7,690	16,089
<b>Net realized and unrealized gains on investments</b>	\$ 23,074	\$ 15,586	\$ 5,287
<b>Net increase (decrease) in net assets from operations</b>	\$ 39,307	\$ 23,474	\$ (5,400)
<b>Pre-tax net investment income (loss) per share basic and diluted</b>	\$ 1.02	\$ 0.61	\$ (0.76)
<b>Net investment income (loss) per share basic and diluted</b>	\$ 1.01	\$ 0.50	\$ (0.68)
<b>Net increase (decrease) in net assets from operations basic and diluted</b>	\$ 2.45	\$ 1.48	\$ (0.35)
<b>Weighted average shares outstanding basic</b>	16,073,642	15,824,879	15,635,597
<b>Weighted average shares outstanding diluted</b>	16,138,541	15,877,331	15,723,617

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**

(In thousands)

	<b>Years Ended March 31,</b>		
	<b>2018</b>	<b>2017</b>	<b>2016</b>
<b>Operations:</b>			
Net investment income (loss)	\$ 16,233	\$ 7,888	\$ (10,687)
Net realized gain (loss) on investments	1,582	7,896	(10,802)
Net change in unrealized appreciation on investments, net of tax	21,492	7,690	16,089
<b>Net increase (decrease) in net assets from operations</b>	<b>39,307</b>	<b>23,474</b>	<b>(5,400)</b>
<b>Distributions from:</b>			
Undistributed net investment income	(12,905)	(8,132)	(625)
Realized gains	(3,015)	(4,428)	(1,544)
Taxes incurred on deemed capital gain distributions			(2,948)
<b>Distributions of CSW Industrials, Inc.</b>			
Decrease in unrealized appreciation related to spin-off investments			(458,338)
Distribution from additional capital for spin-off			(26,279)
Spin-Off Compensation Plan distribution, net of tax of \$ , \$692 and \$ for the years ended March 31, 2018, 2017 and 2016, respectively	(517)	(1,175)	(1,261)
<b>Capital share transactions:</b>			
Change in restoration plan liability	(813)	(6)	
Exercise of employee stock options	125	1,507	431
Share-based compensation expense	1,708	1,197	1,181
Common stock withheld for payroll taxes upon vesting of restricted stock	(86)		
Repurchase of common stock	(588)		
<b>Increase (decrease) in net assets</b>	<b>23,216</b>	<b>12,437</b>	<b>(494,783)</b>
<b>Net assets, beginning of year</b>	<b>285,072</b>	<b>272,635</b>	<b>767,418</b>
<b>Net assets, end of year</b>	<b>\$ 308,288</b>	<b>\$ 285,072</b>	<b>\$ 272,635</b>

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

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Table of Contents**CAPITAL SOUTHWEST CORPORATION AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CASH FLOWS****(In thousands)**

	<b>Years Ended March 31,</b>		
	<b>2018</b>	<b>2017</b>	<b>2016</b>
<b>Cash flows from operating activities</b>			
Net increase (decrease) in net assets from operations	\$ 39,307	\$ 23,474	\$ (5,400)
Adjustments to reconcile net increase (decrease) in net assets from operations to net cash used in operating activities:			
Purchases and originations of investments	(166,181)	(145,778)	(123,014)
Proceeds from sales and repayments of debt investments in portfolio companies	82,489	44,568	529
Proceeds from sales and return of capital of equity investments in portfolio companies	104	7,692	19,637
Payment of accreted original issue discounts	1,477	1,218	12
Depreciation and amortization	927	459	86
Net pension benefit	(46)	(41)	(308)
Realized (gain) loss on investments before income tax	(1,582)	(7,896)	10,802
Net change in unrealized appreciation on investments	(21,359)	(8,013)	(16,089)
Accretion of discounts on investments	(857)	(434)	(96)
Payment-in-kind interest and dividends	(306)	(63)	
Stock option and restricted awards expense	1,708	1,197	1,181
Deferred income taxes	(537)	1,813	(363)
Changes in other assets and liabilities:			
(Increase) decrease in dividend and interest receivable	(2,082)	(1,385)	(1,675)
Decrease (increase) in escrow receivables	426	2,860	(570)
Decrease (increase) in other receivables	180	(127)	1,173
(Increase) decrease in tax receivable	(109)	1,010	(915)
Decrease (increase) in other assets	1,958	(6,775)	(601)
Increase in other liabilities	620	602	165
Increase (decrease) in payable for unsettled transaction		(3,940)	3,940
Net cash used in operating activities	(63,863)	(89,559)	(111,506)
<b>Cash flows from financing activities</b>			
Borrowings under credit facility	76,000	25,000	
Repayments of credit facility	(61,000)		
Debt issuance costs paid	(1,739)	(2,503)	
Proceeds from notes	55,775		
Taxes incurred on deemed capital gain distribution			(2,948)
Dividends to shareholders	(18,586)	(5,994)	(1,544)
Proceeds from exercise of employee stock options	125	1,507	431
	(86)		

Common stock withheld for payroll taxes upon vesting of restricted stock			
Repurchase of common stock	(588)		
Spin-off Compensation Plan distribution	(517)	(2,034)	(1,261)
Cash distribution to CSW Industrials, Inc.			(13,000)
Net cash provided by (used in) financing activities	49,384	15,976	(18,322)
Net decrease in cash and cash equivalents	(14,479)	(73,583)	(129,828)
Cash and cash equivalents at beginning of year	22,386	95,969	225,797
Cash and cash equivalents at end of year	\$ 7,907	\$ 22,386	\$ 95,969
<b>Supplemental cash flow disclosures:</b>			
Cash paid for income taxes	\$ 708	\$ 289	\$ 2,948
Cash paid for interest	3,405	325	
<b>Supplemental disclosure of noncash financing activities:</b>			
Dividends declared, not yet paid	\$ 4,525	\$ 7,191	\$ 625
Noncash adjustment to realized gain for escrow receivable		118	
Cost of Investments spun-off <sup>1</sup>			6,981
Decrease in unrealized appreciation due to spin-off of CSWI <sup>1</sup>			458,338
Net pension assets <sup>1</sup>			9,687
Change in deferred tax liabilities <sup>1</sup>			3,391
Spin-off Compensation Plan distribution accrued, not yet paid		345	513

<sup>1</sup> These non-cash items are related to the spin-off of CSW Industrials, Inc. at September 30, 2015.  
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

March 31, 2018

Portfolio Company <sup>1</sup> Non-control/Non-affiliate Investments <sup>5</sup>	Type of Investment <sup>2</sup>	Industry	Current Interest Rate <sup>3</sup>	Maturity	Principal	Cost	Fair Value <sup>4</sup>
HEALTHCARE HOLDINGS, INC.	First Lien	Healthcare services	L+6.75% (Floor 1.00%), Current Coupon 8.52%	6/30/2023	\$ 9,321,875	\$ 9,110,902	\$ 9,485,000
FOOD KINGS HOLDINGS CORP. <sup>8</sup>	First Lien	Food, agriculture & beverage	L+9.40% (Floor 1.00%), Current Coupon 11.21%	8/8/2021	9,650,000	9,507,562	9,437,700
ALLIANCE SPORTS GROUP, L.P.	Senior subordinated debt 2.65% membership interest	Consumer products & retail	11.00%	2/1/2023	10,100,000	9,916,216	9,807,100
						2,500,000	1,996,000
						12,416,216	11,803,100
AMERICAN TELECONFERENCING SERVICES, LTD.	First Lien	Telecommunications	L+6.50% (Floor 1.00%), Current Coupon 8.29%	12/8/2021	6,378,173	6,238,734	6,376,500
	Second Lien		L+9.50% (Floor 1.00%), Current Coupon 11.20%	6/6/2022	2,005,714	1,941,047	1,918,800
						8,179,781	8,295,300
SOFTWARE FULFILLMENT LLC <sup>17</sup>	First Lien	Distribution	L+12.00% (Floor 1.00%), Current Coupon 14.02%	5/21/2019	13,478,333	13,284,488	12,939,200
SWANWANGER HOLDING CORP.	First Lien	Distribution	L+8.00% (Floor 1.00%), Current Coupon 10.02%	3/9/2022	13,036,418	12,817,614	12,899,500
	900,000 shares of common stock					900,000	874,000
						13,717,614	13,773,500
CALIFORNIA PIZZA KITCHEN, INC.	First Lien	Restaurants	L+6.00% (Floor 1.00%), Current	8/23/2022	4,925,000	4,886,550	4,836,300

<b>CAPITAL PAWN BUILDINGS, LLC</b>	First Lien	Consumer products & retail	Coupon 7.88% L+9.50%, Current Coupon 11.19%	7/8/2020	12,922,365	12,669,652	12,767,2
<b>WICKBOOTH.COM, INC</b>	First Lien	Media, marketing & entertainment	L+8.50% (Floor 1.00%), Current Coupon 10.19%	12/5/2022	17,390,625	17,059,608	17,442,7
	Revolving Loan <sup>15</sup>		L+8.50% (Floor 1.00%)	12/5/2022		(18,719)	
						17,040,889	17,442,7
<b>SEAWATER CORROSION SERVICES, INC.</b>	127,004 shares of Series A convertible preferred stock	Energy services (upstream)				8,000,000	4,629,0
<b>ALPHI INTERMEDIATE HEALTHCO, LLC</b>	First Lien	Healthcare services	L+7.50% (Floor 1.00%), Current Coupon 9.27%	10/3/2022	7,406,250	7,336,879	7,265,5

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## CAPITAL SOUTHWEST CORPORATION AND SUBSIDIARIES

## CONSOLIDATED SCHEDULE OF INVESTMENTS (continued)

March 31, 2018

Portfolio Company <sup>1</sup>	Type of Investment <sup>2</sup>	Industry	Current Interest Rate <sup>3</sup>	Maturity	Principal	Cost	Fair Value <sup>4</sup>
<b>DIGITAL RIVER, INC.</b>	First Lien	Software & IT services	L+6.50% (Floor 1.00%), Current Coupon 8.61%	2/12/2021	6,285,443	6,273,415	6,285,443
<b>DUNN PAPER, INC.</b>	Second Lien	Paper & forest products	L+8.75% (Floor 1.00%), Current Coupon 10.63%	8/26/2023	3,000,000	2,949,611	3,000,000
<b>LGM PHARMA, LLC<sup>13</sup></b>	First Lien	Healthcare products	L+8.50% (Floor 1.00%), Current Coupon 10.17%	11/15/2022	9,975,000	9,787,481	9,955,050
	Delayed Draw Term Loan <sup>18</sup>		L+8.50% (Floor 1.00%), Current Coupon 10.29%	11/15/2022	1,300,000	1,274,815	1,297,400
	110,000 units of Class A common stock <sup>9</sup>					1,100,000	1,100,000
						12,162,296	12,352,450
<b>LIGHTING RETROFIT INTERNATIONAL, LLC</b>	First Lien	Environmental services	L+9.25% (Floor 1.00%), Current Coupon 10.94%	6/30/2022	14,625,000	14,487,144	14,361,750
	396,825 shares of Series B preferred stock					500,000	376,000
						14,987,144	14,737,750
<b>PRE-PAID LEGAL SERVICES, INC.</b>	Second Lien	Consumer services	L+9.00% (Floor 1.25%), Current Coupon 10.88%	7/1/2020	5,000,000	4,967,603	5,000,000
<b>RESEARCH NOW GROUP, INC.</b>	Second Lien	Business services	L+9.50% (Floor 1.00%), Current Coupon 11.28%	12/20/2025	10,500,000	9,778,956	9,817,500
<b>RESTAURANT TECHNOLOGIES, INC.</b>	Second Lien	Business services	L+8.75% (Floor 1.00%), Current Coupon 10.69%	11/23/2023	3,500,000	3,454,894	3,493,000

<b>JVMC HOLDINGS CORP.</b> <sup>14</sup>	First Lien	Financial services	L+8.02% (Floor 1.00%), Current Coupon 9.90%	5/5/2022	7,218,750	7,156,878	7,215,141
<b>TAX ADVISORS GROUP, LLC</b> <sup>13</sup>	Senior subordinated debt	Financial services	10.00% / 2.00% PIK	12/23/2022	4,600,000	4,517,884	4,600,000
	143.3 Class A units <sup>9</sup>					541,176	886,000
						5,059,060	5,486,000

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## CAPITAL SOUTHWEST CORPORATION AND SUBSIDIARIES

## CONSOLIDATED SCHEDULE OF INVESTMENTS (continued)

March 31, 2018

Portfolio Company <sup>1</sup>	Type of Investment <sup>2</sup>	Industry	Current Interest Rate <sup>3</sup>	Maturity	Principal	Cost	Fair Value <sup>4</sup>
STAR MEDIA INC.	First Lien Warrants (Expiration February 17, 2027)	Media, marketing & entertainment	L+10.00% (Floor 1.00%), Current Coupon 12.02%	2/16/2022	8,112,500	7,434,072	8,193,62
			886,000			1,682,00	
						8,320,072	9,875,62
WASTEWATER SPECIALTIES, LLC	First Lien <sup>16</sup>	Industrial services	L+12.25% (Floor 1.00%), Current Coupon 13.90%	4/18/2022	9,863,582	9,720,600	10,011,53
<b>Total</b>							
<b>Non-control/Non-affiliate investments</b>							
<b>Affiliate Investments<sup>6</sup></b>						\$ 200,981,062	\$ 199,949,34
HANDLER SIGNS, LLC <sup>13</sup>	Senior subordinated debt 1,500,000 units of Class A-1 common stock <sup>9</sup>	Business services	12.00% / 1.00% PIK	7/4/2021	\$ 4,511,259	\$ 4,450,704	\$ 4,375,92
						1,500,000	1,934,00
						5,950,704	6,309,92
LITE SEM, INC. <sup>8</sup>	First Lien 1,089 Preferred units	Media, marketing & entertainment	L+9.90% (Floor 1.00%), Current Coupon 12.10%	2/1/2022	17,500,000	17,103,533	17,500,00
			12% PIK				
						1,235,651	1,879,00

							18,339,184	19,379,00
<b>CLASS A HOLDINGS GROUP, LLC<sup>13</sup></b>			L+8.50% (Floor 1.00%, Current Coupon					
	First Lien	Transportation & logistics	10.32%)	2/14/2023	9,500,000	9,313,995	9,313,99	
	Revolving Loan <sup>19</sup>		L+8.50% (Floor 1.00%)	2/14/2023		(9,748)		
	Delayed Draw Term Loan		L+8.50% (Floor 1.00%, Current Coupon					
			10.32%)	2/14/2023	1,500,000	1,470,378	1,470,37	
	9.25% Class A Membership Interest <sup>9</sup>						1,500,000	1,500,00
							12,274,625	12,284,37

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## CAPITAL SOUTHWEST CORPORATION AND SUBSIDIARIES

## CONSOLIDATED SCHEDULE OF INVESTMENTS (continued)

March 31, 2018

Company <sup>1</sup>	Type of Investment <sup>2</sup>	Industry	Current Interest Rate <sup>3</sup>	Maturity	Principal	Cost	Fair Value
MILIO INC.	First Lien	Business services	L+9.00% (Floor 1.00%), Current Coupon 10.69%	7/17/2022	\$ 13,432,500	\$ 13,200,549	\$ 13,300,000
	Revolving Loan <sup>15</sup>		L+9.00% (Floor 1.00%)	7/17/2022		(17,174)	
	190 shares of common stock					1,900,000	1,900,000
						15,083,375	15,200,000
<b>Affiliate Investments</b>						\$ 51,647,888	\$ 53,100,000
<b>Investments<sup>7</sup></b>							
OF LLC <sup>9, 10, 11</sup>	80% LLC equity interest	Multi-sector holdings				\$ 64,800,000	\$ 67,100,000
RECOVERY,	800,000 shares of Series A convertible preferred stock	Industrial products				800,000	6,300,000
	4,000,002 shares of common stock					4,615,000	36,700,000
						5,415,000	43,100,000
<b>SPECTRUM HOLDINGS, LLC<sup>13</sup></b>		Environmental services	L+9.50% (Floor 2.25%), Current Coupon 11.75%	2/6/2023	4,325,177	4,240,522	4,200,000
	Revolving Loan <sup>20</sup>		L+9.50% (Floor 2.25%), Current Coupon 11.75%	2/6/2023	500,000	490,290	400,000
	57.25 Class A units <sup>9</sup>					1,691,674	1,600,000

				6,422,486	6,4
<b>LINER, INC.</b>	1,189,609 shares of Series B convertible	Energy services			
	preferred stock	(upstream)	6% PIK	2,925,960	11,3
	339,277 shares of Series A convertible				
	preferred stock			3,204,222	11,9
				6,130,182	23,2
<b>Control</b>					
<b>ments</b>				\$ 82,767,668	\$ 139,9
<b>INVESTMENTS<sup>12</sup></b>				\$ 335,396,618	\$ 393,0

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

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



**Table of Contents****CAPITAL SOUTHWEST CORPORATION AND SUBSIDIARIES****CONSOLIDATED SCHEDULE OF INVESTMENTS (continued)****March 31, 2018**

- <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, 2018. 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 March 31, 2018, approximately 50.9% of the Company s investment assets were non-control/non-affiliate investments. The fair value of these investments as a percent of net assets is 64.9%.
- <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, 2018, approximately 13.5% of the Company s investment assets were affiliate investments. The fair value of these investments as a percent of net assets is 17.3%.
- <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 March 31, 2018, approximately 35.6% of the Company s investment assets were control investments. The fair value of these investments as a percent of net assets is 45.4%.
- <sup>8</sup> The investment is structured as a first lien last out term loan.
- <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. As of March 31, 2018, approximately 18.0% of the Company s investment assets are non-qualifying assets.
- <sup>10</sup> The investment has approximately \$3.2 million unfunded commitment as of March 31, 2018.
- <sup>11</sup> Income producing through dividends on distributions.
- <sup>12</sup> As of March 31, 2018, the cumulative gross unrealized appreciation for federal income tax purposes is approximately \$62.4 million; cumulative gross unrealized depreciation for federal income tax purposes is \$4.9 million. Cumulative net unrealized appreciation is \$57.5 million, based on a tax cost of \$335.6 million.
- <sup>13</sup> ITA Holdings Group, LLC membership interest, LGM Pharma, LLC Class A common stock, Prism Spectrum Holdings LLC Class A units, Tax Advisors Group, LLC Class A units and Chandler Signs, LP Class A-1 common stock are held through a wholly-owned taxable subsidiary.
- <sup>14</sup> The investment is structured as a first lien first out term loan.
- <sup>15</sup> The investment has approximately \$2.0 million unfunded commitment as of March 31, 2018.
- <sup>16</sup> As of March 31, 2018, the investment is paying default interest at a rate of 3.0% per annum.
- <sup>17</sup> As of March 31, 2018, the investment is paying default interest at a rate of 2.5% per annum.
- <sup>18</sup> The investment has approximately \$0.9 million unfunded commitment as of March 31, 2018.

<sup>19</sup> The investment has approximately \$2.0 million unfunded commitment as of March 31, 2018.

<sup>20</sup> The investment has approximately \$1.5 million unfunded commitment as of March 31, 2018.

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

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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	Industry	Current Interest Rate <sup>2</sup>	Maturity	Principal	Cost	Fair Value <sup>3</sup>
THE KINGS HOLDINGS <sup>8</sup>	First Lien	Food, agriculture & beverage	L+8.50% (Floor 1.00%)	8/10/2021	\$ 9,900,000	\$ 9,720,743	\$ 9,900,000
AMERICAN TELECONFERENCING	First Lien	Telecommunications	L+6.50% (Floor 1.00%)	12/8/2021	6,733,503	6,559,616	6,720,700
SOFTWARE FULFILLMENT GIGON MEDICAL SERVICES	Second Lien	Distribution Healthcare products Consumer products & retail	L+9.50% (Floor 1.00%) L+9.50% (Floor 1.00%) L+8.00% (Floor 1.00%)	6/6/2022	2,005,714	1,929,670	1,965,600
NSWANGER CORP.	First Lien				13,251,760	12,988,847	12,988,800
	900,000 shares of common stock					900,000	900,000
CALIFORNIA PIZZA KITCHEN FAST AND CREW UNROLL, LLC	First Lien Second Lien	Restaurants Media, marketing & entertainment	L+6.00% (Floor 1.00%) L+7.75% (Floor 1.00%)	8/23/2022 8/12/2023	4,975,000 3,705,263	4,929,234 3,685,537	4,975,900 3,671,900
DEEPWATER CORROSION SERVICES, INC.	convertible preferred stock	Energy services (upstream)				8,000,000	9,956,000
DIGITAL RIVER, INC.	First Lien	Software & IT services	L+6.50% (Floor 1.00%)	2/12/2021	7,032,285	7,001,500	7,067,400
DIGITAL ROOM INC.	Second Lien	Paper & forest products	L+10.00% (Floor 1.00%)	5/21/2023	7,000,000	6,864,682	6,864,600
WANN PAPER, INC.	Second Lien	Paper & forest products	L+8.75% (Floor 1.00%)	8/26/2023	3,000,000	2,942,972	2,970,000
WHITE SEM, INC. <sup>8</sup>	First Lien	Media, marketing & entertainment	L+8.50% (Floor 1.00%)	2/1/2022	12,150,000	11,864,161	11,864,100

1,000  
Preferred  
units

12% PIK

1,019,667

1,020,000

12,883,828

12,884,100

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**Table of Contents****CAPITAL SOUTHWEST CORPORATION AND SUBSIDIARIES****CONSOLIDATED SCHEDULE OF INVESTMENTS (continued)****March 31, 2017**

<b>Portfolio Company<sup>1</sup> Control Investments<sup>7</sup></b>	<b>Type of Investment</b>	<b>Industry</b>	<b>Current Interest Rate<sup>2</sup></b>	<b>Maturity</b>	<b>Principal</b>	<b>Cost</b>	<b>Fair Value<sup>3</sup></b>
<b>45 SLF LLC<sup>9, 10, 11</sup></b>	80% LLC equity interest 800,000 shares of Series A convertible	Multi-sector holdings				\$ 60,800,000	\$ 63,394,679
<b>MEDIA RECOVERY, INC.<sup>11</sup></b>	preferred stock 4,000,002 shares of common stock	Industrial products				800,000 4,615,000	5,590,249 32,248,751
						5,415,000	37,839,000
<b>TITANLINER, INC.</b>	1,189,609 shares of Series B convertible preferred stock 339,277 shares of Series A convertible preferred stock	Energy services (upstream)	6% PIK			2,758,528 3,204,222	2,777,000
						5,962,750	2,777,000
<b>Total Control Investments</b>						\$ 72,177,750	\$ 104,010,679
<b>TOTAL INVESTMENTS<sup>12</sup></b>						\$ 250,540,089	\$ 286,880,243

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



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**Notes to Consolidated Financial Statements**

**1. ORGANIZATION AND BASIS OF PRESENTATION**

References in this Annual Report on Form 10-K 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 a 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 have elected to be treated as a regulated investment company ( RIC ) under Subchapter M of the U.S. Internal Revenue Code of 1986 (the Code ). As such, we are not required to pay corporate-level U.S federal income tax on our investment income. We intend to maintain our RIC status, which requires that we qualify annually as a RIC by meeting certain specified requirements.

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

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

We focus on investing in companies with histories of generating revenues and positive cash flow, established market positions and proven management teams with strong operating discipline. We target senior and subordinated 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 \$25.0 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 \$15.0 million. We make available significant managerial assistance to the companies in which we invest as we believe that providing managerial assistance to an investee company is critical to its business development activities.

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On September 30, 2015, we completed the spin-off (the Share Distribution ) of CSW Industrials, Inc. ( CSWI ). CSWI is now an independent publicly traded company. CSWI s common stock trades on the Nasdaq Global Select Market under the ticker symbol CSWI. The Share Distribution was effected through a tax-free, pro-rata distribution of 100% of CSWI s common stock to shareholders of the Company. Each Company shareholder received one share of CSWI common stock for every one share of Company common stock on the record date, September 18, 2015. Cash was paid in lieu of any fractional shares of CSWI common stock.

Following the Share Distribution, we have maintained operations as an internally managed BDC and pursue a credit-focused investing strategy akin to similarly structured organizations. We intend to continue to provide capital to middle-market companies. In the future, we intend to invest primarily in debt securities, including senior debt, second lien and subordinated debt, and may also invest in preferred stock and common stock alongside our debt investments or through warrants.

## **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 rules and 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.

## **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; Affiliate investments are generally defined as investments in which we own between 5% and 25% of the voting securities; and Non-Control/Non-Affiliate investments are generally defined as investments that are neither Control Investments nor Affiliate Investments.

Under the 1940 Act, a BDC must meet certain requirements, including investing at least 70% of our assets in qualifying assets. As of March 31, 2018, the Company has 82.0% 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.

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- (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.
- (2) Derive in each taxable year at least 90% of our gross income from dividends, interest, payments with respect to certain securities, loans, gains from the sale of stock or other securities, net income from certain qualified publicly traded partnerships, or other income derived with respect to our business of investing in such stock or securities (the 90% Income Test ).
- (3) Diversify our holdings in accordance with two Diversification Tests: (a) Diversify our holdings such that at the end of each quarter of the taxable year at least 50% of the value of our assets consists of cash, cash equivalents, U.S. Government securities, securities of other RICs, and such other securities if such other securities of any one issuer do not represent more than 5% of the value of our assets or more than 10% of the outstanding voting securities of the issuer; and (b) Diversify our holdings such that no more than 25% of the value of our assets is invested in the securities, other than U.S. government securities or securities of other RICs, (i) of one issuer, (ii) of two or more issuers that are controlled, as determined under applicable Code rules, by us and that are engaged in the same or similar or related trades or businesses or (iii) of certain qualified publicly traded partnerships (collectively, the Diversification Tests ).

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

This quarter we satisfied all RIC tests and have 17.0% 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 (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 footnotes to the Consolidated Schedule of Investments and Notes 3 and 4 below. Investments are recorded on a trade date basis.

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**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 may be held in a money market fund from time to time, which is a Level 1 security. Cash and cash equivalents includes deposits at financial institutions. We deposit our cash balances in financial institutions and, at times, such balances may be in excess of the Federal Deposit Insurance Corporation ( FDIC ) insurance limits. At March 31, 2018 and 2017, cash balances totaling \$6.8 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.

**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 recorded as dividends are declared by the portfolio company or at the point an obligation exists for the portfolio company to make a distribution. Discounts/premiums received to par on loans purchased are capitalized and accreted or amortized into income over the life of the loan using the effective interest method. In accordance with our valuation policy, accrued interest and dividend income are evaluated quarterly for collectability. When we do not expect the debtor to be able to service all of its debt or other obligations, we will generally establish a reserve against interest income receivable, thereby placing the loan or debt security on non-accrual status, and cease to recognize interest income on that loan or debt security until the borrower has demonstrated the ability and intent to pay contractual amounts due. If a loan or debt security's status significantly improves regarding its ability to service debt or other obligations, it will be restored to accrual basis. As of March 31, 2018 and 2017, we did not have any investments on non-accrual status or past due its contractual payment obligation.

To maintain RIC tax treatment, non-cash sources of income such as accretion of interest income may need to be paid out to shareholders in the form of distributions, even though CSWC may not have collected the interest income. For

the year ended March 31, 2018, approximately 2.4% of CSWC's total investment income was attributable to non-cash interest income for the accretion of discounts associated with debt investments, net of

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any premium reduction. For the year ended March 31, 2017, approximately 1.8% of CSWC's total investment income was attributable to non-cash interest income for the accretion of discounts associated with debt investments, net of any premium reduction.

**Payment-in-Kind Interest** The Company currently holds, and expects to hold in the future, some investments in its portfolio that contain payment-in-kind ( PIK ) interest and dividend provisions. The PIK interest and dividends, computed at the contractual rate specified in each loan agreement, are added to the principal balance of the loan, rather than being paid to the Company in cash, and are recorded as interest and dividend income. Thus, the actual collection of PIK interest and dividends may be deferred until the time of debt principal repayment or disposition of equity investment. PIK interest and dividends, which are non-cash sources of income, are included in the Company's taxable income and therefore affect the amount the Company is required to distribute to stockholders to maintain its qualification as a RIC for federal income tax purposes, even though the Company has not yet collected the cash. Generally, when current cash interest and/or principal payments on a loan become past due, or if the Company otherwise does not expect the borrower to be able to service its debt and other obligations, the Company will place the investment on non-accrual status and will generally cease recognizing PIK interest and dividend income on that loan for financial reporting purposes until all principal and interest have been brought current through payment or due to a restructuring such that the interest and dividend income is deemed to be collectible. The Company writes off any accrued and uncollected PIK interest and dividends when it is determined that the PIK interest and dividends are no longer collectible. As of March 31, 2018 and 2017, we did not have any investments on non-accrual status and have not written off any accrued and uncollected PIK interest and dividends. For the years ended March 31, 2018 and 2017, approximately 0.9% and 0.3%, respectively, of CSWC's total investment income was attributable to non-cash PIK interest and dividend income.

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

**Federal Income Taxes** CSWC has elected and intends to comply with the requirements of the IRC necessary to qualify as a RIC. By meeting these requirements, we will not be subject to corporate federal income taxes on ordinary income distributed to shareholders. In order to qualify as a RIC, the company is required to timely distribute to its shareholders at least 90% of investment company taxable income, as defined by the IRC, each year. Depending on the level of taxable income earned in a tax year, we may choose to carry forward taxable income in excess of current year distributions into the next year and pay a 4% excise tax on such income. Any such carryover taxable income must be distributed through a dividend declared prior to filing the final tax return related to the year that generated such taxable income. 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% 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. We may decide to retain some or all of our long-term capital gains in excess of the amount required to be distributed. If we retain the capital gains, they are subject to a corporate tax rate of 35% and are classified as a deemed distribution to our shareholders. With the tax reform legislation enacted on December 22, 2017 (the Tax Reform ), deemed distributions will be subject to a corporate tax rate of 21% as of January 1, 2018. 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.

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CSMC, a wholly-owned subsidiary of CSWC, and the Taxable Subsidiary are not RICs and are required to pay taxes at the corporate rate of 34% as of December 31, 2017. Due to the Tax Reform, CSMC and the Taxable Subsidiary are now required to pay taxes at the corporate rate of 21% as of January 1, 2018. For tax purposes, CSMC and the Taxable Subsidiary have elected to be treated as taxable entities, and therefore are not consolidated for tax purposes and are taxed at normal corporate tax rates based on taxable income and, as a result of their activities, may generate income tax expense or benefit. The taxable income, or loss, of each of CSMC and the Taxable Subsidiary may differ from its book income, or loss, due to temporary book and tax timing differences and permanent differences. This income tax expense, or benefit, if any, and the related tax assets and liabilities, are reflected in our consolidated financial statements.

Management evaluates tax positions taken or expected to be taken in the course of preparing the Company's consolidated financial statements to determine whether the tax positions are more-likely-than-not to be sustained by the applicable tax authority. Tax positions with respect to tax at the CSWC level not deemed to meet the more-likely-than-not threshold would be recorded as an expense in the current year. Management's conclusions regarding tax positions will be subject to review and may be adjusted at a later date based on factors including, but not limited to, on-going analyses of tax laws, regulations and interpretations thereof. The Company has concluded that it does not have any uncertain tax positions that meet the recognition of measurement criteria of ASC 740, *Income Taxes*, (ASC 740) for the current period. Also, we account for interest and, if applicable, penalties for any uncertain tax positions as a component of income tax expense. No interest or penalties expense was recorded during the years ended March 31, 2018, 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. ASC 740 requires the effects of changes in tax rates and laws on deferred tax balances to be recognized in the period in which the legislation was enacted. As such, we have accounted for the tax effects as a result of the enactment of the Tax Reform as of March 31, 2018. 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 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 will amortize this fair value to share-based compensation expense over the vesting term. We recognized forfeitures as they occur. We issue new shares upon the exercise of stock options. The unvested shares of restricted stock awarded pursuant to CSWC's equity compensation plans are participating securities and are included in the basic and diluted earnings per share calculation. On October 26, 2010, we received an exemptive order from the SEC permitting us to issue restricted stock to our executive officers and certain key employees (the Original Order). On August 22, 2017, we received an exemptive order that supersedes the Original Order (the Exemptive Order) and, in addition to the relief granted under the Original Order, allows us to withhold shares to satisfy tax withholding obligations related to the vesting of restricted stock granted pursuant to the 2010 Restricted Stock Award Plan (the 2010 Plan) and to pay the exercise price of options to purchase shares of our common stock granted pursuant to the 2009 Stock Incentive Plan (the 2009 Plan).

At the years ended March 31, 2018, 2017 and 2016, weighted-average basic shares were adjusted for the diluted effect of stock-based awards of 64,899, 52,452 and 88,020, 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.

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

**Presentation** Presentation of certain amounts on the Consolidated Financial Statements for the prior year comparative 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. While we continue to assess the effect of adoption, we currently believe the single change relates to the recognition of a new right-of-use asset and lease liability on our consolidated balance sheet for our office space operating lease. We currently have one operating lease for office space and do not expect a significant change in our leasing activity between now and adoption. See further discussion of our operating lease obligation in Note 12 Commitments and Contingences in the notes to the consolidated financial statements.

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

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

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**Table of Contents****3. INVESTMENTS**

The following tables show the composition of the investment portfolio, at cost and fair value (with corresponding percentage of total portfolio investments), as of March 31, 2018 and 2017:

	Fair Value	Percentage of Total Portfolio at Fair Value	Percentage of Net Assets	Cost	Percentage of Total Portfolio at Cost
(dollars in thousands)					
<b>March 31, 2018:</b>					
First lien loans <sup>1</sup>	\$ 197,110	50.1%	63.9%	\$ 194,820	58.1%
Second lien loans	23,229	5.9	7.5	23,092	6.9
Subordinated debt	18,783	4.8	6.1	18,885	5.6
Preferred equity	36,545	9.3	11.9	16,666	5.0
Common equity & warrants	50,315	12.8	16.3	17,134	5.1
I-45 SLF LLC <sup>2</sup>	67,113	17.1	21.8	64,800	19.3
	\$ 393,095	100.0%	127.5%	\$ 335,397	100.0%
<b>March 31, 2017<sup>3</sup>:</b>					
First lien loans	\$ 107,817	37.6%	37.8%	\$ 106,799	42.6%
Second lien loans	47,176	16.5	16.6	46,856	18.7
Subordinated debt	12,453	4.3	4.4	12,402	4.9
Preferred equity	19,343	6.7	6.4	15,782	6.3
Common equity & warrants	36,696	12.8	13.2	7,901	3.2
I-45 SLF LLC <sup>2</sup>	63,395	22.1	22.2	60,800	24.3
	\$ 286,880	100.0%	100.6%	\$ 250,540	100.0%

<sup>1</sup> Included in first lien loans are loans structured as first lien last out loans. These loans may in certain cases be subordinated in payment priority to other senior secured lenders. As of March 31, 2018 and 2017, the fair value of the first lien last out loans are \$26.9 million and \$21.8 million, respectively.

<sup>2</sup> I-45 SLF LLC is a joint venture between CSWC and Main Street Capital. This entity primarily invests in syndicated senior secured loans in the upper middle market. The portfolio companies held by I-45 SLF LLC represent a diverse set of industry classifications, which are similar to those in which CSWC invests directly. See Note 17 for further discussion.

<sup>3</sup> Presentation of March 31, 2017 disclosure is updated to conform to the current period presentation.

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The following tables show the composition of the investment portfolio by industry, at cost and fair value (with corresponding percentage of total portfolio investments), as of March 31, 2018 and 2017:

	Fair Value	Percentage of Total Portfolio at Fair Value	Percentage of Net Assets	Cost	Percentage of Total Portfolio at Cost
(dollars in thousands)					
<b>March 31, 2018:</b>					
I-45 SLF LLC <sup>1</sup>	\$ 67,113	17.1%	21.8%	\$ 64,800	19.3%
Media, Marketing, & Entertainment	46,697	11.9	15.1	43,700	13.0
Industrial Products	43,122	11.0	14.0	5,415	1.6
Business Services	34,846	8.9	11.3	34,268	10.2
Energy Services (Upstream)	27,919	7.1	9.1	14,130	4.2
Distribution	26,713	6.8	8.7	27,002	8.1
Consumer Products and Retail	24,570	6.2	7.9	25,086	7.5
Environmental Services	21,160	5.4	6.9	21,410	6.4
Healthcare Services	16,751	4.3	5.4	16,448	4.9
Financial Services	12,701	3.2	4.1	12,216	3.6
Healthcare Products	12,353	3.1	4.0	12,162	3.6
Transportation & Logistics	12,284	3.1	4.0	12,275	3.7
Industrial Services	10,012	2.5	3.2	9,721	2.9
Food, Agriculture & Beverage	9,438	2.4	3.1	9,507	2.8
Telecommunications	8,295	2.1	2.7	8,180	2.4
Software & IT Services	6,285	1.6	2.0	6,273	1.9
Consumer Services	5,000	1.3	1.6	4,968	1.5
Restaurants	4,836	1.2	1.6	4,886	1.5
Paper & Forest Products	3,000	0.8	1.0	2,950	0.9
	\$ 393,095	100.0%	127.5%	\$ 335,397	100.0%

**March 31, 2017:**

I-45 SLF LLC <sup>1</sup>	\$ 63,395	22.1%	22.2%	\$ 60,800	24.3%
Industrial Products	44,664	15.6	15.7	12,269	4.9
Media, Marketing, & Entertainment	32,254	11.2	11.3	32,154	12.8
Distribution	20,911	7.3	7.3	20,835	8.3
Consumer Products & Retail	18,396	6.4	6.4	18,275	7.3
Business Services	13,999	4.9	4.9	12,843	5.1
Energy Services (Upstream)	12,733	4.4	4.5	13,963	5.6
Software & IT Services	11,958	4.2	4.2	11,825	4.7
Environmental Services	10,126	3.5	3.6	10,126	4.0
Food, Agriculture & Beverage	9,900	3.5	3.5	9,721	3.9
Paper & Forest Products	9,835	3.4	3.4	9,808	3.9
Gaming & Leisure	8,761	3.1	3.1	8,506	3.4
Telecommunications	8,686	3.0	3.0	8,489	3.4



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Restaurants	8,458	2.9	2.9	8,378	3.4
Consumer Services	5,029	1.8	1.8	4,955	2.0
Healthcare Products	5,000	1.7	1.8	4,871	1.9
Financial Services	2,775	1.0	1.0	2,722	1.1
	\$ 286,880	100.0%	100.6%	\$ 250,540	100.0%

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

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sector holdings, which are similar to those in which CSWC invests directly. See Note 17 for further discussion. The following tables summarize the composition of the investment portfolio by geographic region of the United States, at cost and fair value (with corresponding percentage of total portfolio investments), as of March 31, 2018 and 2017:

	Fair Value	Percentage of Total Portfolio at Fair Value	Percentage of Net Assets	Cost	Percentage of Total Portfolio at Cost
(dollars in thousands)					
<b>March 31, 2018:</b>					
Southwest	\$ 131,753	33.5%	42.7%	\$ 79,713	23.8%
Southeast	84,969	21.6	27.6	84,290	25.1
Northeast	72,205	18.4	23.4	69,739	20.8
I-45 SLF LLC <sup>1</sup>	67,113	17.1	21.8	64,800	19.3
West	23,554	6.0	7.6	23,425	7.0
Midwest	13,501	3.4	4.4	13,430	4.0
	\$ 393,095	100.0%	127.5%	\$ 335,397	100.0%
<b>March 31, 2017<sup>2</sup>:</b>					
Southwest	\$ 82,576	28.8%	29.0%	\$ 50,024	20.0%
I-45 SLF LLC <sup>1</sup>	63,395	22.1	22.2	60,800	24.3
Northeast	43,695	15.2	15.3	43,516	17.4
Southeast	38,479	13.4	13.5	38,180	15.2
West	30,327	10.6	10.6	30,168	12.0
Midwest	28,408	9.9	10.0	27,852	11.1
	\$ 286,880	100.0%	100.6%	\$ 250,540	100.0%

<sup>1</sup> I-45 SLF LLC is a joint venture between CSWC and Main Street Capital. This entity primarily invests in syndicated senior secured loans to the UMM. The portfolio companies in I-45 SLF LLC represent a diverse set of industry classifications, which are similar to those in which CSWC invests directly. See Note 17 for further discussion.

<sup>2</sup> Presentation of March 31, 2017 disclosure is updated to conform to the current period presentation.

**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.

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

**Fair Value Hierarchy**

CSWC has established and documented processes for determining the fair values of portfolio company investments on a recurring basis in accordance with the 1940 Act and ASC 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 March 31, 2018 and 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 NAV) in good faith using Level 3 inputs, pursuant to a valuation policy and process that is established by the management of CSWC with assistance from multiple third-party valuation advisors, which is subsequently approved by our Board of Directors.

**Investment Valuation Inputs**

ASC 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.

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

Financial information obtained from each portfolio company, including unaudited statements of operations and balance sheets for the most recent period available as compared to budgeted numbers;

Current and projected financial condition of the portfolio company;

Current and projected ability of the portfolio company to service its debt obligations;

Type and amount of collateral, if any, underlying the investment;

Current financial ratios (e.g., fixed charge coverage ratio, interest coverage ratio and net debt/EBITDA ratio) applicable to the investment;

Current liquidity of the investment and related financial ratios (e.g., current ratio and quick ratio);

Indicative dealer quotations from brokers, banks, and other market participants;

Market yields on other securities of similar risk;

Pending debt or capital restructuring of the portfolio company;

Projected operating results of the portfolio company;

Current information regarding any offers to purchase the investment;

Current ability of the portfolio company to raise any additional financing as needed;

Changes in the economic environment which may have a material impact on the operating results of the portfolio company;

Internal occurrences that may have an impact (both positive and negative) on the operating performance of the portfolio company;

Qualitative assessment of key management;

Contractual rights, obligations or restrictions associated with the investment; and

Other factors deemed relevant.

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

#### *Market Approach*

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

#### *Income Approach*

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

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

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

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

*Enterprise Value Waterfall Approach*

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

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

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



as industry trends, new product development, loss of customers and other operational issues. Fair value measurements using the Enterprise Value Waterfall model can be sensitive to significant changes in one or more of the inputs. A significant increase (decrease) in either the multiple, Adjusted EBITDA or revenues for a particular equity security would result in a higher (lower) fair value for that security.

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

The following fair value hierarchy tables set forth our investment portfolio by level as of March 31, 2018 and March 31, 2017 (in thousands):

Asset Category	Total	Fair Value Measurements at March 31, 2018 Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Other Significant Unobservable Inputs (Level 3)
First lien loans	\$ 197,110	\$	\$	\$ 197,110
Second lien loans	23,229			23,229
Subordinated debt	18,783			18,783
Preferred equity	36,545			36,545
Common equity & warrants	50,315			50,315
Investments measured at net asset value <sup>1</sup>	67,113			
<b>Total Investments</b>	<b>\$ 393,095</b>	<b>\$</b>	<b>\$</b>	<b>\$ 325,982</b>

Asset Category <sup>2</sup>	Total	Fair Value Measurements at March 31, 2017 Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Other Significant Unobservable Inputs (Level 3)
First lien loans	\$ 107,817	\$	\$	\$ 107,817
Second lien loans	47,176			47,176
Subordinated debt	12,453			12,453
Preferred equity	19,343			19,343
Common equity & warrants	36,696			36,696
Investments measured at net asset value <sup>1</sup>	63,395			
<b>Total Investments</b>	<b>\$ 286,880</b>	<b>\$</b>	<b>\$</b>	<b>\$ 223,485</b>

- <sup>1</sup> Certain investments that are measured at fair value using the NAV per share (or its equivalent) practical expedient have not been categorized in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in Consolidated Statements of Assets and Liabilities. For the investment valued at net asset value per share at March 31, 2018 and 2017, the redemption restrictions dictate that we cannot withdraw our membership interest without unanimous approval. We are permitted to sell or transfer our membership interest and must deliver written notice of such transfer to the other member no later than 60 business days prior to the sale or transfer.
- <sup>2</sup> Presentation of March 31, 2017 disclosure updated to conform to current period presentation. 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 March 31, 2018 and March 31, 2017.

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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 3/31/2018 (in thousands)	Significant Unobservable Inputs	Range	Weighted Average
First lien loans	Income Approach	\$ 181,595	Discount Rate	9.5% - 17.0%	12.8%
			Third Party Broker Quote		
			Market Approach	15,515	
Second lien loans	Income Approach	18,229	Discount Rate	11.6% - 11.6%	11.6%
			Third Party Broker Quote	93.5 - 100.0	96.0
Subordinated debt	Income Approach	18,783	Quote Exit Value	100.0	100.0
			Discount Rate	12.4% - 13.8%	12.9%
			EBITDA Multiple	5.1x - 9.3x	6.9x
Preferred equity	Enterprise Value Waterfall Approach	36,545	Discount Rate	15.0% - 32.1%	20.2%
Common equity & warrants	Enterprise Value Waterfall Approach	47,123	EBITDA Multiple	6.0x - 8.4x	8.1x
			Discount Rate	15.7% - 21.6%	20.6%
			Market Approach	3,192	Cost
Total Level 3 Investments		\$ 325,982			

Type	Valuation Technique	Fair Value at 3/31/2017 (in thousands)	Significant Unobservable Inputs	Range	Weighted Average
First lien loans	Income Approach	\$ 73,065	Discount Rate	7.7% - 12.6%	11.1%
			Third Party Broker Quote		
			Market Approach	34,752	
Second lien loans	Income Approach	47,176	Discount Rate	9.5% - 12.6%	11.0%
			Third Party Broker Quote	97.5 - 100.8	99.2
Subordinated debt	Income Approach	12,453	Discount Rate	11.5% - 12.3%	11.8%
Preferred equity	Enterprise Value Waterfall Approach	19,343	EBITDA Multiple	3.5x - 9.2x	5.8x
			Discount Rate	14.1% - 27.8%	20.2%

Common equity & warrants	Enterprise Value		5.8x - 8.3x	8.0x
	Waterfall Approach	36,696	EBITDA Multiple Discount Rate	16.0% - 17.0% 16.1%

Total Level 3  
Investments \$ 223,485

### 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 to another. We recognize transfer of financial instruments between levels at the end of each quarterly reporting period. During the years ended March 31, 2018 and 2017, we had no transfers between levels.

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The following table provides a summary of changes in the fair value of investments measured using Level 3 inputs during the years ended March 31, 2018 and 2017 (in thousands):

	Fair Value 3/31/2017	Realized & Unrealized Gains (Losses)	Purchases of Investments <sup>1</sup>	Repayments	PIK Interest Earned	Divestitures	Fair Value at 3/31/2018
First lien loans	\$ 107,817	\$ 2,086	\$ 128,894	\$ (41,687)	\$	\$	\$ 197,110
Second lien loans	47,176	367	9,865	(34,179)			23,229
Subordinated debt	12,453	(39)	14,458	(8,100)	11		18,783
Preferred equity	19,343	16,319	588		295		36,545
Common equity & warrants	36,696	4,401	9,233			(15)	50,315
Total Investments	\$ 223,485	\$ 23,134	\$ 163,038	\$ (83,966)	\$ 306	\$ (15)	\$ 325,982

	Fair Value 3/31/2016	Realized & Unrealized Gains (Losses)	Purchases of Investments <sup>1</sup>	Repayments	Divestitures	Conversion of Security from Debt to Equity	Fair Value at 3/31/2017
First lien loans	\$ 39,491	\$ 2,332	\$ 102,159	\$ (36,165)	\$	\$	\$ 107,817
Second lien loans	38,227	1,277	17,229	(7,050)	(2,507)		47,176
Subordinated debt	15,114	80	34	(60)		(2,715)	12,453
Preferred equity	13,155	2,410	1,063			2,715	19,343
Common equity & warrants	36,112	6,490	2,049		(7,955)		36,696
Total Investments	\$ 142,099	\$ 12,589	\$ 122,534	\$ (43,275)	\$ (10,462)	\$	\$ 223,485

<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 years ended March 31, 2018 and 2017 were \$22.0 million and \$12.5 million, respectively.

**5. BORROWINGS**

In accordance with the 1940 Act, with certain limitations, the Company is only allowed to borrow amounts such that its asset coverage, calculated pursuant to the 1940 Act, is at least 200% (or, pursuant to recent legislation, 150% if certain requirements are met as described in the Business Section under Regulation as a Business Development Company-Senior Securities ) after such borrowing. As of March 31, 2018, the Company's asset coverage was 416%.

The Company had the following borrowings outstanding as of March 31, 2018 and March 31, 2017 (amounts in thousands):

	<b>March 31, 2018</b>	<b>March 31, 2017</b>
Credit Facility	\$ 40,000	\$ 25,000
December 2022 Notes	\$ 57,500	\$
Less: Unamortized debt issuance costs and debt discount	(2,195)	
Total Notes	\$ 55,305	\$

*Credit Facility*

In August 2016, CSWC entered into a senior secured credit facility (as amended, restated, supplemented or otherwise modified from time to time, the Credit Facility ) to provide additional liquidity to support its

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investment and operational activities, which included total commitments of \$100.0 million. The Credit Facility contained an accordion feature that allowed 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. In August 2017, we increased our total commitments by \$15 million through adding an additional lender using the accordion feature.

On November 16, 2017, CSWC entered into Amendment No. 1 (the Amendment) to its Credit Facility. Prior to the Amendment, borrowings under the Credit Facility accrued interest on a per annum basis at a rate equal to the applicable LIBOR rate plus 3.25% with no LIBOR floor. CSWC paid unused commitment fees of 0.50% to 1.50% per annum, based on utilization, on the unused lender commitments under the Credit Facility. The Amendment (1) increased the total borrowing capacity under the Credit Facility to \$180 million, with commitments from a diversified group of eight lenders, (2) increased the Credit Facility's accordion feature that allows for an increase in total commitments of up to \$250 million under the Credit Facility from new and existing lenders on the same terms and conditions as the existing commitments, (3) reduced the interest rate on borrowings to LIBOR plus 3.00%, with a step-down to LIBOR plus 2.75% at the time the Company's net worth exceeds \$325 million, (4) reduced unused commitment fees to a range from 0.50% to 1.0% per annum based on utilization, and (5) extended the Credit Facility's revolving period that ended on August 30, 2019 through November 16, 2020. Additionally, the final maturity of the Credit Facility was extended from August 30, 2020 to November 16, 2021. Subsequent to March 31, 2018, on April 16, 2018 and May 11, 2018, CSWC entered into Incremental Assumption Agreements, which increased the total commitments under the Credit Facility by \$20 million and \$10 million, respectively. The increases were executed under the accordion feature of the Credit Facility and increased total commitments from \$180 million to \$210 million.

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

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

The Credit Facility is secured by (1) substantially all of the present and future property and assets of the Company and the guarantors and (2) 100% of the equity interests in the Company's wholly-owned subsidiaries. As of March 31, 2018, substantially all of the Company's assets were pledged as collateral for the Credit Facility.

At March 31, 2018, CSWC had \$40.0 million in borrowings outstanding under the Credit Facility. CSWC recognized interest expense related to the Credit Facility, including unused commitment fees and amortization of deferred loan costs of \$3.7 million and \$1.0 million, respectively, for the years ended March 31, 2018 and 2017. The weighted average interest rate on the Credit Facility was 4.66% and 4.28%, respectively, for the years ended March 31, 2018 and 2017. Average borrowings for the years ended March 31, 2018 and 2017 were \$42.2 million and \$17.8 million, respectively. As of March 31, 2018, CSWC was in compliance with all financial covenants under the Credit Facility.

*December 2022 Notes*



In December 2017, the Company issued \$57.5 million in aggregate principal amount, including the underwriters' full exercise of their option to purchase additional principal amounts to cover over-allotments, of

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5.95% Notes due 2022 (the December 2022 Notes ). The December 2022 Notes mature on December 15, 2022 and may be redeemed in whole or in part at any time, or from time to time, at the Company's option on or after December 15, 2019. The December 2022 Notes bear interest at a rate of 5.95% per year, payable quarterly on March 15, June 15, September 15 and December 15 of each year, beginning on March 15, 2018. The December 2022 Notes are an unsecured obligation, rank pari passu with our other outstanding and future unsecured unsubordinated indebtedness and are effectively subordinated to all of our existing and future secured indebtedness, including borrowings under our Credit Facility.

As of March 31, 2018, the carrying amount of the December 2022 Notes was \$55.3 million. As of March 31, 2018, the fair value of the December 2022 Notes was \$58.4 million. The fair value is based on the closing price of the security of The Nasdaq Global Select Market, which is a Level 1 input under ASC 820. The Company recognized interest expense related to the December 2022 Notes, including amortization of deferred issuance costs, of \$1.2 million for the year ended March 31, 2018.

The indenture governing the December 2022 Notes contains certain covenants including but not limited to (i) a requirement that the Company comply with the asset coverage requirement of Section 61 of the 1940 Act or any successor provisions thereto, after giving effect to any exemptive relief granted to the Company by the Securities and Exchange Commission ( SEC ), (ii) a requirement, subject to limited exception, that the Company will not declare any cash dividend, or declare any other cash distribution, upon a class of its capital stock, or purchase any such capital stock, unless, in every such case, at the time of the declaration of any such dividend or distribution, or at the time of any such purchase, the Company has the minimum asset coverage required pursuant to Section 61 of the 1940 Act or any successor provisions thereto after deducting the amount of such dividend, distribution or purchase price, as the case may be, giving effect to any exemptive relief granted to the Company by the SEC and (iii) a requirement to provide financial information to the holders of the December 2022 Notes and the trustee under the indenture if the Company should no longer be subject to the reporting requirements under the Securities Exchange Act of 1934, as amended. The indenture and supplement relating to the December 2022 Notes also provides for customary events of default. As of March 31, 2018, the Company was in compliance with all covenants of the December 2022 Notes.

**6. INCOME TAXES**

We have elected to be treated as a RIC under Subchapter M of the 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 or (2) the fifteenth day of the ninth month following the close of the year in which such taxable income was generated.

For the tax years ended December 31, 2017, 2016 and 2015, 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.

We have distributed or intend to distribute sufficient dividends to eliminate taxable income for our completed tax years. If we fail to satisfy the 90% distribution requirement or otherwise fail to qualify as a RIC in any tax year, we would be subject to tax in that year on all of our taxable income, regardless of whether we made any distributions to

our shareholders. During the quarter ended March 31, 2018, CSWC declared regular dividends in

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the amount of \$4.5 million, or \$0.28 per share. During the tax year ended December 31, 2017, we declared total dividends of \$18.3 million or \$1.16 per share. We declared quarterly dividends of \$0.45 (\$0.19 in regular dividends and \$0.26 in supplemental dividends) in March 2017, \$0.21 in June 2017, \$0.24 in September 2017, and \$0.26 in December 2017. For the tax year ended December 31, 2016, we declared total dividends of \$6.0 million or \$0.38 per share. We declared quarterly dividends of \$0.04 per share in March 2016, \$0.06 per share in June 2016, \$0.11 per share in September 2016, and \$0.17 per share in December 2016. For the tax year ended December 31, 2015, we declared total dividends of \$1.5 million, or \$0.10 per share, in May 2015.

Book and tax basis differences relating to stockholder dividends and distributions and other permanent book and tax differences are typically reclassified among the CSWC's capital accounts. In addition, the character of income and gains to be distributed is determined in accordance with income tax regulations that may differ from GAAP; accordingly for the fiscal years ended March 31, 2018 and 2017, CSWC reclassified for book purposes amounts arising from permanent book/tax differences related to the tax treatment of return of capital and/or deemed distributions, tax treatment of investments upon disposition, and non-deductible expenses, as follows (amounts in thousands):

	<b>Year ended March 31, 2018</b>	<b>Year ended March 31, 2017</b>
Additional capital	\$ (552)	\$ (2,518)
Accumulated net investment (income) loss	\$ 4,277	\$ (889)
Accumulated net realized gains	\$ (3,725)	\$ 3,407

The determination of the tax attributes of CSWC's distributions is made after tax year end, based upon its taxable income for the full tax year and distributions paid for the full tax year. Therefore, the determination of tax attributes made on an interim basis for fiscal year end may not be representative of the actual tax attributes determined at tax year end.

For tax purposes, the 2017 dividends totaled \$1.16 per share and were comprised of (1) ordinary income totaling approximately \$0.643 per share, (2) long term capital gains totaling approximately \$0.324 per share, and (3) qualified dividend income totaling approximately \$0.193 per share. In addition, 88.35% of each of the ordinary distributions represent interest-related dividends and 10.76% of each of the distributions represents short-term capital gains dividends. 94.54% of total distributions represent the portion of CSWC's dividends received by non-U.S. residents and foreign corporation shareholders that are generally exempt from U.S. withholding tax. Of the qualified dividends of \$3.5 million, 23.13% are eligible for the dividends received deduction. For tax purposes, the 2016 dividends totaled \$0.38 per share and were comprised of (1) ordinary income totaling approximately \$0.065 per share, (2) long term capital gains totaling approximately \$0.28 per share, and (3) qualified dividend income totaling approximately \$0.035 per share. In addition, 19.75% of total distributions are considered an interest-related dividend and 97.78% of total distributions represent the portion of CSWC's dividends received by non-U.S. residents and foreign corporation shareholders that are generally exempt from U.S. withholding tax. Of the qualified dividends of \$0.5 million, 34.65% are eligible for the dividends received deduction.

Ordinary dividend distributions from a RIC do not qualify for the 20% 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.

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The tax character of distributions paid for the tax years ended December 31, 2017 and 2016 was as follows (amounts in thousands):

	<b>Twelve Months Ended December 31,</b>	
	<b>2017</b>	<b>2016</b>
Ordinary income	\$ 13,149	\$ 1,551
Distributions of long term capital gains	5,101	4,367
Distributions on tax basis <sup>1</sup>	\$ 18,250	\$ 5,918

<sup>1</sup> Includes only those distributions which reduce estimated taxable income.

As of March 31, 2018, CSWC estimates that it has undistributed taxable income of approximately \$10.9 million, or \$0.67 per share, which includes \$4.7 million of distributions related to prior year, that will be carried forward toward distributions to be paid in future periods. We intend to meet the applicable qualifications to be taxed as a RIC in future periods.

The following reconciles net increase in assets resulting from operations to estimated RIC taxable income for the years ended March 31, 2018, 2017 and 2016:

	<b>Years ended March 31,</b>		
	<b>2018</b>	<b>2017</b>	<b>2016</b>
<b>Reconciliation of RIC Taxable Income<sup>1</sup></b>			
Net increase (decrease) in net assets resulting from operations	\$ 39,307	\$ 23,474	\$ (5,400)
Net change in unrealized (appreciation) depreciation on investments	(21,492)	(7,690)	(16,089)
Disallowed net operating loss			3,630
(Expense/loss) income/gain recognized for tax on pass-through entities	(403)	986	2,334
Gain (loss) recognized for tax on dispositions	643	1,248	(2,165)
Net operating loss - management company and taxable subsidiary	316	1,323	6,188
Non-deductible tax expense	228	588	
Other book tax differences	(62)	223	563
Estimated taxable income (loss) before deductions for distributions	18,537	20,152	(10,939)
<b>Distributions<sup>2</sup>:</b>			
Ordinary	7,020	932	
Capital gains	930	4,367	1,544
Deemed distributions			8,423
Distributions payable <sup>2</sup>	4,421	7,072	619
Estimated RIC undistributed taxable income (loss)	6,166	7,781	(21,525)

- <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.
- <sup>2</sup> Includes only those distributions which reduce estimated taxable income.

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As of March 31, 2018, 2017 and 2016, the components of estimated RIC accumulated earnings on a tax basis were as follows (amounts in thousands):

	Years ended March 31,		
	2018	2017	2016
<b>Components of Accumulated Earnings on a Tax Basis<sup>1</sup></b>			
Undistributed ordinary income - tax basis	\$ 13,427	\$ 11,890	\$
Capital loss carryforward			(10,939)
Undistributed net realized gain	2,276	3,085	
Unrealized appreciation on investments	57,264	36,481	30,740
Other temporary differences	(321)	(122)	243
Distributions payable <sup>2</sup>	(4,421)	(7,072)	(619)
Components of distributable earnings at year-end	68,225	44,262	19,425

1 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.

2 Includes only those distributions which reduce estimated taxable income.

As of March 31, 2018, the cost of investments for U.S. federal income tax purposes was \$335.6 million, with such investments having a gross unrealized appreciation of \$62.4 million and gross unrealized depreciation of \$4.9 million.

A RIC may elect to retain all or a portion of its long-term capital gains by designating them as a deemed distribution to its shareholders and paying a federal tax 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. As a result of the Tax Reform, the federal tax rate for deemed distributions is 21% as of January 1, 2018.

For the tax years ended December 31, 2017 and 2016, we distributed all long-term capital gains and therefore had no deemed distributions to our shareholders or federal taxes incurred related to such items. During our tax year ended December 31, 2015, we had net long-term capital gains of \$8.4 million for tax purposes, which we elected to retain and treat as deemed distributions to our shareholders. For the tax year ended December 31, 2015, we incurred federal taxes on behalf of our shareholders in the amount of \$2.9 million.

CSMC, a wholly-owned subsidiary of CSWC, is not a RIC and is required to pay taxes at the current corporate rate. For tax purposes, CSMC has elected to be treated as a taxable entity, and therefore is not consolidated for tax purposes and is taxed at normal corporate tax rates based on its taxable income and, as a result of its activities, may generate income tax expense or benefit. The taxable income, or loss, of CSMC may differ from its book income, or loss, due to temporary book and tax timing differences and permanent differences. This income tax expense, or benefit, if any, and the related tax assets and liabilities, are reflected in our consolidated financial statements. CSMC records individual cash incentive award and bonus accruals on a quarterly basis. Deferred taxes related to the changes in the restoration plan, individual cash incentive award and bonus accruals are also recorded on a quarterly basis. A valuation allowance is provided against deferred tax assets when it is more likely than not that some portion or all of the deferred tax asset will not be realized. Establishing a valuation allowance of a deferred tax asset requires management to make estimates



related to expectations of future taxable income. Estimates of future taxable income are based on forecasted cash flows from CSMC's operations. As of March 31, 2018, CSMC had a deferred tax asset of approximately \$2.1 million and a deferred tax liability of \$0.2 million. During the year ended March 31, 2018, the deferred tax asset increased by approximately \$0.1 million as a result of the Tax Reform. The deferred tax asset decreased by \$1.2 million due to the reduction of the corporate tax rate to 21% and was offset by an increase of \$1.3 million due to the release of the valuation allowance on our

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deferred tax asset. Our estimated taxable income increased due to the repeal of 162(m) qualified performance-based pay exemptions and the expansion of the definition of a covered employee. As of March 31, 2018, we believe that we will be able to utilize all \$2.1 million of our deferred tax assets. We will continue to assess our ability to realize our existing deferred tax assets. 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 will be realized and they do not contain any uncertain tax positions. As a result of the Tax Reform, the corporate tax rate of CSMC is 21% as of January 1, 2018.

The following table sets forth the significant components of the deferred tax assets and liabilities as of March 31, 2018 and 2017 (amounts in thousands):

	<b>Years ended</b>	
	<b>2018</b>	<b>2017</b>
<b>Deferred tax asset:</b>		
Net operating loss carryforwards	\$ 487	\$ 1,571
Compensation	924	1,110
Pension liability	617	722
Other	22	76
Total deferred tax asset	2,050	3,479
Less valuation allowance		(1,325)
Total net deferred tax asset	2,050	2,154
<b>Deferred tax liabilities:</b>		
Other	(190)	(137)
Total deferred tax liabilities	(190)	(137)
Total net deferred tax assets	\$ 1,860	\$ 2,017

The above referenced Net Operating Loss was generated in 2015 and expires in 2035.

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% 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. This income tax expense, or benefit, and the related tax assets and liabilities, if any, are reflected in our Statement of Operations. As a result of the Tax Reform, the corporate tax rate of the Taxable Subsidiary is 21% as of January 1, 2018.

The income tax expense, or benefit, and the related tax assets and liabilities generated by CSWC, CSMC and the Taxable Subsidiary, if any, are reflected in CSWC's consolidated financial statements. For the year ended

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March 31, 2018, we recognized total net income tax expense of \$0.2 million, principally consisting of a \$0.2 million accrual for excise tax on our estimated undistributed taxable income. For the year ended March 31, 2017, we recognized a total net income tax provision of \$1.8 million, principally consisting of a provision for deferred U.S. federal income taxes relating to CSMC of \$1.0 million, a \$0.6 million accrual for excise tax on our estimated undistributed taxable income and \$0.2 million relating to the Taxable Subsidiary. We also recognized a deferred tax provision of \$0.3 million, which is primarily the result of the unrealized appreciation related to the portfolio investment held in the Taxable Subsidiary.

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

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

The following table sets forth the significant components of the income tax expense as of March 31, 2018, 2017 and 2016 (amounts in thousands):

<b>Components of Income Tax Expense</b>	<b>Years ended March 31,</b>		
	<b>2018</b>	<b>2017</b>	<b>2016</b>
Statutory federal income tax	\$ (91)	\$ (175)	\$ (2,593)
162(m) limitation	710	625	545
Excise tax	228	588	
Valuation allowance	(1,324)	459	866
Tax related to Taxable Subsidiary		173	
Prior year deferred tax true-up	(164)	67	(125)
Compensation benefits	(426)		
Tax Reform	1,246		
Other	16	42	29
<b>Total income tax expense</b>	<b>\$ 195</b>	<b>\$ 1,779</b>	<b>\$ (1,278)</b>

**7. SHAREHOLDERS' EQUITY**

There were no sales of the Company's equity securities for the years ended March 31, 2018 and 2017.

On October 26, 2010, we received an exemptive order from the SEC permitting us to issue restricted stock to our executive officers and certain key employees, or the Original Order. On August 22, 2017, we received the Exemptive Order that supersedes the Original Order and in addition to the relief granted under the Original Order, allows us to

withhold shares to satisfy tax withholding obligations related to the vesting of restricted stock granted pursuant to the 2010 Restricted Stock Award Plan, or the 2010 Plan, and to pay the exercise price of options to purchase shares of our common stock granted pursuant to the 2009 Stock Incentive Plan, or the 2009 Plan. During the year ended March 31, 2018, the Company repurchased 5,080 shares at an aggregate cost of approximately \$0.1 million and a weighted average price per share of \$16.78 in connection with the vesting of restricted stock awards. During the year ended March 31, 2017, the Company did not repurchase any shares in connection with the vesting of restricted stock awards.

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**Table of Contents****Share Repurchase Program**

In January 2016, the Company's Board of Directors approved a share repurchase program authorizing the Company to repurchase up to \$10 million of its outstanding common stock in the open market at certain thresholds below its NAV per share, in accordance with guidelines specified in Rules 10b5-1(c)(1)(i)(B) and 10b-18 under the Securities Exchange Act of 1934. On March 1, 2016, the Company entered into a share repurchase agreement with Cantor Fitzgerald & Co. This agreement became effective immediately and shall terminate on the earliest of: (1) the date on which a total of \$10 million worth of common shares have been purchased under the plan; (2) the date on which the terms set forth in the purchase instructions have been met; or (3) the date that is one trading day after the date on which insider notifies broker in writing that this agreement shall terminate.

During the year ended March 31, 2018, the Company had repurchased a total of 35,911 shares at an average price of \$16.37 per share, including commissions paid, leaving approximately \$9.4 million available for additional repurchases under the program. During the year ended March 31, 2017, the Company did not repurchase any shares of the Company's common stock under the share repurchase program. The following table summarizes the Company's share repurchases under the program for the years ended March 31, 2018 and 2017:

<b>Repurchases of Common Stock</b>	<b>Year Ended March 31,</b>	
	<b>2018</b>	<b>2017</b>
Number of shares repurchased	35,911	
Cost of shares repurchased, including commissions	\$ 587,772	\$
Weighted average price per share	\$ 16.37	\$
Net asset value per share at prior quarter end	\$ 18.44	N/A
Weighted average discount to prior quarter net asset value	11.2%	N/A

**8. SPIN-OFF COMPENSATION PLAN**

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

On September 8, 2015, the Board designated the Share Distribution as a transformative transaction for purposes of the Spin-off Compensation Plan and amended the award agreements granted under the plan to provide for accelerated

vesting of the awards held by a participant in the event of a termination of that participant's service effected by the participant for good reason, by the employer without cause, or as a result of the disability or death of the participant. On September 30, 2015, we completed the Share Distribution.

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Effective immediately with the Share Distribution, both Joseph B. Armes and Kelly Tacke became employees of CSWI and Bowen Diehl, our President and Chief Executive Officer, continued to be an employee of our Company. The Company entered into the Employee Matters Agreement with CSWI. Under the Employee Matters Agreement, we retained the cash incentive awards granted under the Spin-off Compensation Plan, and all liabilities with respect to the cash incentive awards remained liabilities of CSWC. The equity based awards vesting terms were as follows: (1) 1/3 on December 29, 2015; (2) 1/3 on December 29, 2016; and (3) 1/3 on December 29, 2017, subject to accelerated vesting as described above.

The total value accretion was six percent of the aggregate appreciation in the Company's share price from \$36.16 to the combined volume-weighted average prices of both CSWC and CSWI stock as of December 29, 2015. The cash component of the Spin-off Compensation Plan was the difference between the total value accretion and the aggregate value of the awardee's restricted common stock and non-qualified option awards under the Spin-Off Compensation Plan. The total cash liabilities for three participants under the plan totaled \$6.1 million. The final payment of \$1.4 million was fully vested on December 29, 2017, and was subsequently paid out in January 2018. As of March 31, 2018, there is no remaining unrecognized expense related to the Spin-off Compensation Plan.

During both the years ended March 31, 2018 and 2017, we recognized the cash component of spin-off compensation expense of \$0.7 million, which represented the cash component of spin-off compensation for our current employee. During the years ended March 31, 2018 and 2017, we recorded \$0.5 million and \$1.9 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 \$1.3 million was paid to Kelly Tacke during the year ended March 31, 2017 upon her separation from CSWI. As of March 31, 2018, there is no remaining unrecognized expense related to the cash component of the Spin-Off Compensation Plan.

## **9. EMPLOYEE STOCK BASED COMPENSATION PLANS**

### **Stock Awards**

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

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

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



Exemptive Order.

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

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of the Share Distribution, a CSWI Restricted Stock Award for the number of CSWI Shares the holder would have received if the outstanding Capital Southwest Restricted Stock Award was comprised of fully vested Capital Southwest Shares as of the effective date.

The vesting terms for restricted stock awards previously granted under the Spin-off Compensation Plan are as follows: (1) one-third on December 29, 2015; (2) one-third on December 29, 2016; and (3) one-third on December 29, 2017, subject to accelerated vesting as described above. As of March 31, 2018, there is no remaining unrecognized expense related to the Spin-off Compensation Plan.

The following table summarizes the restricted stock available for issuance for the year ended March 31, 2018:

Restricted stock available for issuance as of March 31, 2017	190,502
Additional restricted stock approved under the plan	
Restricted stock granted during the year ended March 31, 2018	(185,725)
Restricted stock forfeited during the year ended March 31, 2018	5,000

Restricted stock available for issuance as of March 31, 2018	9,777
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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 fiscal years ended March 31, 2018, 2017, and 2016 we recognized total share based compensation expense of \$1.7 million, \$1.0 million and \$0.7 million, respectively, related to the restricted stock issued to our employees and officers.

As of March 31, 2018, the total remaining unrecognized compensation expense related to non-vested restricted stock awards was \$5.1 million, which will be amortized over the weighted-average vesting period of approximately 2.9 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 March 31, 2018:

Restricted Stock Awards	Number of Shares	Weighted Average Fair Value Per Share at grant date	Weighted Average Remaining Vesting Term (in Years)
Unvested at March 31, 2016	233,207	\$ 15.79	3.0
Granted	161,918	14.46	3.6
Vested	(93,202)	15.87	
Forfeited	(7,880)	22.44	
Unvested at March 31, 2017	294,043	\$ 14.99	3.1

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Granted	185,725	16.79	3.6
Vested	(102,605)	15.25	
Forfeited	(5,000)	14.48	
Unvested at March 31, 2018	372,163	\$ 15.82	2.9

**Stock Options**

On July 20, 2009, shareholders approved our 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

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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 designated the Share Distribution as a transformative transaction for purposes of the 2009 Plan and amended the award agreements granted under the 2009 Plan to provide for accelerated vesting of the awards held by a participant in the event of a termination of that participant's service effected by the executive for good reason, by the employer without cause, or as a result of the disability or death of the participant. A third of these options were vested on each of December 29, 2015, December 29, 2016, and December 29, 2017, respectively, subject to accelerated vesting as described above.

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

At March 31, 2018, there are options to acquire 195,608 shares of common stock outstanding. The Compensation Committee does not intend to grant additional options under the 2009 Stock Incentive Plan or request shareholders approval of additional stock options to be added under the 2009 Stock Incentive Plan.

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, 2009 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 March 31, 2018 and 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 Share Distribution. Certain adjustments, using volumetric weighted-average prices for the 10-day period immediately prior to and immediately following the distribution, were made to the exercise price and number of shares of CSWC subject to such awards, with the intention of preserving the economic value of the awards immediately prior to the distribution for all CSWC employees. We compared the fair market value of our stock options on the day of the Share Distribution with the combined fair value of our stock options and CSWI stock options the day after the completion of the Share Distribution. The distribution-related adjustments did not have a material impact on compensation expense for the years ended March 31, 2018 and 2017.

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The following table summarizes activity in the 2009 Plan and the 1999 Plan as of March 31, 2018, including adjustments in connection with the Share Distribution:

	Number of Shares	Weighted Average Exercise Price	Aggregate Intrinsic Value
<b><u>2009 Plan</u></b>			
Balance at March 31, 2015	372,000	\$ 35.24	
Granted			
Exercised	(8,000)	23.37	\$ 221,020
Canceled/Forfeited			
Spin-off adjustments	(1,487)*	NA	
Balance at March 31, 2016	362,513	11.21*	
Granted			
Exercised	(131,252)	11.48	\$ 479,177
Canceled/Forfeited	(24,897)	10.56	
Balance at March 31, 2017	206,364	11.12	
Granted			
Exercised	(10,756)	11.66	\$ 58,081
Canceled/Forfeited			
Balance at March 31, 2018	195,608	\$ 11.09	
<b><u>1999 Plan</u></b>			
Balance at March 31, 2015	16,000	\$ 23.37	
Granted			
Exercised	(15,974)	17.38	\$ 316,241
Canceled/Forfeited			
Spin-off adjustments	(26)*	NA	
Balance at March 31, 2016			
Granted			
Exercised			
Canceled/Forfeited			
Balance at March 31, 2017			
Granted			
Exercised			
Canceled/Forfeited			
Balance at March 31, 2018		\$	\$

Combined Balance at March 31, 2018	195,608	\$ 11.09*	\$
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<b>March 31, 2018</b>	<b>Weighted Average Remaining Contractual Term</b>	<b>Aggregate Intrinsic Value</b>
Outstanding	5.6 years	\$ 1,160,177
Exercisable	5.6 years	\$ 1,092,181

\* 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.

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We recognize compensation cost using the straight-line method for all share-based payments. The fair value of stock options is determined on the date of grant using the Black-Scholes pricing model and is expensed over the requisite service period of the related stock options. Accordingly, for the years ended March 31, 2018, 2017 and 2016, we recognized stock option compensation expense of \$0.2 million, \$0.2 million, and \$0.4 million, respectively, related to the stock options held by our employees and officers. As of March 31, 2018, the total remaining unrecognized compensation expense related to non-vested stock options was \$39 thousand, which will be amortized over the weighted-average vesting period of approximately 0.6 years.

At March 31, 2018, the range of exercise prices was \$7.55 to \$11.66 and the weighted-average remaining contractual life of outstanding options was 5.6 years. The total number of shares of common stock exercisable under both the 2009 Plan and the 1999 Plan at March 31, 2018 was 183,658 shares with a weighted-average exercise price of \$11.07. During the year ended March 31, 2018, no options were granted, 69,272 options vested with a total fair value of approximately \$0.4 million and 10,756 options were exercised with an average exercise price of \$11.66.

At March 31, 2017, the range of exercise prices was \$7.55 to \$11.53 and the weighted-average remaining contractual life of outstanding options was 6.5 years. The total number of options exercisable under both the 2009 Plan and the 1999 Plan at March 31, 2017, was 125,141 shares with a weighted-average exercise price of \$11.12. During the year ended March 31, 2017, no options were granted, 126,594 options vested with a total fair value of approximately \$0.8 million and 131,252 options were exercised with an average exercise price of \$11.48.

**Individual Incentive Awards**

On January 16, 2012, our Board of Directors approved the issuance of 104,000 individual cash incentive awards with a baseline for measuring increases in NAV per share of \$36.74 (NAV at December 31, 2011) to provide deferred compensation to certain key employees. Under the individual cash incentive award agreements, awards vest on the fifth anniversary of the award date. Upon exercise of an individual cash incentive award, the Company pays the recipient a cash payment in an amount equal to the 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 is determined based upon the NAV of CSWC as of June 30, 2015. The remaining terms of each individual 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 March 31, 2018 and the liability for individual cash incentive awards was \$0.3 million at March 31, 2018. During the year ended March 31, 2018, no payments were made. During the year ended March 31, 2017, payments in the amount of \$0.3 million were paid to vested employees. The estimated liability for individual cash incentive awards was \$0.3 million at March 31, 2017.

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There were no individual cash incentive awards vested or granted during the year ended March 31, 2018.

<b>Individual Cash Incentive Awards</b>	<b>Number of Shares</b>	<b>Weighted Average Grant Price Per Share</b>	<b>Weighted Average Remaining Vesting Term (in Years)</b>
Unvested at March 31, 2017	48,000	\$ 47.03	1.6
Granted			
Vested			
Forfeited or expired			
Unvested at March 31, 2018	48,000	\$ 47.03	0.6

**10. OTHER EMPLOYEE COMPENSATION**

We established a 401(k) plan ( 401K Plan ) effective October 1, 2015. All full-time employees are eligible to participate in the 401K Plan. The 401K Plan permits employees to defer a portion of their total annual compensation up to the Internal Revenue Service annual maximum based on age and eligibility. We made contributions to the 401K Plan of up to 4.5% of the Internal Revenue Service s annual maximum eligible compensation, all of which is fully vested immediately. During the year ended March 31, 2018, we made matching contributions of approximately \$128.0 thousand. During the year ended March 31, 2017, we made matching contributions of approximately \$119.0 thousand.

**11. RETIREMENT PLANS**

Until the Share Distribution, CSWC sponsored a qualified defined benefit pension plan which covers its employees and employees of certain of its controlled affiliates. The following information about the plan represents amounts and information related to CSWC s participation in the plan and is presented as though CSWC sponsored a single-employer plan. Benefits were based on years of service and an average of the highest five consecutive years of compensation during the last 10 years of employment. The funding policy of the plan was to contribute annual amounts that are currently deductible for tax reporting purposes. No contribution was made to the plan during the three years ended March 31, 2018. The qualified defined benefit pension plan is closed to any employees hired or rehired on or after January 1, 2015. In connection with the Share Distribution, we entered into an Employee Matters Agreement with CSWI on September 8, 2015. The Employee Matters Agreement was amended and restated on September 14, 2015. Under the Employee Matters Agreement, Capital Southwest Corporation and Capital Southwest Management Corporation withdrew as participating employers in the Plan and CSWI became the Sponsoring Employer of the Qualified Retirement Plan and assumed all the liabilities, assets, and future funding obligations for providing benefits for the covered Participants under the Qualified Retirement Plan.

Additionally, CSWC sponsors an unfunded Retirement Restoration Plan, which is a nonqualified plan that provides for the payment, upon retirement, of the difference between the maximum annual payment permissible under the qualified retirement plan pursuant to federal limitations and the amount which would otherwise have been payable under the qualified plan. Effective September 30, 2015, the benefits accrued under the Restoration Plan on behalf of CSWI employees, including employees who transferred from the Company to CSWI, were transferred to a non-qualified deferred compensation plan established by CSWI. The Company retained all liabilities associated with benefits accrued under the Restoration Plan on behalf of individuals who remain employees of the Company or



Capital Southwest Management Corporation following September 30, 2015 or who terminated employment prior to September 30, 2015 with vested benefits under the Restoration Plan. Unvested accrued benefits under the Restoration Plan were forfeited as of September 30, 2015.

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The following tables set forth the qualified plan's net pension benefit, benefit obligation, fair value of plan assets, and amounts recognized in our Consolidated Statements of Operations at March 31, 2018, 2017 and 2016, as well as amounts recognized in our Consolidated Statements of Assets and Liabilities at March 31, 2018 and 2017 in thousands):

	<b>Years ended March 31,</b>		
	<b>2018</b>	<b>2017</b>	<b>2016</b>
<b>Net pension benefit</b>			
Service cost-benefits earned during the year	\$	\$	\$ 190
Interest cost on projected benefit obligation			173
Expected return on assets			(579)
Net amortization			5
Immediate recognition of benefit cost due to Plan Freeze at 9/30/2015			(72)
<b>Net pension benefit from qualified plan</b>	<b>\$</b>	<b>\$</b>	<b>\$ (283)</b>

	<b>Years ended March 31,</b>		
	<b>2018</b>	<b>2017</b>	<b>2016</b>
<b>Change in benefit obligation</b>			
Benefit obligation at beginning of year	\$	\$	\$ 8,329
Service cost			190
Interest cost			173
Actuarial (gain) loss			(508)
Benefits paid			(172)
Curtailed recognition			(409)
Transferred to CSWI at 9/30/2015			(7,603)
<b>Benefit obligation at end of year</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>

	<b>Years ended March 31,</b>		
	<b>2018</b>	<b>2017</b>	<b>2016</b>
<b>Change in plan assets</b>			
Fair value of plan assets at beginning of year	\$	\$	\$ 18,623
Actual return on plan assets			(315)
Benefits paid			(172)
Transferred to CSWI at 9/30/2015			(18,136)
<b>Fair value of plan assets at end of year</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>

Following the Share Distribution, all plan assets were transferred to CSWI. As such, CSWC did not record any prepaid pension cost or accumulated benefit obligation in connection with the qualified defined benefit pension plan for the years ended March 31, 2018, 2017 and 2016.

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The following tables set forth the retirement restoration plan's net pension benefit and benefit obligation amounts at March 31, 2018, 2017 and 2016, as well as amounts recognized in our consolidated statements of assets and liabilities at March 31, 2018 and 2017:

	<b>Years ended March 31,</b>		
	<b>2018</b>	<b>2017</b>	<b>2016</b>
<b>Net pension cost</b>			
Service cost-benefits earned during the year	\$	\$	\$ 82
Interest cost on projected benefit obligation	116	125	138
Net amortization	48	47	45
Immediate recognition of benefit cost due to Plan Freeze at 9/30/2015			(82)
Net pension cost from restoration plan	\$ 164	\$ 172	\$ 183

	<b>Years ended March 31,</b>		
	<b>2018</b>	<b>2017</b>	<b>2016</b>
<b>Change in benefit obligation</b>			
Benefit obligation at beginning of year	\$ 3,020	\$ 3,061	\$ 3,119
Service cost			82
Interest cost	116	125	138
Actuarial loss	11	41	428
Benefits paid	(210)	(207)	(200)
Curtailement recognition			(329)
Other adjustments			(177)
Benefit obligation at end of year	\$ 2,937	\$ 3,020	\$ 3,061

	<b>Years ended March 31,</b>	
	<b>2018</b>	<b>2017</b>
<b>Amounts recognized in our Consolidated Statements of Assets and Liabilities</b>		
Projected benefit obligation	\$ (2,937)	\$ (3,020)
Net actuarial loss recognized as a component of equity	813	850
Total	\$ (2,124)	\$ (2,170)
Accumulated benefit obligation	\$ (2,937)	\$ (3,020)

The estimated net actuarial loss that will be amortized from equity into net pension cost during 2019 is approximately \$46 thousand.

The following assumptions were used in estimating the actuarial present value of the projected benefit obligations:

	<b>Years ended March 31,</b>		
	<b>2018</b>	<b>2017</b>	<b>2016</b>
Discount rate	4.00%	4.00%	4.25%
Rate of compensation increases	N/A	N/A	5.00%

The following assumptions were used in estimating the net periodic (income)/expense:

	<b>Years ended March 31,</b>		
	<b>2018</b>	<b>2017</b>	<b>2016</b>
Discount rate	4.00%	4.00%	4.25%
Expected return on plan assets	N/A	N/A	N/A
Rate of compensation increases	N/A	N/A	N/A

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Following are the expected benefit payments for the next five years and in the aggregate for the years 2024-2028 (amounts in thousands):

(In thousands)	2019	2020	2021	2022	2023	2024-2028
Restoration Plan	\$ 213	\$ 212	\$ 225	\$ 235	\$ 232	\$ 1,084

**12. COMMITMENTS AND CONTINGENCIES***Commitments*

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

Portfolio Company	Investment Type	March 31,	March 31,
		2018	2017
		(amounts in thousands)	
I-45 SLF LLC	Equity Investment	\$ 3,200	\$ 7,200
Clickbooth.com, LLC	Revolving Loan	2,000	
ITA Holdings Group, LLC	Revolving Loan	2,000	
LGM Pharma, LLC	Delayed Draw Term Loan	900	
Prism Spectrum Holdings LLC	Revolving Loan	1,500	
Zenfolio Inc.	Revolving Loan	2,000	
Total unused commitments to extend financing		\$ 11,600	\$ 7,200

We lease office space under an operating lease which requires annual base rentals of approximately \$250 thousand. For the three years ended March 31, 2018, total rental expense was \$233 thousand in 2018, \$233 thousand in 2017, and \$186 thousand in 2016, and the rent commitments for the next five years as of March 31, 2018 are as follows (amounts in thousands):

Year ending March 31,	Rent Commitment
2019	248
2020	257
2021	266
2022	248
2023	
Thereafter	
Total	\$ 1,019

*Contingencies*

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

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**Table of Contents****13. SELECTED QUARTERLY FINANCIAL DATA (UNAUDITED)**

The following presents a summary of the unaudited quarterly consolidated financial information for the years ended March 31, 2018 and 2017 (in thousands except per share amounts):

<b>2018</b>	<b>First Quarter</b>	<b>Second Quarter</b>	<b>Third Quarter</b>	<b>Fourth Quarter</b>	<b>Total</b>
Net investment income	\$ 3,436	\$ 3,937	\$ 4,663	\$ 4,197	\$ 16,233
Net realized gain on investments	624	210	617	131	1,582
Net change in unrealized appreciation on investments, net of tax	1,384	4,496	4,963	10,649	21,492
Net increase in net assets from operations	5,444	8,643	10,243	14,977	39,307
Net investment income per share	0.21	0.25	0.29	0.26	1.01
Net increase in net assets from operations per share	0.34	0.54	0.64	0.93	2.45
<b>2017</b>	<b>First Quarter</b>	<b>Second Quarter</b>	<b>Third Quarter</b>	<b>Fourth Quarter</b>	<b>Total</b>
Net investment income	\$ 371	\$ 1,365	\$ 2,873	\$ 3,279	\$ 7,888
Net realized gain on investments	199	3,527	72	4,098	7,896
Net change in unrealized appreciation on investments, net of tax	2,127	2,026	4,940	(1,403)	7,690
Net increase in net assets from operations	2,697	6,918	7,885	5,974	23,474
Net investment income per share	0.02	0.09	0.18	0.21	0.50
Net increase in net assets from operations per share	0.17	0.44	0.50	0.37	1.48

**14. RELATED PARTY TRANSACTIONS**

As a BDC, we are obligated under the 1940 Act to make available to our portfolio companies significant managerial assistance. Making available significant managerial assistance refers to any arrangement whereby we provide significant guidance and counsel concerning the management, operations, or business objectives and policies of a portfolio company. We are also deemed to be providing managerial assistance to all portfolio companies that we control, either by ourselves or in conjunction with others. The nature and extent of significant managerial assistance provided by us will vary according to the particular needs of each portfolio company. During both the years ended March 31, 2018 and 2017, we received management and other fees from certain of our portfolio companies totaling \$0.4 million, which were recognized as fees and other income on the Consolidated Statements of Operations. Additionally, as of March 31, 2018 and 2017, we had dividends receivable from I-45 SLF LLC of \$2.2 million and \$2.1 million, respectively, which were included in dividends and interest receivables on the Consolidated Statements of Assets and Liabilities.

**15. SUBSEQUENT EVENTS**

On April 2, 2018, CSWC paid regular dividends declared on February 28, 2018 in the amount of \$4.5 million, or \$0.28 per share.



On April 16, 2018 and May 11, 2018, CSWC entered into Incremental Assumption Agreements, which increased the total commitments under the Credit Facility by \$20 million and \$10 million, respectively. The increases were executed under the accordion feature of the Credit Facility and increased total commitments from \$180 million to \$210 million.

On April 25, 2018, the Board of Directors unanimously approved the application of the recently modified asset coverage requirements set forth in Section 61(a)(2) of the 1940 Act. As a result, the minimum asset coverage ratio applicable to the Company will be decreased from 200% to 150%, effective April 25, 2019. The Board of Directors also approved a resolution which limits the Company's issuance of senior securities such that the asset coverage ratio, taking into account any such issuance, would not be less than 166%, effective April 25, 2019.

On June 1, 2018, the Company's Board of Directors declared a \$0.29 dividend per share for the quarter ended June 30, 2018. The record date for the dividend is June 26, 2018. The payment date for the dividend is July 2, 2018.

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**Table of Contents****16. SELECTED PER SHARE DATA AND RATIOS**

The following presents a summary of the selected per share data for the years ended March 31, 2014 through 2018 (in thousands except per share amounts):

<b>Per Share Data:</b>	<b>Years Ended March 31,</b>				
	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>
Investment income <sup>1</sup>	\$ 2.18	\$ 1.48	\$ 0.58	\$ 0.64	\$ 0.82
Operating expenses <sup>1</sup>	(1.16)	(0.87)	(1.34)	(0.78)	(0.55)
Income taxes <sup>1</sup>	(0.01)	(0.11)	0.08	(0.02)	0.05
Net investment income (loss) <sup>1</sup>	1.01	0.50	(0.68)	(0.16)	0.32
Net realized gain (loss) <sup>1</sup>	0.10	0.50	(0.88)	7.06	0.66
Net change in unrealized appreciation on investments <sup>1</sup>	1.34	0.49	1.02	(6.96)	6.04
Total increase (decrease) from investment operations	2.45	1.49	(0.54)	(0.06)	7.02
Dividends to shareholders	(0.99)	(0.79)	(0.14)	(0.20)	(0.20)
Distribution from additional capital for spin-off			(1.67)		
Spin-off Compensation Plan distribution, net of tax	(0.03)	(0.08)	(0.08)		
Decrease in unrealized appreciation due to distributions to CSWI			(29.15)		
Exercise of employee stock options <sup>2</sup>	0.01	(0.09)	0.03	(0.04)	(0.18)
Forfeiture (issuance) of restricted stock <sup>3</sup>	(0.18)	(0.15)	(0.49)	(0.40)	
Share based compensation expense	0.11	0.08	0.08	0.07	(0.04)
Common stock withheld for payroll taxes upon vesting of restricted stock	(0.01)				
Repurchase of common stock	(0.04)				
Net change in pension plan funded status	(0.05)			(0.05)	0.08
Other <sup>4</sup>	0.01				
Increase (decrease) in net asset value	1.28	0.46	(31.96)	(0.68)	6.68
Net asset value					
Beginning of year	17.80	17.34	49.30	49.98	43.30
End of year	\$ 19.08	\$ 17.80	\$ 17.34	\$ 49.30	\$ 49.98
<b>Ratios and Supplemental Data</b>					
Ratio of operating expenses, excluding interest expense, to average net assets <sup>5</sup>	4.70%	4.59%	4.48%	1.59%	1.18%
Ratio of net investment income to average net assets	5.51%	2.83%	(2.27)%	(0.32)%	0.68%

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Portfolio turnover	25.42%	23.57%	4.20%	0.93%	1.76%
Total investment return <sup>6</sup>	6.61%	27.88%	(20.71)%	8.40%	16.90%
Total return based on change in NAV <sup>7</sup>	12.75%	7.21%	(2.15)%	(0.96)%	15.89%
Per share market value at end of year	\$ 17.02	\$ 16.91	\$ 13.87	\$ 46.42	\$ 34.72
Weighted-average basic shares outstanding	16,074	15,825	15,636	15,492	15,278
Weighted-average fully diluted shares outstanding	16,139	15,877	15,724	15,531	15,298
Common shares outstanding at end of year	16,162	16,011	15,726	15,565	15,414

<sup>1</sup> Based on weighted-average basic shares outstanding for the period.

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

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

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- 4 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.
- 5 Amounts for fiscal 2015 and 2014 are based on average net assets prior to the Share Distribution.
- 6 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 DRIP during the period. The return does not reflect any sales load that may be paid by an investor.
- 7 Total return based on change in NAV was calculated using the sum of ending NAV plus dividends to shareholders and other non-operating changes during the period, as divided by the beginning NAV.

**17. SIGNIFICANT SUBSIDIARIES****Media Recovery Inc.**

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

At March 31, 2018, our investment in Media Recovery, Inc. exceeded the 10% threshold in at least one of the tests under Rule 4-08(g) of Regulation S-X. At March 31, 2018, our investment in Media Recovery, Inc. did not exceed the 20% threshold in at least one of the tests under Rule 3-09. However, our investment in Media Recovery, Inc. did exceed the 20% threshold in at least one of the tests under Rule 3-09 as of March 31, 2017. Accordingly, we will amend this Form 10-K to include the financial statements of Media Recovery, Inc. once they are available. At March 31, 2017, our investment in Media Recovery, Inc. exceeded the 10% and 20% thresholds in at least one of the tests under Rule 3-09 and Rule 4-08(g). Accordingly, we amended our Form 10-K for the fiscal year ended March 31, 2017 to include the financial statements of Media Recovery, Inc. in December 2017, within 90 days of Media Recovery, Inc.'s fiscal year end.

Below is certain selected key financial data from its Balance Sheet at March 31, 2018 and 2017 and the twelve months ended March 31, 2018, 2017 and 2016 Income Statement (amounts in thousands).

	<b>March 31, 2018</b>	<b>March 31, 2017</b>
Current Assets	\$ 8,391	\$ 9,935
Non-Current Assets	24,727	23,173
Current Liabilities	2,559	2,083
Non-Current Liabilities	2,228	2,396

	<b>Twelve Months Ended March 31,</b>		
	<b>2018</b>	<b>2017</b>	<b>2016</b>
Revenue	\$ 22,242	\$ 19,571	\$ 20,765
Income from continuing operations	2,673	1,100	591
Net income	2,673	1,100	472

**TitanLiner, Inc.**

TitanLiner, Inc. engages in the manufacture, installation and rental of spill containment systems for oilfield applications.

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At March 31, 2018, our investment in TitanLiner, Inc. exceeded the 10% and 20% thresholds in at least one of the tests under Rule 3-09 and Rule 4-08(g) of Regulation S-X. Accordingly, we have included as an exhibit to this Form 10-K the financial statements of TitanLiner, Inc.

Below is certain selected key financial data from its Balance Sheet at March 31, 2018 and 2017 and the twelve months ended March 31, 2018, 2017 and 2016 Income Statement (amounts in thousands).

	<b>March 31, 2018</b>	<b>March 31, 2017</b>	
Current Assets	\$ 8,633	\$ 5,712	
Non-Current Assets	3,597	2,277	
Current Liabilities	2,300	1,709	
Non-Current Liabilities	1,486	1,638	
	<b>Twelve Months Ended March 31,</b>		
	<b>2018</b>	<b>2017</b>	<b>2016</b>
Revenue	\$ 17,455	\$ 9,963	\$ 10,885
Income from continuing operations	3,150	(281)	(1,360)
Net income	3,150	(281)	(1,360)

**I-45 SLF LLC**

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

As of March 31, 2018 and 2017, I-45 SLF LLC had total assets of \$223.4 million and \$216.2 million, respectively. I-45 SLF LLC had approximately \$220.8 million and \$200.2 million of credit investments at fair value as of March 31, 2018 and 2017, respectively. The portfolio companies in I-45 SLF LLC are in industries similar to those in which CSWC may invest directly. As of March 31, 2018 and 2017, approximately \$3.2 million and \$11.8 million, respectively, of the credit investments were unsettled trades. For the years ended March 31, 2018 and 2017, I-45 SLF LLC declared total dividends of \$11.9 million and \$9.1 million, respectively.

Additionally, I-45 SLF LLC closed on a \$75.0 million 5-year senior secured credit facility (the I-45 credit facility) in November 2015. This facility includes an accordion feature which will allow I-45 SLF LLC to achieve leverage of approximately 2x debt-to-equity. Borrowings under the facility are secured by all of the assets of I-45 SLF LLC and bear interest at a rate equal to LIBOR plus 2.5% per annum. During the year ended March 31, 2017, I-45 SLF LLC increased debt commitments outstanding by an additional \$90.0 million by adding three additional lenders to the syndicate, bringing total debt commitments to \$165.0 million. In July 2017, the I-45 credit facility was amended to extend the maturity to July 2022. Additionally, the amendment reduced the interest rate on borrowings to LIBOR plus 2.4% per annum. Under the I-45 credit facility, \$143.0 million has been drawn as of March 31, 2018.

Below is a summary of I-45 SLF LLC 's portfolio, followed by a listing of the individual loans in I-45 SLF LLC 's portfolio as of March 31, 2018 and 2017:

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**Table of Contents****I-45 SLF LLC Loan Portfolio as of March 31, 2018**

Portfolio Company	Industry	Investment Type	Maturity Date	Current Interest Rate <sup>1</sup>	Principal	Cost	Fair Value <sup>2</sup>
AAC Holdings, Inc.	Healthcare services	First Lien	6/30/2023	L+ 6.75% (Floor 1.00%)	\$ 7,568,046	\$ 7,413,688	7,700,487
American Scaffold Holdings, Inc.	Aerospace & defense	First Lien	3/31/2022	L+6.50% (Floor 1.00%)	2,775,000	2,746,293	2,761,125
American Teleconferencing Services, Ltd.	Telecommunications	First Lien	12/8/2021	L+6.50% (Floor 1.00%)	7,287,370	6,938,866	7,285,548
Ansira Holdings, Inc. <sup>3</sup>	Business services	First Lien	12/20/2022	L+6.50% (Floor 1.00%)	3,878,182	3,847,470	3,868,486
		Delayed Draw	12/20/2022	L+6.50% (Floor 1.00%)	315,316	310,799	314,527
ATI Investment Sub, Inc.	Technology products & components	First Lien	6/22/2021	L+7.25% (Floor 1.00%)	3,557,227	3,503,722	3,552,781
ATX Canada Acquisitionco Inc.	Technology products & components	First Lien	6/11/2021	L+6.00% (Floor 1.00%)	4,836,742	4,801,504	4,498,170
Beaver-Visitec International Holdings, Inc.	Healthcare products	First Lien	8/21/2023	L+5.00% (Floor 1.00%)	4,925,000	4,886,584	4,949,625
California Pizza Kitchen, Inc.	Restaurants	First Lien	8/23/2022	L+6.00% (Floor 1.00%)	6,899,937	6,863,761	6,775,739
Chloe Ox Parent, LLC (Censeo Health)	Healthcare services	First Lien	12/31/2024	L+5.00% (Floor 1.00%)	5,200,000	5,149,500	5,265,000
CMN.com, LLC	Consumer services	First Lien	11/3/2021	L+6.00% (Floor 1.00%)	8,742,126	8,645,306	8,742,126
Digital River, Inc.	Software & IT services	First Lien	2/12/2021	L+6.50% (Floor 1.00%)	8,002,967	7,995,112	8,002,967
Go Wireless Holdings, Inc.	Retail	First Lien	12/31/2024	L+6.50% (Floor 1.00%)	6,912,500	6,845,573	6,903,859
Highline Aftermarket Acquisition, LLC	Automobile	First Lien	3/17/2024	L+4.25% (Floor 1.00%)	2,856,595	2,844,340	2,860,166
Hunter Defense Technologies, Inc.	Aerospace & defense	First Lien	3/29/2023	L+7.00% (Floor 1.00%)	6,500,000	6,370,152	6,370,152
iEnergizer Limited	Business services	First Lien	5/1/2019	L+6.00% (Floor 1.25%)	6,550,375	6,421,048	6,558,563
Imagine! Print Solutions, LLC	Media, marketing & entertainment	Second Lien	6/21/2023	L+8.75% (Floor 1.00%)	3,000,000	2,960,563	2,760,000



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**Table of Contents****I-45 SLF LLC Loan Portfolio as of March 31, 2018 (continued)**

<b>Portfolio Company</b>	<b>Industry</b>	<b>Investment Type</b>	<b>Maturity Date</b>	<b>Current Interest Rate<sup>1</sup></b>	<b>Principal</b>	<b>Cost</b>	<b>Fair Value<sup>2</sup></b>
InfoGroup Inc.	Software & IT services	First Lien	4/3/2023	L+5.00% (Floor 1.50%)	2,970,000	2,945,028	2,957,021
Integro Parent Inc.	Business services	First Lien	10/31/2022	L+5.75% (Floor 1.00%)	4,888,924	4,768,810	4,888,924
iPayment Holdings, Inc.	Financial services	First Lien	4/11/2023	L+5.00% (Floor 1.50%)	4,987,500	4,987,500	5,049,844
KeyPoint Government Solutions, Inc.	Business services	First Lien	4/18/2024	L+6.00% (Floor 1.00%)	4,750,000	4,708,981	4,750,000
LOGIX Holdings Company, LLC	Telecommunications	First Lien	12/22/2024	L+5.75% (Floor 1.00%)	4,528,716	4,484,992	4,551,360
LSF9 Atlantis Holdings, LLC	Telecommunications	First Lien	5/1/2023	L+6.00% (Floor 1.00%)	6,868,750	6,810,137	6,854,429
Lulu s Fashion Lounge, LLC	Consumer products & retail	First Lien	8/23/2022	L+7.00% (Floor 1.00%)	4,374,999	4,254,636	4,506,249
NBG Acquisition, Inc.	Wholesale	First Lien	4/26/2024	L+5.50% (Floor 1.00%)	2,962,500	2,911,071	2,973,609
New Media Holdings II LLC	Media, marketing & entertainment	First Lien	7/14/2022	L+6.25% (Floor 1.00%)	8,822,598	8,799,522	8,880,518
Peraton Corp. (fka MHVC Acquisition Corp.)	Aerospace & defense	First Lien	4/29/2024	L+5.25% (Floor 1.00%)	4,960,013	4,938,405	5,022,013
Pet Supermarket, Inc.	Consumer products & retail	First Lien	7/5/2022	L+5.50% (Floor 1.00%)	4,925,000	4,889,928	4,900,375
Polycom, Inc.	Telecommunications	First Lien	9/27/2023	L+5.25% (Floor 1.00%)	5,234,833	5,234,833	5,287,182
Prepaid Legal Services, Inc.	Consumer services	First Lien	7/1/2019	L+5.25% (Floor 1.25%)	3,860,938	3,859,187	3,860,938
		Second Lien	7/1/2020	L+9.00% (Floor 1.25%)	405,000	398,614	405,000
PT Network, LLC <sup>4</sup>	Healthcare products	First Lien	11/30/2021	L+6.50% (Floor 1.00%)	4,425,133	4,425,133	4,425,133
Redwood Ahead Acquisition, LLC	Business services	First Lien	11/2/2020	L+ 6.50%	2,811,484	2,767,547	2,829,056

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**Table of Contents****I-45 SLF LLC Loan Portfolio as of March 31, 2018 (continued)**

<b>Portfolio Company</b>	<b>Industry</b>	<b>Investment Type</b>	<b>Maturity Date</b>	<b>Current Interest Rate<sup>1</sup></b>	<b>Principal</b>	<b>Cost</b>	<b>Fair Value<sup>2</sup></b>
Solaray, LLC <sup>5</sup>	Consumer services	First Lien	9/8/2023	L+6.50% (Floor 1.00%)	6,308,205	6,263,089	6,308,205
		Delayed Draw	9/8/2023	L+6.50% (Floor 1.00%)	1,784,890	1,768,866	1,784,890
Tacala, LLC	Consumer products & retail	Second Lien	1/31/2026	L+7.00%	3,000,000	2,985,089	3,063,765
Teleguam Holdings, LLC	Telecommunications	Second Lien	4/12/2024	L+8.50% (Floor 1.00%)	2,000,000	1,963,812	2,015,000
Terra Millennium Corporation	Industrial products	First Lien	10/31/2022	L+6.25% (Floor 1.00%)	7,776,019	7,715,978	7,834,339
TestEquity, LLC	Capital equipment	First Lien	4/28/2022	L+5.50% (Floor 1.00%)	4,952,674	4,911,727	4,952,674
TGP Holdings III LLC <sup>6</sup>	Durable consumer goods	First Lien	9/25/2024	L+5.00% (Floor 1.00%)	1,720,169	1,701,604	1,736,296
		Second Lien	9/25/2025	L+8.50% (Floor 1.00%)	2,500,000	2,464,804	2,537,500
Time Manufacturing Acquisition	Capital equipment	First Lien	2/3/2023	L+5.00% (Floor 1.00%)	4,947,519	4,908,622	4,935,150
Turning Point Brands, Inc.	Consumer products & retail	Second Lien	3/7/2024	L+7.00% (Floor 1.00%)	3,000,000	2,970,120	3,060,000
UniTek Global Services, Inc.	Telecommunications	First Lien	1/13/2019	L+8.50% (Floor 1.00%)	4,584,809	4,584,809	4,584,809
US Joiner Holding Company (IMECO and RAACI)	Transportation & logistics	First Lien	4/16/2020	L+6.00% (Floor 1.00%)	4,459,182	4,425,102	4,436,886
U.S. TelePacific Corp.	Telecommunications	First Lien	5/2/2023	L+5.00% (Floor 1.00%)	7,643,991	7,550,843	7,441,425
VIP Cinema Holdings, Inc.	Hotel, gaming & leisure	First Lien	3/1/2023	L+6.00% (Floor 1.00%)	4,750,000	4,730,480	4,804,934
<b>Total Investments</b>						\$ 218,673,548	\$ 220,806,845

<sup>1</sup> Represents the interest rate as of March 31, 2018. All interest rates are payable in cash, unless otherwise noted. The majority of investments bear interest at a rate that may be determined by reference to London Interbank Offered Rate ( LIBOR or L ) or Prime ( Prime ) which reset daily, monthly, quarterly, or semiannually. For each the Company has provided the spread over LIBOR or Prime in effect at March 31, 2018. Certain investments are subject to a LIBOR or Prime interest rate floor.



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**I-45 SLF LLC Loan Portfolio as of March 31, 2018 (continued)**

- <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.
- <sup>3</sup> The investment has approximately \$0.3 million in an unfunded delayed draw commitment as of March 31, 2018.
- <sup>4</sup> The investment has approximately \$2.1 million in an unfunded delayed draw commitment as of March 31, 2018.
- <sup>5</sup> The investment has approximately \$0.9 million in an unfunded delayed draw commitment as of March 31, 2018.
- <sup>6</sup> The investment has approximately \$0.3 million in an unfunded delayed draw commitment as of March 31, 2018.

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**Table of Contents****I-45 SLF LLC Loan Portfolio as of March 31, 2017**

<b>Portfolio Company</b>	<b>Industry</b>	<b>Investment Type</b>	<b>Maturity Date</b>	<b>Current Interest Rate<sup>1</sup></b>	<b>Principal</b>	<b>Cost</b>	<b>Fair Value<sup>2</sup></b>
Ahead, LLC	Business services	First Lien	11/2/2020	L+ 6.50%	\$ 4,687,500	\$ 4,585,980	4,640,625
American Scaffold Holdings	Aerospace & defense	First Lien	3/31/2022	L+6.50% (Floor 1.00%)	2,925,000	2,887,177	2,910,375
American Teleconferencing	Telecommunications	First Lien	12/8/2021	L+6.50% (Floor 1.00%)	5,711,302	5,243,687	5,700,451
		Second Lien	6/6/2022	L+9.50% (Floor 1.00%)	1,708,571	1,643,620	1,674,400
Ansira Partners	Business services	First Lien	12/31/2022	L+6.50% (Floor 1.00%)	4,500,000	3,884,092	3,893,523
Array Technologies	Technology products & components	First Lien	6/22/2021	L+7.25% (Floor 1.00%)	4,625,000	4,542,126	4,613,437
ATX Networks Corp.	Technology products & components	First Lien	6/12/2021	L+6.00% (Floor 1.00%)	4,924,812	4,877,593	4,875,564
Beaver-Visitec International	Healthcare products	First Lien	8/21/2023	L+5.00% (Floor 1.00%)	4,975,000	4,928,997	4,975,000
California Pizza Kitchen	Food, agriculture & beverage	First Lien	8/23/2022	L+6.00% (Floor 1.00%)	6,969,987	6,925,133	6,971,381
CMN.com (Higher Education)	Consumer services	First Lien	10/15/2021	L+6.00% (Floor 1.00%)	6,912,500	6,785,531	6,785,531
Contextmedia	Media, marketing & entertainment	First Lien	12/31/2021	L+6.50% (Floor 1.00%)	1,975,000	1,787,489	1,975,000
Digital River	Software & IT services	First Lien	2/12/2021	L+6.50% (Floor 1.00%)	7,015,452	6,988,236	7,050,529
Digital Room Highline	Paper & forest products	Second Lien	5/28/2023	L+10.00% (Floor 1.00%)	4,000,000	3,924,128	3,924,128
Aftermarket Hunter Defense Technologies	Automobile Aerospace & defense	First Lien	3/17/2024	L+4.25% (Floor 1.00%)	3,000,000	2,985,000	3,033,900
		First Lien	8/5/2019	L+6.00% (Floor 1.00%)	2,703,947	2,697,208	2,514,671
ICSH, Inc.	Containers & packaging	First Lien	12/31/2018	L+5.75% (Floor 1.00%)	6,698,007	6,670,865	6,685,051
iEnergizer	Business services	First Lien	5/1/2019	L+6.00% (Floor 1.25%)	6,567,046	6,217,720	6,542,748

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**Table of Contents****I-45 SLF LLC Loan Portfolio as of March 31, 2017 (continued)**

Portfolio Company	Industry	Investment Type	Maturity Date	Current Interest Rate <sup>1</sup>	Principal	Cost	Fair Value <sup>2</sup>
IG Investments Holdings	Business services	First Lien	10/31/2021	L+5.00% (Floor 1.00%)	2,480,470	2,469,439	2,507,856
Imagine! Print Solutions	Media, marketing & entertainment	First Lien	3/30/2022	L+6.00% (Floor 1.00%)	3,565,489	3,526,760	3,610,057
InfoGroup Inc.	Software & IT services	First Lien	5/28/2018	L+5.50% (Floor 1.50%)	5,913,550	5,813,451	5,907,637
		First Lien		L+5.00% (Floor 1.50%)	3,000,000	2,970,000	2,970,000
Integro Parent Inc.	Business services	First Lien	11/2/2022	L+5.75% (Floor 1.00%)	4,938,924	4,790,756	4,963,618
iPayment, Inc.	Financial services	First Lien	5/8/2017	L+5.25% (Floor 1.50%)	6,964,029	6,947,920	6,929,209
LTI Holdings, Inc.	Industrial products	First Lien	4/17/2022	L+4.25% (Floor 1.00%)	1,974,874	1,780,886	1,974,874
Mood Media Corporation	Business services	First Lien	5/1/2019	L+6.00% (Floor 1.00%)	4,503,289	4,427,043	4,483,024
MWI Holdings	Industrial products	First Lien	6/29/2020	L+5.50% (Floor 1.00%)	4,962,500	4,921,442	5,006,170
New Media Holdings II LLC	Media, marketing & entertainment	First Lien	6/4/2020	L+6.25% (Floor 1.00%)	6,901,894	6,886,200	6,867,385
Northstar Travel	Media, marketing & entertainment	First Lien	6/7/2022	L+6.25% (Floor 1.00%)	4,090,625	4,036,655	4,070,172
PetValu	Consumer products & retail	First Lien	7/5/2022	L+5.50% (Floor 1.00%)	4,975,000	4,931,261	4,987,438
Pike Corp.	Utilities	Second Lien	8/30/2024	L+8.00% (Floor 1.00%)	1,000,000	990,000	1,017,500
Polycom	Telecommunications	First Lien	9/27/2023	L+6.50% (Floor 1.00%)	6,445,833	6,445,833	6,547,678
Prepaid Legal Services, Inc.	Consumer services	First Lien	7/1/2019	L+5.25% (Floor 1.25%)	4,474,279	4,470,626	4,507,836
		Second Lien	7/1/2020	L+9.00% (Floor 1.25%)	405,000	395,663	407,349
PT Network	Healthcare products	First Lien	11/30/2021	L+6.50% (Floor 1.00%)	4,990,972	3,883,735	3,883,735

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**Table of Contents****I-45 SLF LLC Loan Portfolio as of March 31, 2017 (continued)**

Portfolio Company	Industry	Investment Type	Maturity Date	Current Interest Rate <sup>1</sup>	Principal	Cost	Fair Value <sup>2</sup>
Redbox Automated Retail	Gaming & leisure	First Lien	9/27/2021	L+7.50% (Floor 1.00%)	6,125,000	5,958,692	6,132,963
Safe Guard	Automobile	First Lien	3/31/2024	L+5.00% (Floor 1.00%)	3,250,000	3,152,500	3,225,625
Sigma Electric	Industrial products	First Lien	8/31/2021	L+7.50% (Floor 1.00%)	5,000,000	4,886,637	4,886,637
SRP Companies	Consumer services	First Lien	9/8/2023	L+6.50% (Floor 1.00%)	5,152,273	5,106,492	5,132,212
TaxACT	Financial services	First Lien	12/31/2022	L+6.00% (Floor 1.00%)	1,269,915	1,238,463	1,269,915
Terra Millennium Time	Industrial products	First Lien	11/23/2022	L+6.25% (Floor 1.00%)	6,956,250	6,889,423	6,956,250
Manufacturing	Capital Equipment	First Lien	2/10/2022	L+5.00% (Floor 1.00%)	3,000,000	2,985,343	2,985,343
Turning Point Brands	Retail	First Lien	12/31/2021	L+6.00% (Floor 1.00%)	5,000,000	4,950,846	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	2,525,531
US Joiner (IMECO and RAACI)	Transportation & logistics	First Lien	4/16/2020	L+6.00% (Floor 1.00%)	4,791,601	4,737,062	4,767,643
VIP Cinema	Hotel, gaming & leisure	First Lien	3/31/2023	L+6.00% (Floor 1.00%)	5,000,000	4,975,275	5,059,500
Water Pik, Inc.	Consumer products & retail	First Lien	7/8/2020	L+4.75% (Floor 1.00%)	1,137,090	1,135,097	1,139,478
		Second Lien	1/8/2021	L+8.75% (Floor 1.00%)	1,789,474	1,756,683	1,802,895
Total Investments						\$ 197,494,528	\$ 200,242,690

<sup>1</sup> Represents the interest rate as of March 31, 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 ( Prime ) which reset daily, monthly, quarterly, or semiannually. For each the Company has provided the spread over LIBOR or Prime in effect at March 31, 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 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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At March 31, 2018, our investment in I-45 SLF LLC exceeded the 10% threshold in at least one of the tests under Rule 4-08(g) of Regulation S-X. At March 31, 2018, our investment in I-45 SLF LLC did not exceed the 20% threshold in at least one of the tests under Rule 3-09. However, our investment in I-45 SLF LLC did exceed the 20% threshold in at least one of the tests under Rule 3-09 as of March 31, 2017. Accordingly, we have included as an exhibit to this Form 10-K the financial statements of I-45 SLF LLC. Below is certain summarized financial information for I-45 SLF LLC as of March 31, 2018 and 2017 and for the years ended March 31, 2018 and 2017 and for the period from September 3, 2015 (the date of incorporation) to March 31, 2016 (amounts in thousands):

	March 31, 2018	March 31, 2017
<b>Selected Balance Sheet Information:</b>		
Investments, at fair value (cost \$218,674 and \$197,495)	\$ 220,807	\$ 200,243
Cash and cash equivalents	9,317	12,093
Due from broker	330	1,732
Deferred financing costs	2,111	1,659
Interest receivable	813	474
<b>Total assets</b>	<b>\$ 233,378</b>	<b>\$ 216,201</b>
Senior credit facility payable	\$ 143,000	\$ 122,000
Payable for unsettled transactions	3,213	11,795
Other liabilities	3,119	2,988
<b>Total liabilities</b>	<b>\$ 149,332</b>	<b>\$ 136,783</b>
Members' equity	84,046	79,418
<b>Total liabilities and net assets</b>	<b>\$ 233,378</b>	<b>\$ 216,201</b>

	Year Ended March 31, 2018	Year Ended March 31, 2017	Period from September 3, 2015 (date of incorporation) to March 31, 2016
<b>Selected Statement of Operations Information:</b>			
Total revenues	\$ 17,066	\$ 12,542	\$ 2,401
Total expenses	6,613	4,400	689
Net investment income	10,453	8,142	1,712
Net unrealized appreciation (depreciation)	(615)	3,370	(621)
Net realized gains	1,660	1,653	42
<b>Net increase in members' equity resulting from operations</b>	<b>\$ 11,498</b>	<b>\$ 13,165</b>	<b>\$ 1,133</b>



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SCHEDULE 12-14

**Schedule of Investments in and Advances to Affiliates**

(In thousands)

Portfolio Company	Type of Investment <sup>(1)</sup>	Amount of Interest or Dividends Credited in Income <sup>(2)</sup>	Amount of Fair Value at March 31, 2017	Amount of Realized Gain/ (Loss)	Amount of Unrealized Gain/ (Loss)	Gross Additions <sup>(3)</sup>	Fair Value at March 31, 2018
<b>Control Investments</b>							
<b>I-45 SLF LLC</b>	80% LLC equity interest	\$ 8,973	\$ 63,395	\$	\$ (282)	\$ 4,000	\$ 67,113
<b>Prism Spectrum Holdings, LLC</b>							
	First lien	78				4,241	4,241
	Revolving loan	4				490	490
	57.25 Class A units					1,692	1,692
<b>Media Recovery, Inc.</b>							
	800,000 shares Series A Convertible Preferred Stock, convertible into 800,000 shares common stock	460	5,590		781		6,371
	4,000,002 shares common stock	2,653	32,249		4,502		36,751
<b>TitanLiner</b>							
	1,189,609 shares Series B convertible preferred stock (6% PIK)	168	2,777		8,418	167	11,362
	339,277 shares Series A convertible preferred stock				11,928		11,928
<b>Total Control Investments</b>		\$ 12,336	\$ 104,011	\$	\$ 25,347	\$ 10,590	\$ 139,948

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Portfolio Company	Type of Investment <sup>(1)</sup>	Amount of Interest or Dividends Credited in Income <sup>(2)</sup>	Fair Value at March 31, 2017	Amount of Realized Gain/ (Loss)	Amount of Unrealized Gain/ (Loss)	Gross Additions <sup>(3)</sup>	Fair Value at March 31, 2018
<b>Affiliate Investments</b>							
<b>Chandler Signs, LP</b>	Senior subordinated debt (12.00% cash)	\$ 577	\$ 4,477	\$	\$ (127)	\$ 26	\$ 4,376
	1,500,000 units of Class A-1 common stock		2,661		(727)		1,934
<b>Elite SEM, Inc.</b>	First lien	1,747			396	17,104	17,500
	1,089 Preferred units	127			643	1,236	1,879
<b>ITA Holdings Group, LLC</b>	First lien	129				9,314	9,314
	Revolving loan	2			10	(10)	
	Delayed draw term loan	3				1,470	1,470
	9.25% Class A membership interest					1,500	1,500
<b>Zenfolio Inc.</b>	First lien	1,046			125	13,200	13,325
	Revolving loan	9			17	(17)	
	190 shares of common stock					1,900	1,900
<b>Investments not held at the end of the period</b>				90			
<b>Total Affiliate Investments</b>		\$ 3,640	\$ 7,138	\$ 90	\$ 337	\$ 45,723	\$ 53,198
<b>Total Control &amp; Affiliate Investments</b>		\$ 15,976	\$ 111,149	\$ 90	\$ 25,684	\$ 56,313	\$ 193,146

This schedule should be read in conjunction with our Consolidated Financial Statements, including the Consolidated Schedules of Investments and Notes to Consolidated Financial Statements.

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

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**Independent Auditor's Report**

Board of Managers

I-45 SLF LLC

**Report on the Financial Statements**

We have audited the accompanying consolidated financial statements of I-45 SLF LLC and its subsidiary, which comprise the consolidated statements of assets, liabilities and members' equity, including the consolidated schedules of investments, as of March 31, 2018 and 2017, the related consolidated statements of operations, changes in members' equity and cash flows for the years ended March 31, 2018 and 2017, and for the period from September 3, 2015 (date of incorporation) to March 31, 2016, and the related notes to the consolidated financial statements (collectively, the financial statements).

**Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

**Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of I-45 SLF LLC and its subsidiary as of March 31, 2018 and 2017, and the results of their operations, and their cash flows for the years ended March 31, 2018 and 2017 and for the period from September 3, 2015 (date of incorporation) to March 31, 2016 in accordance with accounting principles generally accepted in the United States of America.

/s/ RSM US LLP

Chicago, Illinois

May 17, 2018

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**I-45 SLF LLC**

**Consolidated Statements of Assets, Liabilities**

**and Members' Equity**

	<b>March 31,</b>	
	<b>2018</b>	<b>2017</b>
<b>Assets</b>		
Investments, at fair value (cost \$218,673,548 and \$197,494,528, respectively)		