

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**
Washington, D.C. 20549
FORM 10-Q

(Mark One)

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

For the quarterly period ended **September 30, 2017**

OR

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

For the transition period fromto

Commission File Number: **814-00061**

CAPITAL SOUTHWEST CORPORATION

(Exact name of registrant as specified in its charter)

Texas

(State or other jurisdiction of incorporation
or organization)

75-1072796

(I.R.S. Employer
Identification No.)

**5400 Lyndon B Johnson Freeway, Suite 1300, Dallas,
Texas**

(Address of principal executive offices)

75240

(Zip Code)

Registrant's telephone number, including area code: (214) 238-5700

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such filings). Yes No

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

Large accelerated filer <input type="checkbox"/>	Accelerated filer <input checked="" type="checkbox"/>	Non-accelerated filer <input type="checkbox"/>	Smaller reporting company <input type="checkbox"/>	Emerging growth company <input type="checkbox"/>
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(Do not check if a smaller reporting company)

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

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

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

16,019,296 shares of Common Stock, \$0.25 value per share, as of November 3, 2017.

TABLE OF CONTENTS

		<u>Page</u>
PART I	FINANCIAL INFORMATION	
Item 1.	Consolidated Financial Statements	3
	Consolidated Statements of Assets and Liabilities as of September 30, 2017 (Unaudited) and March 31, 2017	3
	Consolidated Statements of Operations (Unaudited) for the three and six months ended September 30, 2017 and 2016	4
	Consolidated Statements of Changes in Net Assets (Unaudited) for the six months ended September 30, 2017 and 2016	5
	Consolidated Statements of Cash Flows (Unaudited) for the six months ended September 30, 2017 and 2016	6
	Consolidated Schedule of Investments as of September 30, 2017 (Unaudited) and March 31, 2017	7
	Notes to Consolidated Financial Statements (Unaudited)	13
	Consolidated Schedule of Investments in and Advances to Affiliates (Unaudited) for the six months ended September 30, 2017	45
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	46
Item 3.	Quantitative and Qualitative Disclosures About Market Risk	58
Item 4.	Controls and Procedures	58
PART II	OTHER INFORMATION	
Item 1.	Legal Proceedings	59
Item 1A.	Risk Factors	59
Item 5.	Other Information	60
Item 6.	Exhibits	62
Signatures		63

PART I – FINANCIAL INFORMATION

Item 1. Consolidated Financial Statements

CAPITAL SOUTHWEST CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF ASSETS AND LIABILITIES

(In thousands, except shares and per share data)

	<u>September 30,</u> <u>2017</u>	<u>March 31,</u> <u>2017</u>
	<u>(Unaudited)</u>	
Assets		
Investments at fair value:		
Non-control/Non-affiliate investments (Cost: \$197,653 and \$172,437, respectively)	\$ 196,781	\$ 175,731
Affiliate investments (Cost: \$5,932 and \$5,925, respectively)	6,491	7,138
Control investments (Cost: \$76,260 and \$72,178, respectively)	118,588	104,011
Total investments (Cost: \$279,845 and \$250,540, respectively)	321,860	286,880
Cash and cash equivalents	33,329	22,386
Receivables:		
Dividends and interest	3,709	3,137
Escrow	545	545
Other	461	626
Deferred tax asset	1,846	2,017
Debt issuance costs (net of accumulated amortization of \$686 and \$366, respectively)	1,972	2,137
Other assets	4,948	8,024
Total assets	<u>\$ 368,670</u>	<u>\$ 325,752</u>
Liabilities		
Credit facility	\$ 56,000	\$ 25,000
Other liabilities	14,077	5,996
Dividends payable	3,838	7,191
Accrued restoration plan liability	2,122	2,170
Deferred income taxes	119	323
Total liabilities	<u>76,156</u>	<u>40,680</u>
Commitments and contingencies (Note 11)		
Net Assets		
Common stock, \$0.25 par value: authorized, 25,000,000 shares; issued, 18,358,808 shares at September 30, 2017 and 18,350,808 shares at March 31, 2017	4,590	4,588
Additional paid-in capital	262,019	261,472
Net investment income in excess of (less than) distributions	(1,277)	(1,457)
Accumulated undistributed net realized gain	9,223	8,390
Unrealized appreciation of investments, net of income taxes	41,896	36,016
Treasury stock - at cost, 2,339,512 shares	(23,937)	(23,937)
Total net assets	292,514	285,072
Total liabilities and net assets	<u>\$ 368,670</u>	<u>\$ 325,752</u>
Net asset value per share (16,019,296 shares outstanding at September 30, 2017 and 16,011,296 shares outstanding at March 31, 2017)	<u>\$ 18.26</u>	<u>\$ 17.80</u>

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

CAPITAL SOUTHWEST CORPORATION AND SUBSIDIARIES

**CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)**

(In thousands, except shares and per share data)

	Three Months Ended September 30,		Six Months Ended September 30,	
	2017	2016	2017	2016
Investment income:				
Interest income:				
Non-control/Non-affiliate investments	\$ 5,136	\$ 2,433	\$ 9,438	\$ 4,515
Affiliate investments	141	141	281	280
Control investments	-	-	-	-
Dividend income:				
Non-control/Non-affiliate investments	30	-	60	-
Control investments	3,058	1,995	6,103	3,765
Interest income from cash and cash equivalents	5	56	12	126
Fees and other income	139	101	339	197
Total investment income	8,509	4,726	16,233	8,883
Operating expenses:				
Compensation	1,606	1,404	3,244	2,889
Spin-off compensation plan	173	172	345	345
Share-based compensation	384	255	752	494
Interest	911	103	1,649	103
Professional fees	481	331	960	849
Net pension expense	41	43	81	86
General and administrative	842	641	1,551	1,422
Total operating expenses	4,438	2,949	8,582	6,188
Income before taxes	4,071	1,777	7,651	2,695
Income tax expense	134	412	278	958
Net investment income	\$ 3,937	\$ 1,365	\$ 7,373	\$ 1,737
Realized gain				
Non-control/Non-affiliate investments	\$ 210	\$(459)	\$ 834	\$(260)
Affiliate investments	-	3,986	-	3,986
Control investments	-	-	-	-
Total net realized gain on investments before income tax	210	3,527	834	3,726
Change in unrealized appreciation of investments				
Non-control/Non-affiliate investments	(1,747)	(1,911)	(4,166)	(1,437)
Affiliate investments	(322)	-	(654)	506
Control investments	6,445	3,937	10,495	5,606
Income tax benefit (provision)	120	-	205	(522)
Total net change in unrealized appreciation of investments, net of tax	4,496	2,026	5,880	4,153
Net realized and unrealized gain on investments	\$ 4,706	\$ 5,553	\$ 6,714	\$ 7,879
Net increase in net assets from operations	\$ 8,643	\$ 6,918	\$ 14,087	\$ 9,616
Pre-tax net investment income per share - basic and diluted				
	\$ 0.25	\$ 0.11	\$ 0.48	\$ 0.17
Net investment income per share – basic and diluted	\$ 0.25	\$ 0.09	\$ 0.46	\$ 0.11
Net increase in net assets from operations – basic and diluted				
	\$ 0.54	\$ 0.44	\$ 0.88	\$ 0.61
Weighted average shares outstanding – basic	16,010,231	15,726,419	16,009,968	15,728,476
Weighted average shares outstanding – diluted	16,077,837	15,805,577	16,075,193	15,801,535

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

CAPITAL SOUTHWEST CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS
(Unaudited)
(In thousands)

	Six Months Ended September 30,	
	2017	2016
Operations:		
Net investment income	\$ 7,373	\$ 1,737
Net realized gain on investments	834	3,726
Net change in unrealized appreciation of investments, net of tax	5,879	4,153
Net increase in net assets from operations	14,086	9,616
Distributions from:		
Undistributed net investment income	(7,193)	(2,664)
Spin-Off Compensation Plan, net of tax of \$117 and \$346, respectively	(227)	(1,175)
Capital share transactions:		
Change in pension plan funded status	24	23
Share-based compensation expense	752	494
Increase in net assets	7,442	6,294
Net assets, beginning of period	285,072	272,635
Net assets, end of period	\$ 292,514	\$ 278,929

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

CAPITAL SOUTHWEST CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(In thousands)

	Six Months Ended September 30,	
	2017	2016
Cash flows from operating activities		
Net increase in net assets from operations	\$ 14,086	\$ 9,616
Adjustments to reconcile net increase in net assets from operations to net cash used in operating activities:		
Purchases and originations of investments	(69,170)	(67,520)
Proceeds from sales and repayments of debt investments in portfolio companies	40,390	12,045
Proceeds from sales and return of capital of equity investments in portfolio companies	15	4,442
Payment of accreted original issue discounts	819	220
Depreciation and amortization	368	98
Net pension benefit	(24)	(16)
Realized gain on investments before income tax	(834)	(3,726)
Net change in unrealized appreciation of investments	(5,675)	(4,675)
Accretion of discounts on investments	(383)	(176)
Payment-in-kind interest and dividends	(142)	-
Stock option and restricted awards expense	752	494
Deferred income tax expense	(182)	1,480
Changes in other assets and liabilities:		
(Increase) decrease in dividend and interest receivable	(572)	14
Decrease in escrow receivables	-	1,173
Decrease in other receivables	166	115
Decrease in tax receivable	-	314
Decrease (increase) in other assets	3,029	(1,141)
Increase (decrease) in other liabilities	8,002	(1,523)
Increase in payable for unsettled transaction	-	15,421
Net cash used in operating activities	<u>(9,355)</u>	<u>(33,345)</u>
Cash flows from financing activities		
Proceeds from credit facility	31,000	-
Dividends to shareholders	(10,547)	(940)
Debt issuance costs paid	(155)	(2,495)
Spin-off Compensation Plan distribution	-	(1,349)
Net cash provided by (used in) financing activities	<u>20,298</u>	<u>(4,784)</u>
Net increase (decrease) in cash and cash equivalents	10,943	(38,129)
Cash and cash equivalents at beginning of period	22,386	95,969
Cash and cash equivalents at end of period	<u>\$ 33,329</u>	<u>\$ 57,840</u>
Supplemental cash flow disclosures:		
Cash paid for income taxes	\$ 255	\$ -
Cash paid for interest	1,236	-
Supplemental disclosure of noncash financing activities:		
Dividend declared, not yet paid	3,838	1,724
Noncash adjustment to realized gain for escrow receivable	-	493
Spin-off Compensation Plan distribution accrued, not yet paid	344	172

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

CAPITAL SOUTHWEST CORPORATION AND SUBSIDIARIES

CONSOLIDATED SCHEDULE OF INVESTMENTS

(Unaudited)

September 30, 2017

Portfolio Company¹	Type of Investment²	Industry	Current Interest Rate³	Maturity	Principal	Cost	Fair Value⁴
Non-control/Non-affiliate Investments⁵							
AAC HOLDINGS, INC.	First Lien	Healthcare services	L+6.75% (Floor 1.00%), Current Coupon 8.06%	6/30/2023	\$ 9,440,625	\$ 9,211,195	\$ 9,440,625
AG KINGS HOLDINGS INC.⁸	First Lien	Food, agriculture & beverage	L+9.37% (Floor 1.00%), Current Coupon 10.68%	8/8/2021	9,800,000	9,638,768	9,800,000
ALLIANCE SPORTS GROUP, L.P.	Senior subordinated debt	Consumer products & retail	11.00%	2/1/2023	10,100,000	9,902,459	9,902,459
	3.88% membership interest		-	-	-	2,500,000	2,500,000
						12,402,459	12,402,459
AMERICAN TELECONFERENCING SERVICES, LTD.	First Lien	Telecommunications	L+6.50% (Floor 1.00%), Current Coupon 7.78%	12/8/2021	6,555,837	6,397,980	6,342,773
	Second Lien		L+9.50% (Floor 1.00%), Current Coupon 10.74%	6/6/2022	2,005,714	1,935,209	1,991,925
AMWARE FULFILLMENT LLC	First Lien	Distribution	L+9.50% (Floor 1.00%), Current Coupon 10.82%	5/21/2019	12,730,000	12,569,184	12,730,000
ARGON MEDICAL DEVICES, INC.	Second Lien	Healthcare products	L+9.50% (Floor 1.00%), Current Coupon 10.74%	6/23/2022	5,000,000	4,880,347	5,000,000
BINSWANGER HOLDING CORP.	First Lien	Consumer products & retail	L+8.00% (Floor 1.00%), Current Coupon 9.32%	3/9/2022	13,135,807	12,894,738	12,894,738
	900,000 shares of common stock		-	-	-	900,000	762,000
						13,794,738	13,656,738
CALIFORNIA PIZZA KITCHEN, INC.	First Lien	Restaurants	L+6.00% (Floor 1.00%), Current Coupon 7.24%	8/23/2022	4,950,000	4,907,795	4,917,008
DEEPWATER CORROSION SERVICES, INC.	127,004 shares of Series A convertible preferred stock	Energy services (upstream)	-	-	-	8,000,000	4,629,000
DIGITAL RIVER, INC.	First Lien	Software & IT services	L+6.50% (Floor 1.00%), Current Coupon 7.82%	2/12/2021	7,032,285	7,005,050	7,067,446
DIGITAL ROOM LLC	Second Lien	Paper & forest products	L+10.00% (Floor 1.00%), Current Coupon 11.24%	5/21/2023	7,000,000	6,872,147	6,965,000
DUNN PAPER, INC.	Second Lien	Paper & forest products	L+8.75% (Floor 1.00%), Current Coupon 9.99%	8/26/2023	3,000,000	2,946,215	2,970,000
ELITE SEM, INC.⁸	First Lien	Media, marketing & entertainment	L+10.28% (Floor 1.00%), Current Coupon 11.60%	2/1/2022	12,150,000	11,886,728	12,150,000
	1,000 shares of common stock		12% PIK	-	-	1,079,667	1,565,000
						12,966,395	13,715,000

Portfolio Company ¹	Type of Investment ²	Industry	Current Interest Rate ³	Maturity	Principal	Cost	Fair Value ⁴
LIGHTING RETROFIT INTERNATIONAL, LLC	First Lien	Environmental services	L+9.25% (Floor 1.00%), Current Coupon 10.55%	6/30/2022	15,000,000	14,759,719	14,775,000
	396,825 shares of Series B preferred stock		-	-	-	500,000	500,000
						15,259,719	15,275,000
PRE-PAID LEGAL SERVICES, INC.	Second Lien	Consumer services	L+9.00% (Floor 1.25%), Current Coupon 10.25%	7/1/2020	5,000,000	4,961,421	5,040,625
REDBOX AUTOMATED RETAIL, LLC	First Lien	Gaming & leisure	L+7.50% (Floor 1.00%), Current Coupon 8.74%	9/27/2021	7,000,000	6,812,899	7,070,000
RESEARCH NOW GROUP, INC.	Second Lien	Business services	L+8.75% (Floor 1.00%), Current Coupon 10.08%	3/18/2022	7,000,000	6,924,784	6,895,000
RESTAURANT TECHNOLOGIES, INC.	Second Lien	Restaurants	L+8.75% (Floor 1.00%), Current Coupon 10.06%	11/23/2023	3,500,000	3,452,009	3,482,500
RESTAURANT TECHNOLOGIES, INC.	Second Lien	Restaurants	L+8.02% (Floor 1.00%), Current Coupon 9.26%	5/5/2022	7,406,250	7,337,022	7,337,022
RJO HOLDINGS CORP. ¹⁴	First Lien	Financial services	Coupon 9.26%	5/5/2022	7,406,250	7,337,022	7,337,022
TAX ADVISORS GROUP, LLC ¹³	Senior subordinated debt	Consumer services	10.00% / 2.00% PIK	12/23/2022	4,600,000	4,511,370	4,511,370
	143.3 Class A units ⁹		-	-	-	541,176	541,176
						5,052,546	5,052,546
VISTAR MEDIA INC.	First Lien	Media, marketing & entertainment	L+10.00% (Floor 1.00%), Current Coupon 11.32%	2/16/2022	8,250,000	7,495,327	8,250,000
	Warrants		-	-	-	886,000	1,500,000
						8,381,327	9,750,000
WASTEWATER SPECIALTIES, LLC	First Lien	Business services	L+8.75% (Floor 1.00%), Current Coupon 9.99%	4/18/2022	11,000,000	10,821,549	10,109,000
ZENFOLIO INC. ¹⁵	First Lien	Business services	L+9.00% (Floor 1.00%), Current Coupon 10.30%	7/17/2022	13,500,000	13,241,238	13,241,238
	Revolving Loan		L+9.00% (Floor 1.00%)	7/17/2022	-	(19,364)	-
	190 shares of common stock		-	-	-	1,900,000	1,900,000
						15,121,874	15,141,238
Total Non-control/Non-affiliate Investments						\$ 197,652,632	\$ 196,780,905
Affiliate Investments⁶							
CHANDLER SIGNS, LLC ¹³	Senior subordinated debt	Business services	12.00%	7/4/2021	\$ 4,500,000	\$ 4,432,169	\$ 4,432,169
	1,500,000 units of Class A-1 common stock ⁹		-	-	-	1,500,000	2,059,000
						5,932,169	6,491,169
Total Affiliate Investments						\$ 5,932,169	\$ 6,491,169
Control Investments⁷							
I-45 SLF LLC ^{9,10,11}	80% LLC equity interest	Multi-sector holdings	-	-	-	\$ 64,800,000	\$ 67,401,334
MEDIA RECOVERY, INC. ¹¹	800,000 shares of Series A convertible preferred stock	Industrial products	-	-	-	800,000	5,888,532
	4,000,002 shares of common stock		-	-	-	4,615,000	33,969,468
						5,415,000	39,858,000

Portfolio Company ¹	Type of Investment ²	Industry	Current Interest Rate ³	Maturity	Principal	Cost	Fair Value ⁴
TITANLINER, INC.	1,189,609 shares of Series B convertible preferred stock	Energy services (upstream)	6% PIK	-	-	2,841,007	5,026,000
	339,277 shares of Series A convertible preferred stock		-	-	-	3,204,222	6,303,000
						6,045,229	11,329,000
Total Control Investments						\$ 76,260,229	\$ 118,588,334
TOTAL INVESTMENTS¹²						\$ 279,845,030	\$ 321,860,408

¹ All debt investments are income-producing, unless otherwise noted. Equity investments are non-income producing, unless otherwise noted.

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

³ 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 September 30, 2017. Certain investments are subject to a LIBOR or Prime interest rate floor. Certain investments, as noted, accrue payment-in-kind ("PIK") interest.

⁴ 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.

⁵ Non-Control/Non-Affiliate investments are generally defined by the 1940 Act as investments that are neither control investments nor affiliate investments. At September 30, 2017, approximately 61.2% of the Company's investment assets are non-control/non-affiliate investments. The fair value of these investments as a percent of net assets is 67.3%.

⁶ Affiliate investments are generally defined by the 1940 Act as investments in which between 5% and 25% of the voting securities are owned and the investments are not classified as control investments. At September 30, 2017, approximately 2.0% of the Company's investment assets are affiliate investments. The fair value of these investments as a percent of net assets is 2.2%.

⁷ 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 September 30, 2017, approximately 36.8% of the Company's investment assets are control investments. The fair value of these investments as a percent of net assets is 40.5%.

⁸ The investment is structured as a first lien last out term loan and earns interest in addition to the stated rate.

⁹ 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 September 30, 2017, approximately 21.7% of the Company's investment assets are non-qualifying assets.

¹⁰ The investment has approximately \$3.2 million unfunded commitment as of September 30, 2017.

¹¹ Income producing through dividends.

¹² As of September 30, 2017, the cumulative gross unrealized appreciation for federal income tax purposes is approximately \$45.8 million; cumulative gross unrealized depreciation for federal income tax purposes is \$4.3 million. Cumulative net unrealized appreciation is \$41.5 million, based on a tax cost of \$280.0 million.

¹³ Tax Advisors Group Class A units and Chandler Signs, LP Class A-1 common stock are held through a wholly-owned taxable subsidiary.

¹⁴ The investment is structured as a first lien first out term loan and earns less interest than the stated rate.

¹⁵ The investment has approximately \$2.0 million in an unfunded revolving commitment and \$2.5 million in a delayed draw commitment as of September 30, 2017.

CAPITAL SOUTHWEST CORPORATION AND SUBSIDIARIES

CONSOLIDATED SCHEDULE OF INVESTMENTS

March 31, 2017

Portfolio Company¹	Type of Investment²	Industry	Current Interest Rate²	Maturity	Principal	Cost	Fair Value³	
Non-control/Non-affiliate Investments⁴								
AG KINGS HOLDINGS⁸	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	6,720,709	
	Second Lien		L+9.50% (Floor 1.00%)	6/6/2022	2,005,714	1,929,670	1,965,600	
AMWARE FULFILLMENT	First Lien	Distribution	L+9.50% (Floor 1.00%)	5/21/2019	13,065,000	12,858,885	12,934,350	
ARGON MEDICAL DEVICES	Second Lien	Healthcare products	L+9.50% (Floor 1.00%)	6/23/2022	5,000,000	4,871,024	5,000,000	
BINSWANGER CORP.	First Lien	Consumer products & retail	L+8.00% (Floor 1.00%)	3/9/2022	13,251,760	12,988,847	12,988,848	
	900,000 shares of common stock					900,000	900,000	
						13,888,847	13,888,848	
CALIFORNIA PIZZA KITCHEN	First Lien	Restaurants	L+6.00% (Floor 1.00%)	8/23/2022	4,975,000	4,929,234	4,975,995	
CAST AND CREW PAYROLL, LLC	Second Lien	Media, marketing & entertainment	L+7.75% (Floor 1.00%)	8/12/2023	3,705,263	3,685,537	3,671,916	
DEEPWATER CORROSION SERVICES, INC.	127,004 shares of Series A 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	7,067,446	
DIGITAL ROOM INC.	Second Lien	Paper & forest products	L+10.00% (Floor 1.00%)	5/21/2023	7,000,000	6,864,682	6,864,682	
DUNN 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	
ELITE SEM, INC.⁸	First Lien	Media, marketing & entertainment	L+8.50% (Floor 1.00%)	2/1/2022	12,150,000	11,864,161	11,864,161	
	1,000 shares of common stock					-	1,019,667	1,020,000
			12% PIK	-	-	12,883,828	12,884,161	
IMAGINE! PRINT SOLUTIONS, INC.	First Lien	Media, marketing & entertainment	L+6.00% (Floor 1.00%)	3/30/2022	4,853,233	4,800,146	4,913,898	
INFOGROUP INC.	First Lien	Software & IT services	L+5.50% (Floor 1.50%)	5/26/2018	4,895,007	4,822,951	4,890,112	
LIGHTING RETROFIT INTERNATIONAL	First Lien	Environmental services	L+9.75% (Floor 0.5%)	9/28/2021	10,222,222	10,126,394	10,126,394	
LTI HOLDINGS, INC.	Second Lien	Industrial products	L+9.25% (Floor 1.00%)	4/17/2023	7,000,000	6,853,685	6,825,000	
PREPAID LEGAL SERVICES, INC.	Second Lien	Consumer services	L+9.00% (Floor 1.25%)	7/1/2020	5,000,000	4,955,404	5,029,000	
REDBOX AUTOMATED RETAIL	First Lien	Gaming & leisure	L+7.50% (Floor 1.00%)	9/27/2021	8,750,000	8,505,558	8,761,375	
RESEARCH NOW GROUP, INC.	Second Lien	Business services	L+8.75% (Floor 1.00%)	3/18/2022	7,000,000	6,918,134	6,860,000	

Portfolio Company ¹	Type of Investment ²	Industry	Current Interest Rate ²	Maturity	Principal	Cost	Fair Value ³
RESTAURANT TECHNOLOGIES, INC.	Second Lien	Restaurants	L+8.75% (Floor 1.00%)	11/23/2023	3,500,000	3,449,262	3,482,500
TAXACT, INC.	First Lien	Financial services	L+6.00% (Floor 1.00%)	12/31/2022	2,775,000	2,722,263	2,775,000
VISTAR MEDIA INC.	First Lien	Media, marketing & entertainment	L+10.00% (Floor 1.00%)	2/16/2022	11,000,000	9,898,494	9,898,494
	Warrants					886,000	886,000
						10,784,494	10,784,494
WATER PIK, INC.	Second Lien	Consumer products & retail	L+8.75% (Floor 1.00%)	2/8/2021	4,473,684	4,385,853	4,507,237
WINZER CORPORATION	Senior subordinated debt	Distribution	11.00%	6/1/2021	8,100,000	7,976,347	7,976,347
Total Non-control/Non-affiliate Investments						<u>\$ 172,437,029</u>	<u>\$ 175,731,064</u>
Affiliate Investments⁶							
CHANDLER SIGNS, LP ¹³	Senior subordinated debt	Business services	12.00%	7/4/2021	\$ 4,500,000	\$ 4,425,310	\$ 4,477,500
	1,500,000 units of Class A-1 common stock		-	-	-	1,500,000	2,661,000
						5,925,310	7,138,500
Total Affiliate Investments						<u>\$ 5,925,310</u>	<u>\$ 7,138,500</u>
Control Investments⁷							
I-45 SLF LLC ^{9,10,11}	80% LLC equity interest	Multi-sector holdings	-	-	-	\$ 60,800,000	\$ 63,394,679
MEDIA RECOVERY, INC. ¹¹	800,000 shares of Series A convertible preferred stock	Industrial products	-	-	-	800,000	5,590,249
	4,000,002 shares of common stock		-	-	-	4,615,000	32,248,751
						5,415,000	37,839,000
TITANLINER, INC.	1,189,609 shares of Series B convertible preferred stock	Energy services (upstream)	6% PIK	-	-	2,758,528	2,777,000
	339,277 shares of Series A convertible preferred stock		-	-	-	3,204,222	-
						5,962,750	2,777,000
Total Control Investments						<u>\$ 72,177,750</u>	<u>\$ 104,010,679</u>
TOTAL INVESTMENTS¹²						<u>\$ 250,540,089</u>	<u>\$ 286,880,243</u>

¹ All debt investments are income-producing, unless otherwise noted. Equity investments are non-income producing, unless otherwise noted.

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

³ 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.

⁴ 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.

⁵ 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.

⁶ Affiliate investments are generally defined by the 1940 Act as investments in which between 5% and 25% of the voting securities are owned and the investments are not classified as control investments. At March 31, 2017, approximately 2.5% of the Company's investment assets were affiliate investments.

⁷ 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.

⁸ The investment is structured as a first lien last out term loan and earns interest in addition to the stated rate.

- ⁹ 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.
- ¹⁰ The investment has approximately \$7.2 million unfunded commitment as of March 31, 2017.
- ¹¹ Income producing through dividends on distributions.
- ¹² 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.
- ¹³ Chandler Signs, LP Class A-1 common stock is held through a wholly-owned taxable subsidiary.

Notes to Consolidated Financial Statements

1. ORGANIZATION AND BASIS OF PRESENTATION

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

Organization

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

CSWC was organized as a Texas corporation on April 19, 1961. Until September 1969, we operated as a Small Business Investment Company (“SBIC”) licensed under the Small Business Investment Act of 1958. At that time, CSWC transferred to its then wholly-owned subsidiary, Capital Southwest Venture Corporation (“CSVC”), certain assets including our license as an “SBIC”. CSVC was a closed-end, non-diversified investment company registered under the Investment Company Act of 1940, as amended (the “1940 Act”). Effective June 14, 2016, CSVC was dissolved and its SBIC license was surrendered. All assets held in CSVC were transferred to CSWC upon dissolution. Prior to March 30, 1988, CSWC was registered as a closed-end, non-diversified investment company under the 1940 Act. On that date, we elected to be treated as a Business Development Company (“BDC”) subject to the provisions of the 1940 Act, as amended by the Small Business Incentive Act of 1980. In order to remain a BDC, we must meet certain specified requirements under the 1940 Act, including investing at least 70% of our assets in eligible portfolio companies and limiting the amount of leverage we incur.

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

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

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

We focus on investing in companies with histories of generating revenues and positive cash flow, established market positions and proven management teams with strong operating discipline. We target senior debt, subordinated debt, and equity investments in lower middle market (“LMM”) companies, as well as first and second lien syndicated loans in upper middle market (“UMM”) companies. Our target LMM companies typically have annual earnings before interest, taxes, depreciation and amortization (“EBITDA”) between \$3.0 million and \$15.0 million, and our LMM investments generally range from \$5.0 million to \$20.0 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 from \$5.0 million to \$10.0 million. We make available significant managerial assistance to the companies in which we invest as we believe that providing managerial assistance to an investee company is critical to its business development activities.

Basis of Presentation

The consolidated financial statements have been prepared in accordance with Generally Accepted Accounting Principles in the United States of America (“U.S. GAAP”). We meet the definition of an investment company and follow the accounting and reporting guidance in the Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) Topic 946 – *Financial Services – Investment Companies* (“ASC Topic 946”). Under the rules and

regulations applicable to investment companies, we are generally precluded from consolidating any entity other than another investment company subject to certain exceptions. One of the exceptions to this general principle occurs if the investment company has an investment in an operating company that provides services to the investment company. Accordingly, the consolidated financial statements include CSMC, our management company, and the Taxable Subsidiary.

The consolidated financial statements are presented in conformity with U.S. GAAP for interim financial information and pursuant to the requirements for reporting on Form 10-Q and Article 10 of Regulation S-X. Accordingly, certain disclosures accompanying annual consolidated financial statements prepared in accordance with U.S. GAAP are omitted. In the opinion of our management, the unaudited consolidated financial results included herein contain all adjustments, consisting solely of normal recurring accruals, considered necessary for the fair presentation of consolidated financial statements for the interim periods included herein. The results of operations for the three and six months ended September 30, 2017 are not necessarily indicative of the operating results to be expected for the full fiscal year. Also, the unaudited consolidated financial statements and notes should be read in conjunction with the audited consolidated financial statements and notes thereto for the fiscal years ended March 31, 2017 and 2016. Consolidated financial statements prepared on a U.S. GAAP basis require management to make estimates and assumptions that affect the amounts and disclosures reported in the consolidated financial statements and accompanying notes. Such estimates and assumptions could change in the future as more information becomes known, which could impact the amounts reported and disclosed herein.

Portfolio Investment Classification

We classify our investments in accordance with the requirements of the 1940 Act. Under the 1940 Act, “Control Investments” are generally defined as investments in which we own more than 25% of the voting securities or have rights to maintain greater than 50% of the board representation; “Affiliated Investments” are generally defined as investments in which we own between 5% and 25% of the voting securities, and the investments are not classified as “Control Investments”; and “Non-Control/Non-Affiliated Investments” are generally defined as investments that are neither “Control Investments” nor “Affiliated Investments.”

Under the 1940 Act, a BDC must meet certain requirements, including investing at least 70% of our assets in qualifying assets. As of September 30, 2017, the Company met the requirements under the 1940 Act for a BDC. The principal categories of qualifying assets relevant to our business are:

(1) Securities purchased in transactions not involving any public offering from the issuer of such securities, which issuer (subject to certain limited exceptions) is an eligible portfolio company, or from any person who is, or has been during the preceding 13 months, an affiliated person of an eligible portfolio company, or from any other person, subject to such rules as may be prescribed by the SEC.

(2) Securities of any eligible portfolio company that we control.

(3) Securities purchased in a private transaction from a U.S. issuer that is not an investment company or from an affiliated person of the issuer, or in transactions incident thereto, if the issuer is in bankruptcy and subject to reorganization or if the issuer, immediately prior to the purchase of its securities was unable to meet its obligations as they came due without material assistance other than conventional lending or financing arrangements.

(4) Securities of an eligible portfolio company purchased from any person in a private transaction if there is no readily available market for such securities and we already own 60% of the outstanding equity of the eligible portfolio company.

(5) Securities received in exchange for or distributed on or with respect to securities described in (1) through (4) above, or pursuant to the exercise of warrants or rights relating to such securities.

(6) Cash, cash equivalents, U.S. government securities or high-quality debt securities maturing in one year or less from the time of investment.

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

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

(2) Derive in each taxable year at least 90.0% of our gross income from dividends, interest, payments with respect to certain securities, loans, gains from the sale of stock or other securities, net income from certain "qualified publicly traded partnerships," or other income derived with respect to our business of investing in such stock or securities (the "90% Income Test").

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

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

This quarter we satisfied all RIC tests and have 14.5% in nonqualified assets according to measurement criteria established in Section 851(d) of the Internal Revenue Code (as amended, the "IRC").

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

Cash and Cash Equivalents Cash and cash equivalents, which consist of cash and highly liquid investments with an original maturity of three months or less at the date of purchase, are carried at cost, which approximates fair value. Cash and cash equivalents includes deposits at financial institutions. We deposit our cash balances in financial institutions and, at times, such balances may be in excess of the Federal Deposit Insurance Corporation ("FDIC") insurance limits. At September 30, 2017 and March 31, 2017, cash balances totaling \$32.0 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 is evaluated quarterly for collectability. When we do not expect the debtor to be able to service all of its debt or other obligations, we will generally establish a reserve against interest income receivable, thereby placing the loan or debt security on non-accrual status, and cease to recognize interest income on that loan or debt security until the borrower has demonstrated the ability and intent to pay contractual amounts due. If a loan or debt security's status significantly improves regarding its ability to service debt or other obligations, it will be restored to accrual basis. As of September 30, 2017 and March 31, 2017, we did not have any investments on non-accrual status.

To maintain RIC tax treatment, non-cash sources of income such as accretion of interest income may need to be paid out to shareholders in the form of distributions, even though CSWC may not have collected the interest income. For the three and six months ended September 30, 2017, approximately 2.3% and 2.4%, respectively, of CSWC's total investment income was attributable to interest income for the accretion of discounts associated with debt investments, net of any premium reduction. For the three and six months ended September 30, 2016, approximately 2.1% and 2.0%, respectively, of CSWC's total investment income was attributable to interest income for the accretion of discounts associated with debt investments, net of any premium reduction.

Payment-in-Kind Interest The Company currently holds, and expects to hold in the future, some investments in its portfolio that contain payment-in-kind ("PIK") interest and dividend provisions. The PIK interest and dividends, computed at the contractual rate specified in each loan agreement, are added to the principal balance of the loan, rather than being paid to the Company in cash, and are recorded as interest and dividend income. Thus, the actual collection of PIK interest and dividends may be deferred until the time of debt principal repayment or disposition of the equity investment. PIK interest and dividends, which are non-cash sources of income, are included in the Company's taxable income and therefore affect the amount the Company is required to distribute to stockholders to maintain its qualification as a RIC for 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. For the three and six months ended September 30, 2017, approximately 0.8% and 0.9%, respectively, of CSWC's total investment income was attributable to non-cash PIK interest and dividend income. For the three and six months ended September 30, 2016, none of CSWC's investment income was attributable to non-cash PIK interest and dividend income.

Debt Issuance Costs Debt issuance costs include commitment fees and other costs related to CSWC's senior secured credit facility (as discussed further in Note 5). These costs have been capitalized and are amortized into interest expense over the term of the credit facility.

Federal Income Taxes CSWC has elected and intends to comply with the requirements of the IRC necessary to qualify as a RIC. By meeting these requirements, we will not be subject to corporate federal income taxes on ordinary income distributed to shareholders. In order to qualify as a RIC, the company is required to timely distribute to its shareholders at least 90.0% of investment company taxable income, as defined by the IRC, each year. Investment company taxable income generally differs from net income for financial reporting purposes due to temporary and permanent differences in the recognition of income and expenses. Investment company taxable income generally excludes net unrealized appreciation or depreciation, as investment gains and losses are not included in investment company taxable income until they are realized.

In addition to the requirement that we must annually distribute at least 90.0% of our investment company taxable income, we may either distribute or retain our realized net capital gains from investments, but any net capital gains not distributed may be subject to corporate level tax. If we retain the capital gains, they are subject to a corporate tax rate of 35.0% and are classified as a "deemed distribution" to our shareholders. As an investment company that qualifies as a RIC, federal income taxes payable on security gains that we elect to retain are accrued only on the last day of our tax year, December 31. Any capital gains actually distributed to shareholders are generally taxable to the shareholders as long-term capital gains. See Note 6 for further discussion.

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

Management evaluates tax positions taken or expected to be taken in the course of preparing the Company's consolidated financial statements to determine whether the tax positions are "more-likely-than-not" to be sustained by the applicable tax authority. Tax positions with respect to tax at the CSWC level not deemed to meet the "more-likely-than-not" threshold would be recorded as an expense in the current year. Management's conclusions regarding tax positions will be subject to review and may be adjusted at a later date based on factors including, but not limited to, on-going analyses of tax laws, regulations and interpretations thereof. The Company has concluded that it does not have any uncertain tax positions that meet the recognition of measurement criteria of ASC 740 for the current period. Also, we account for interest and, if applicable, penalties for any uncertain tax positions as a component of income tax expense. No interest or penalties expense was recorded during the three and six months ended September 30, 2017 and 2016.

Deferred Taxes Deferred tax assets and liabilities are recorded for losses or income at our taxable subsidiaries using statutory tax rates. A valuation allowance is provided against deferred tax assets when it is more likely than not that some portion or all of the deferred tax asset will not be realized. See Note 6 for further discussion.

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

At the three and six months ended September 30, 2017, weighted-average basic shares were adjusted for the diluted effect of stock-based awards of 67,606 and 65,225, respectively. At the three and six months ended September 30, 2016, weighted-average basic shares were adjusted for the diluted effect of stock-based awards of 79,157 and 73,060, respectively. For individual cash incentive awards, the option value of the individual cash incentive awards is calculated based on the changes in net asset value (“NAV”) of our Company. In connection with the Share Distribution, we entered into an Employee Matters Agreement (the “Employee Matters Agreement”) with CSW Industrials, Inc. (“CSWI”). Under the Employee Matters Agreement, the value of individual cash incentive awards was determined based upon the net asset value of CSWC as of June 30, 2015. See Note 9 for further discussion.

Shareholder Distributions Distributions to common shareholders are recorded on the ex-dividend date. The amount of distributions, if any, is determined by the Board of Directors each quarter.

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

Recently Issued or Adopted Accounting Standards In February 2016, the FASB issued ASU 2016-02, *Leases*, which requires lessees to recognize on the balance sheet a right-of-use asset, representing its right to use the underlying asset for the lease term, and a lease liability for all leases with terms greater than 12 months. The guidance also requires qualitative and quantitative disclosures designed to assess the amount, timing, and uncertainty of cash flows arising from leases. The standard requires the use of a modified retrospective transition approach, which includes a number of optional practical expedients that entities may elect to apply. The new guidance is effective for annual periods beginning after December 15, 2018, and interim periods therein. Early application is permitted. CSWC is currently evaluating the impact the adoption of this new accounting standard will have on its consolidated financial statements, but the impact of the adoption is not expected to be material.

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

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. Early application is permitted. The impact of the adoption of this new accounting standard on the Company's consolidated financial statements is not expected to be material.

3. INVESTMENTS

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

	<u>Fair Value</u>	<u>Percentage of Total Portfolio</u>	<u>Percentage of Net Assets</u>	<u>Cost</u>	<u>Percentage of Total Portfolio</u>
(dollars in millions)					
September 30, 2017:					
1st lien loans ¹	\$ 136.1	42.3 %	46.5 %	\$ 135.0	48.2 %
2nd lien loans	32.4	10.1	11.1	32.0	11.4
Subordinated debt	18.9	5.9	6.5	18.8	6.7
Preferred equity	22.3	6.9	7.6	15.3	5.5
Common equity & warrants	44.8	13.9	15.3	13.9	5.0
I-45 SLF LLC ²	67.4	20.9	23.0	64.8	23.2
	<u>\$ 321.9</u>	<u>100.0 %</u>	<u>110.0 %</u>	<u>\$ 279.8</u>	<u>100.0 %</u>
March 31, 2017³:					
1st lien loans	\$ 107.8	37.6 %	37.8 %	\$ 106.8	42.6 %
2nd lien loans	47.2	16.5	16.6	46.9	18.7
Subordinated debt	12.5	4.3	4.4	12.4	4.9
Preferred equity	18.3	6.4	6.4	14.8	5.9
Common equity & warrants	37.7	13.1	13.2	8.8	3.6
I-45 SLF LLC ²	63.4	22.1	22.2	60.8	24.3
	<u>\$ 286.9</u>	<u>100.0 %</u>	<u>100.6 %</u>	<u>\$ 250.5</u>	<u>100.0 %</u>

¹ Included in 1st lien loans are loans structured as first lien last out loans. These loans may in certain cases be subordinated in payment priority to other senior secured lenders. As of September 30, 2017 and March 31, 2017, the fair value of the first lien last out loans are \$22.0 million and \$21.8 million, respectively.

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

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

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

	<u>Fair Value</u>	<u>Percentage of Total Portfolio</u>	<u>Percentage of Net Assets</u>	<u>Cost</u>	<u>Percentage of Total Portfolio</u>
	(dollars in millions)				
September 30, 2017:					
I-45 SLF LLC ¹	\$ 67.4	20.9 %	23.0 %	\$ 64.8	23.2 %
Industrial Products	39.9	12.4	13.6	5.4	1.9
Business Services	28.5	8.9	9.7	28.0	10.0
Consumer Products and Retail	26.1	8.1	8.9	26.2	9.4
Media, Marketing, & Entertainment	23.5	7.3	8.0	21.4	7.6
Energy Services (Upstream)	16.0	5.0	5.5	14.0	5.0
Environmental Services	15.3	4.7	5.2	15.3	5.5
Distribution	12.7	4.0	4.3	12.6	4.5
Industrial Services	10.1	3.1	3.5	10.8	3.9
Consumer Services	10.1	3.1	3.5	10.0	3.6
Paper & Forest Products	9.9	3.1	3.4	9.8	3.5
Food, Agriculture & Beverage	9.8	3.0	3.4	9.6	3.4
Healthcare Services	9.4	2.9	3.2	9.2	3.3
Restaurants	8.4	2.6	2.9	8.4	3.0
Telecommunications	8.3	2.6	2.9	8.3	3.0
Financial Services	7.3	2.3	2.5	7.3	2.6
Gaming & Leisure	7.1	2.2	2.4	6.8	2.4
Software & IT Services	7.1	2.2	2.4	7.0	2.5
Healthcare Products	5.0	1.6	1.7	4.9	1.7
	<u>\$ 321.9</u>	<u>100.0 %</u>	<u>110.0 %</u>	<u>\$ 279.8</u>	<u>100.0 %</u>

	<u>Fair Value</u>	<u>Percentage of Total Portfolio</u>	<u>Percentage of Net Assets</u>	<u>Cost</u>	<u>Percentage of Total Portfolio</u>
	(dollars in millions)				
March 31, 2017²:					
I-45 SLF LLC ¹	\$ 63.4	22.1 %	22.2 %	\$ 60.8	24.3 %
Industrial Products	44.7	15.6	15.7	12.3	4.9
Media, Marketing, & Entertainment	32.3	11.2	11.3	32.2	12.8
Distribution	20.9	7.3	7.3	20.8	8.3
Consumer Products & Retail	18.4	6.4	6.4	18.3	7.3
Business Services	14.0	4.9	4.9	12.8	5.1
Energy Services (Upstream)	12.7	4.4	4.5	14.0	5.6
Software & IT Services	12.0	4.2	4.2	11.8	4.7
Environmental Services	10.1	3.5	3.6	10.1	4.0
Food, Agriculture & Beverage	9.9	3.5	3.5	9.7	3.9
Paper & Forest Products	9.8	3.4	3.4	9.8	3.9
Gaming & Leisure	8.8	3.1	3.1	8.5	3.4
Telecommunications	8.7	3.0	3.0	8.4	3.4
Restaurants	8.4	2.9	2.9	8.4	3.4
Consumer Services	5.0	1.8	1.8	5.0	2.0
Healthcare Products	5.0	1.7	1.8	4.9	1.9
Financial Services	2.8	1.0	1.0	2.7	1.1
	<u>\$ 286.9</u>	<u>100.0 %</u>	<u>100.6 %</u>	<u>\$ 250.5</u>	<u>100.0 %</u>

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

² Disclosure added to March 31, 2017 to provide comparable presentation to September 30, 2017.

The following tables summarize the composition of the investment portfolio by geographic region of the United States, at fair value and cost (with corresponding percentage of total portfolio investments), as of September 30, 2017 and March 31, 2017:

	<u>Fair Value</u>	<u>Percentage of Total Portfolio</u>	<u>Cost</u>	<u>Percentage of Total Portfolio</u>
	(dollars in millions)			
September 30, 2017:				
Southwest	\$ 79.2	24.6 %	\$ 42.1	15.1 %
South	74.8	23.2	75.1	26.8
I-45 SLF LLC ¹	67.4	20.9	64.8	23.2
Northeast	48.5	15.1	46.2	16.5
West	30.5	9.5	30.4	10.8
Midwest	21.5	6.7	21.2	7.6
	<u>\$ 321.9</u>	<u>100.0 %</u>	<u>\$ 279.8</u>	<u>100.0 %</u>
March 31, 2017:				
Southwest	\$ 82.6	28.8 %	\$ 50.0	20.0 %
I-45 SLF LLC ¹	63.4	22.1	60.8	24.3
Northeast	43.7	15.2	43.4	17.4
South	38.5	13.4	38.2	15.2
West	30.3	10.6	30.2	12.0
Midwest	28.4	9.9	27.9	11.1
	<u>\$ 286.9</u>	<u>100.0 %</u>	<u>\$ 250.4</u>	<u>100.0 %</u>

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

4. FAIR VALUE MEASUREMENTS

Investment Valuation Process

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

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

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

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 September 30, 2017 and March 31, 2017, 100% of the CSWC investment portfolio consisted of debt and equity instruments of privately held companies for which inputs falling within the categories of Level 1 and Level 2 are generally not available. Therefore, CSWC determines the fair value of its investments (excluding investments for which fair value is measured at 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.

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

- Financial information obtained from each portfolio company, including unaudited statements of operations and balance sheets for the most recent period available as compared to budgeted numbers;
- Current and projected financial condition of the portfolio company;
- Current and projected ability of the portfolio company to service its debt obligations;
- Type and amount of collateral, if any, underlying the investment;
- Current financial ratios (e.g., fixed charge coverage ratio, interest coverage ratio and net debt/EBITDA ratio) applicable to the investment;
- Current liquidity of the investment and related financial ratios (e.g., current ratio and quick ratio);
- Indicative dealer quotations from brokers, banks, and other market participants;

- Market yields on other securities of similar risk;
- Pending debt or capital restructuring of the portfolio company;
- Projected operating results of the portfolio company;
- Current information regarding any offers to purchase the investment;
- Current ability of the portfolio company to raise any additional financing as needed;
- Changes in the economic environment which may have a material impact on the operating results of the portfolio company;
- Internal occurrences that may have an impact (both positive and negative) on the operating performance of the portfolio company;
- Qualitative assessment of key management;
- Contractual rights, obligations or restrictions associated with the investment; and
- Other factors deemed relevant.

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

Market Approach

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

Income Approach

In valuing debt securities, CSWC typically uses an Income Approach model, which considers some or all of the factors listed above. Under the Income Approach, CSWC develops an expectation of the yield that a hypothetical market participant would require when purchasing each debt investment (the “Required Market Yield”). The Required Market Yield is calculated in a two-step process. First, using quarterly market data from our third-party valuation provider we estimate the current market yield of similar debt securities. Next, based on the factors described above, we modify the current market yield for each security to produce a unique Required Market Yield for each of our investments. The resulting Required Market Yield is the significant Level 3 input to the Income Approach model. If, with respect to an investment, the unobservable inputs have not fluctuated significantly from the date the investment was made or have not fluctuated significantly from CSWC’s expectations on the date the investment was made, and there have been no significant fluctuations in the market pricing for such investments, we may conclude that the Required Market Yield for that investment is equal to the stated rate on the investment. In instances where CSWC determines that the Required Market Yield is different from the stated rate on the investment, we discount the contractual cash flows on the debt instrument using the Required Market Yield in order to estimate the fair value of the debt security.

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

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

Enterprise Value Waterfall Approach

In valuing equity securities (including warrants), CSWC estimates fair value using an Enterprise Value Waterfall valuation model. CSWC estimates the enterprise value of a portfolio company and then allocates the enterprise value to the portfolio company’s securities in order of their relative liquidation preference. In addition, CSWC assumes that any

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

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

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

NAV Valuation Method

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

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

Type	Valuation Technique	Fair Value at September 30, 2017 (in millions)	Significant Unobservable Inputs	Range	Weighted Average
Equity Investments	Enterprise Value Waterfall Approach	\$ 67.1	EBITDA Multiple	4.4x - 9.4x	7.26x
			Weighted Average Cost of Capital	13.8% - 30.0%	18.9%
Debt Investments	Income Approach	164.0	Required Market Yield	7.8% - 14.5%	10.7%
			Third Party Broker Quote	96.8 - 101.0	
	Market Approach	23.4	Recent Transaction		
		187.4			
Total Level 3 Investments		\$ 254.5			

Type	Valuation Technique	Fair Value at March 31, 2017 (in millions)	Significant Unobservable Inputs	Range	Weighted Average
Equity Investments	Enterprise Value Waterfall Approach	\$ 56.0	EBITDA Multiple	4.10x - 9.30x	7.80x
			Weighted Average Cost of Capital	14.1% - 27.8%	17.5%
Debt Investments	Income Approach	132.8	Required Market Yield	7.70% - 12.60%	10.8%
			Third Party Broker Quote	97.50 - 101.25	
	Market Approach	34.8	Recent Transaction		
		167.5			
Total Level 3 Investments		\$ 223.5			

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

Asset Category	Total	Fair Value Measurements at September 30, 2017 Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
1st lien loans	\$ 136.1	\$ -	\$ -	\$ 136.1
2nd lien loans	32.4	-	-	32.4
Subordinated debt	18.9	-	-	18.9
Preferred equity	22.3	-	-	22.3
Common equity & warrants	44.8	-	-	44.8
Investments measured at net asset value ¹	67.4	-	-	-
Total Investments	\$ 321.9	\$ -	\$ -	\$ 254.5

Asset Category ²	Total	Fair Value Measurements at March 31, 2017 Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
1st lien loans	\$ 107.8	\$ -	\$ -	\$ 107.8
2nd lien loans	47.2	-	-	47.2
Subordinated debt	12.5	-	-	12.5
Preferred equity	18.3	-	-	18.3
Common equity & warrants	37.7	-	-	37.7
Investments measured at net asset value ¹	63.4	-	-	-
Total Investments	\$ 286.9	\$ -	\$ -	\$ 223.5

¹ 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.

² Presentation of March 31, 2017 disclosure updated to conform to current period presentation.

Changes in Fair Value Levels

We monitor the availability of observable market data to assess the appropriate classification of financial instruments within the fair value hierarchy. Changes in economic conditions or model based valuation techniques may require the transfer of financial instruments from one fair value level to another. We recognize the transfer of financial instruments between levels at the end of each quarterly reporting period. During the three and six months ended September 30, 2017 and 2016, we had no transfers between levels.

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

	Fair Value 3/31/2017	Realized & Unrealized Gains (Losses)	Purchases of Investments ¹	Repayments	PIK Interest Earned	Divestitures	Fair Value at 9/30/2017
1st lien loans	\$ 107.8	\$ 0.6	\$ 45.6	\$ (17.9)	\$ —	\$ —	\$ 136.1
2nd lien loans	47.2	0.3	0.1	(15.2)	—	—	32.4
Subordinated debt	12.5	0.1	14.4	(8.1)	—	—	18.9
Preferred equity	18.3	3.4	0.5	—	0.1	—	22.3
Common equity & warrants	37.7	2.1	4.9	—	0.1	—	44.8
Total Investments	<u>\$ 223.5</u>	<u>\$ 6.5</u>	<u>\$ 65.5</u>	<u>\$ (41.2)</u>	<u>\$ 0.2</u>	<u>\$ —</u>	<u>\$ 254.5</u>

	Fair Value 3/31/2016	Realized & Unrealized Gains (Losses)	Purchases of Investments ¹	Repayments	PIK Interest Earned	Divestitures	Fair Value at 9/30/2016
1st lien loans	\$ 39.5	\$ 1.2	\$ 52.7	\$ (7.1)	\$ —	\$ —	\$ 86.3
2nd lien loans	38.2	0.4	3.0	(5.1)	—	—	36.5
Subordinated debt	15.1	(0.2)	—	(0.1)	—	—	14.8
Preferred equity	13.2	1.3	—	—	—	—	14.5
Common equity & warrants	36.1	—	—	—	—	(0.4)	35.7
Total Investments	<u>\$ 142.1</u>	<u>\$ 2.7</u>	<u>\$ 55.7</u>	<u>\$ (12.3)</u>	<u>\$ —</u>	<u>\$ (0.4)</u>	<u>\$ 187.8</u>

¹ 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 six months ended September 30, 2017 and 2016 were \$6.0 million and \$5.8 million, respectively.

5. CREDIT FACILITY

In August 2016, CSWC entered into a senior secured credit facility (the “Credit Facility”) to provide additional liquidity to support its investment and operational activities, which included total commitments of \$100.0 million. The Credit Facility also contains an accordion feature that allows CSWC to increase the total commitments under the facility up to \$150.0 million from new and existing lenders on the same terms and conditions as the existing commitments. In August 2017, we increased our total commitments by \$15 million through adding an additional lender using the accordion feature. As of September 30, 2017, the Credit Facility includes total commitments of \$115.0 million from a diversified group of six lenders and is scheduled to mature August 30, 2020.

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

The Credit Facility contains certain affirmative and negative covenants, including but not limited to: (1) certain reporting requirements, (2) maintaining RIC and BDC status, (3) maintaining a minimum shareholders’ equity, (4) maintaining a minimum consolidated net worth, (5) maintaining a regulatory asset coverage of not less than 200.0%, (6) maintaining a consolidated interest coverage ratio of at least 2.5 to 1.0, and (7) at any time the outstanding advances exceed 90.0% of the borrowing base, maintaining a minimum liquidity of not less than 10.0% of the covered debt amount.

The Credit Facility also contains customary events of default, including, without limitation, nonpayment, misrepresentation of representations and warranties in a material respect, breach of covenant, bankruptcy, and change of control, with customary cure and notice provisions. If the Company defaults on its obligations under the Credit Facility, the lenders may have the right to foreclose upon and sell, or otherwise transfer, the collateral subject to their security interests.

The Credit Facility is secured by (1) substantially all of the present and future property and assets of the Company and the guarantors and (2) 100.0% of the equity interests in the Company’s wholly-owned subsidiaries. As of

September 30, 2017, substantially all of the Company's assets were pledged as collateral for the Credit Facility.

At September 30, 2017, CSWC had \$56.0 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 \$0.9 million and \$1.6 million, respectively, for the three and six months ended September 30, 2017. For both the three and six months ended September 30, 2016, CSWC recognized interest expense of \$0.1 million. The weighted average interest rate on the Credit Facility was 4.76% as of September 30, 2017. Average borrowings for the three and six months ended September 30, 2017 were \$49.7 million and \$37.4 million, respectively. As of September 30, 2017, CSWC was in compliance with all financial covenants under the Credit Facility.

6. INCOME TAXES

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

As of September 30, 2017, CSWC qualified to be taxed as a RIC. We intend to meet the applicable qualifications to be taxed as a RIC in future periods. However, the Company's ability to meet certain portfolio diversification requirements of RICs in future years may not be controllable by the Company.

During the quarter ended September 30, 2017, CSWC declared quarterly dividends in the amount of \$3.8 million, or \$0.24 per share.

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

Ordinary dividend distributions from a RIC do not qualify for the 20.0% maximum tax rate (plus a 3.8% Medicare surtax, if applicable) on dividend income from domestic corporations and qualified foreign corporations, except to the extent that the RIC received the income in the form of qualifying dividends from domestic corporations and qualified foreign corporations. The tax attributes for distributions will generally include both ordinary income and capital gains, but may also include qualified dividends or return of capital.

The following reconciles net increase in assets resulting from operations to estimated RIC taxable income for the six months ended September 30, 2017 and 2016:

Reconciliation of RIC Taxable Income¹	Six Months Ended September 30,	
	2017	2016
Net increase in net assets from operations	\$ 14,087	\$ 9,616
Net change in unrealized appreciation on investments	(5,880)	(4,153)
Income/gain (expense/loss) recognized for tax on pass-through entities	1,852	(794)
Gain recognized for tax on dispositions	—	2,122
Net operating loss - management company and taxable subsidiary	468	961
Non-deductible tax expense	(31)	211
Other book/tax differences	—	(105)
Estimated taxable income before deductions for distributions	<u>\$ 10,496</u>	<u>\$ 7,858</u>

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.

A RIC may elect to retain its long-term capital gains by designating them as a “deemed distribution” to its shareholders and paying a federal tax rate of 35% on the long-term capital gains for the benefit of its shareholders. Shareholders then report their share of the retained capital gains on their income tax returns as if it had been received and report a tax credit for tax paid on their behalf by the RIC. Shareholders then add the amount of the “deemed distribution” net of such tax to the basis of their shares.

CSMC, a wholly-owned subsidiary of CSWC, is not a RIC and is required to pay taxes at the current corporate rate. For tax purposes, CSMC has elected to be treated as a taxable entity, and therefore is not consolidated for tax purposes and is taxed at normal corporate tax rates based on its taxable income and, as a result of its activities, may generate income tax expense or benefit. The taxable income, or loss, of CSMC may differ from its book income, or loss, due to temporary book and tax timing differences and permanent differences. This income tax expense, or benefit, if any, and the related tax assets and liabilities, are reflected in our consolidated financial statements. CSMC records individual cash incentive award and bonus accruals on a quarterly basis. Deferred taxes related to the changes in the qualified defined pension plan, restoration plan, individual cash incentive award and bonus accruals are also recorded on a quarterly basis. A valuation allowance is provided against deferred tax assets when it is more likely than not that some portion or all of the deferred tax asset will not be realized. Establishing a valuation allowance of a deferred tax asset requires management to make estimates related to expectations of future taxable income. Estimates of future taxable income are based on forecasted cash flows from CSMC’s operations. As of September 30, 2017, CSMC had a deferred tax asset of approximately \$3.1 million, our valuation allowance was \$1.3 million and our net deferred tax asset was \$1.8 million. As of September 30, 2017, we believe that it is more likely than not that we will be able to utilize \$1.8 million of our deferred tax assets. We will continue to assess our ability to realize our existing deferred tax assets. As of March 31, 2017, CSMC had a deferred tax asset of \$2.0 million.

Based on our assessment of our unrecognized tax benefits, management believes that all benefits, net of the valuation allowance, will be realized and they do not contain any uncertain tax positions.

In addition, we have a wholly-owned taxable subsidiary, or the Taxable Subsidiary, which holds a portion of one or more of our portfolio investments that are listed on the Consolidated Schedule of Investments. The Taxable Subsidiary is consolidated for financial reporting purposes in accordance with U.S. GAAP, so that our consolidated financial statements reflect our investments in the portfolio companies owned by the Taxable Subsidiary. The purpose of the Taxable Subsidiary is to permit us to hold certain interests in portfolio companies that are organized as limited liability companies, or LLCs (or other forms of pass-through entities) and still satisfy the RIC tax requirement that at least 90.0% of our gross income for federal income tax purposes must consist of qualifying investment income. Absent the Taxable Subsidiary, a proportionate amount of any gross income of a partnership or LLC (or other pass-through entity) portfolio investment would flow through directly to us. To the extent that our income did not consist of investment income, it could jeopardize our ability to qualify as a RIC and therefore cause us to incur significant amounts of corporate-level U.S. federal income taxes. Where interests in LLCs (or other pass-through entities) are owned by the Taxable Subsidiary, however, the income from those interests is taxed to the Taxable Subsidiary and does not flow through to us, thereby helping us preserve our RIC status and resultant tax advantages. The Taxable Subsidiary is not consolidated for U.S. federal income tax purposes.

and may generate income tax expense as a result of their ownership of the portfolio companies. The income tax expense, or benefit, and the related tax assets and liabilities, if any, are reflected in our Statement of Operations.

The income tax expense, or benefit, and the related tax assets and liabilities, generated by CSWC, CSMC and the Taxable Subsidiary, if any, are reflected in CSWC's consolidated financial statements. For the three months ended September 30, 2017, we recognized a net income tax expense of \$0.1 million, principally consisting of a provision for current U.S. federal income taxes of \$0.1 million, a \$0.1 million accrual for excise tax on our estimated undistributed taxable income, and a \$0.1 million benefit relating to the Taxable Subsidiary. For the six months ended September 30, 2017, we recognized a net income tax expense of \$0.3 million, principally consisting of a provision for current U.S. federal income taxes of \$0.3 million. For the three months ended September 30, 2016, we recognized a net income tax expense of \$0.4 million, principally consisting of a provision for current U.S. federal income taxes of \$0.3 million and \$0.1 million relating to the Taxable Subsidiary. For the six months ended September 30, 2016, we recognized a net income tax expense of \$1.0 million, principally consisting of a provision for current U.S. federal income taxes of \$0.7 million and \$0.2 million relating to the Taxable Subsidiary, and a \$0.1 million accrual for excise tax on our estimated undistributed taxable income. Although we believe our tax returns are correct, the final determination of tax examinations could be different from what was reported on the returns. In our opinion, we have made adequate tax provisions for years subject to examination. Generally, we are currently open to audit under the statute of limitations by the Internal Revenue Service as well as state taxing authorities for the years ended December 31, 2013 through December 31, 2016.

7. ACCUMULATED UNDISTRIBUTED NET REALIZED GAINS ON INVESTMENTS

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

8. SPIN-OFF COMPENSATION PLAN

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

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

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

(1) one-third on December 29, 2015; (2) one-third on December 29, 2016; and (3) one-third on December 29, 2017, subject to accelerated vesting as described above.

The total value accretion was six percent of the aggregate appreciation in the Company's share price from \$36.16 to the combined volume-weighted average prices of both CSWC and CSWI stock as of December 29, 2015. The cash component of the Spin-off Compensation Plan was the difference between the total value accretion and the aggregate value of the awardee's restricted common stock and non-qualified option awards under the plan. The total cash liabilities for three participants under the plan totaled \$6.1 million, of which \$2.1 million was fully vested as of December 29, 2015 and was subsequently paid out in January 2016. \$1.4 million was fully vested as of December 29, 2016 and was subsequently paid out in January 2017. The remaining payment will be fully vested on December 29, 2017, subject to accelerated vesting as described above.

During the three and six months ended September 30, 2017, we recognized the cash component of spin-off compensation expense of \$0.2 million and \$0.3 million, respectively, which represented the cash component of spin-off compensation for our current employee. During the three and six months ended September 30, 2017, we also recorded \$0.2 million and \$0.3 million, respectively, directly to additional capital for the cash component of the spin-off compensation related to the employee who transferred to CSWI. During the three and six months ended September 30, 2016, we recognized the cash component of spin-off compensation expense of \$0.2 million and \$0.3 million, respectively, which represented the cash component of spin-off compensation for our current employee. During the three and six months ended September 30, 2016, we also recorded \$0.2 million and \$1.5 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 upon her separation from CSWI.

9. EMPLOYEE STOCK BASED COMPENSATION PLANS

Stock Awards

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

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

On August 22, 2017, we received an exemptive order from the SEC that allows us to withhold shares to satisfy tax withholding obligations related to the vesting of restricted stock granted pursuant to the 2010 Plan.

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

The vesting terms for restricted stock awards previously granted under the Spin-off Compensation Plan are as follows: (1) one-third on December 29, 2015; (2) one-third on December 29, 2016; and (3) one-third on December 29, 2017, subject to accelerated vesting as described above.

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

Restricted stock available for issuance as of March 31, 2017	190,502
Additional restricted stock approved under the plan	–
Restricted stock granted during the six months ended September 30, 2017	(13,000)
Restricted stock forfeited during the six months ended September 30, 2017	5,000
Restricted stock available for issuance as of September 30, 2017	182,502

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

For the three months ended September 30, 2017 and 2016, we recognized total share based compensation expense of \$0.4 million and \$0.2 million, respectively, related to the restricted stock issued to our employees and officers. For the six months ended September 30, 2017 and 2016, we recognized total share based compensation expense of \$0.7 million and \$0.4 million, respectively, related to the restricted stock issued to our employees and officers.

As of September 30, 2017, the total remaining unrecognized compensation expense related to non-vested restricted stock awards was \$3.1 million, which will be amortized over the weighted-average vesting period of approximately 2.7 years. Subsequent to the Share Distribution, the compensation expense related to non-vested awards held by employees who are now employed by CSWI is recorded by CSWI.

The following table summarizes the restricted stock outstanding as of September 30, 2017:

Restricted Stock Awards	Number of Shares	Weighted Average Fair Value Per Share at grant date	Weighted Average Remaining Vesting Term (in Years)
Unvested at March 31, 2017	294,043	\$ 14.99	3.1
Granted	13,000	16.69	–
Vested	(3,125)	13.94	–
Forfeited	(5,000)	14.48	–
Unvested at September 30, 2017	298,918	\$ 15.00	2.7

Stock Options

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

On August 28, 2014, our Board of Directors amended the 2009 Plan, as permitted pursuant to Section 18 of the 2009 Plan (the “First Amendment to the 2009 Plan”). The First Amendment to the 2009 Plan provides that an award agreement may allow an award to remain outstanding after a spin-off or change in control of one or more wholly-owned subsidiaries of the Company. In addition, on August 28, 2014, options to purchase 259,000 shares at \$36.60 per share were granted under the 2009 Plan, as amended. On September 8, 2015, the Board of Directors designated the Share Distribution a transformative transaction for purposes of the 2009 Plan and amended the award agreements granted under the 2009 Plan to provide for accelerated vesting of the awards held by a participant in the event of a termination of such participant’s service effected by the participant for good reason, by the employer without cause, or as a result of the disability or death of the participant. A third of these options were vested on December 29, 2015, a third vested on December 29, 2016 and the remaining options will vest on December 29, 2017, subject to accelerated vesting as described above.

On August 22, 2017, we received an exemptive order from the SEC that allows us to withhold shares of our common stock to satisfy the exercise of options to purchase shares of our common stock granted pursuant to the 2009 Plan.

At September 30, 2017, there are options to acquire 206,364 shares of common stock outstanding. The Compensation Committee does not intend to grant additional options under the 2009 Plan or request shareholders' approval of additional stock options to be added under the 2009 Plan.

We previously granted stock options under our 1999 Stock Option Plan (the "1999 Plan"), as approved by shareholders on July 19, 1999. The 1999 Plan expired on April 19, 2009. Options previously granted under our 1999 Plan and outstanding on July 20, 1999 continue in effect and are governed by the provisions of the 1999 Plan. All options granted under the 1999 Plan were granted at market price on the date of grant, generally expire up to 10 years from the date of grant and are generally exercisable on or after the first anniversary of the date of grant in five to ten annual installments. At September 30, 2017, there are no options to acquire shares of common stock outstanding under the 1999 Plan.

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

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

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

September 30, 2017	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding	6.0 years	\$ 1,240,529
Exercisable	5.6 years	\$ 813,587

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

We recognize compensation cost using the straight-line method for all share-based payments. The fair value of stock options are determined on the date of grant using the Black-Scholes pricing model and are expensed over the requisite service period of the related stock options. Accordingly, for both the three months ended September 30, 2017 and 2016, we recognized stock option compensation expense of \$48.0 thousand related to the stock options held by our employees

and officers. For both the six months ended September 30, 2017 and 2016, we recognized stock option compensation expense of \$0.1 million related to the stock options held by our employees and officers.

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

At September 30, 2017, the range of exercise prices was \$7.55 to \$11.66 and the weighted-average remaining contractual term of outstanding options was 6.0 years. The total number of shares of common stock exercisable under both the 2009 Plan and the 1999 Plan at September 30, 2017 was 131,117 shares with a weighted-average exercise price of \$10.92. During the quarter ended September 30, 2017, 5,976 options became exercisable and no options were exercised. During the quarter ended September 30, 2016, 5,975 options became exercisable and no options were exercised.

Individual Incentive Awards

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

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

There are currently 48,000 individual cash incentive awards outstanding as of September 30, 2017 and the liability for individual cash incentive awards was \$0.3 million at September 30, 2017. As of September 30, 2017, there is no remaining unrecognized compensation expense related to individual cash incentive awards.

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

	Number of Shares	Weighted Average Grant Price Per Share	Weighted Average Remaining Vesting Term (in Years)
Individual Cash Incentive Awards			
Unvested at March 31, 2017	48,000	\$ 47.03	1.6
Granted	—	—	—
Vested	—	—	—
Forfeited or expired	—	—	—
Unvested at September 30, 2017	<u>48,000</u>	<u>\$ 47.03</u>	<u>1.1</u>

10. OTHER EMPLOYEE COMPENSATION

We established a 401(k) plan (“401K Plan”) effective October 1, 2015. All full-time employees are eligible to participate in the 401K Plan. The 401K Plan permits employees to defer a portion of their total annual compensation up to the Internal Revenue Service annual maximum based on age and eligibility. During the quarter ended September 30, 2017, we made contributions to the 401K Plan of up to 4.5% of the Internal Revenue Service’s annual maximum eligible compensation, all of which is fully vested immediately. During the three months ended September 30, 2017 and 2016, we made matching contributions of approximately \$25.7 thousand and \$21.3 thousand, respectively. During the six months ended September 30, 2017 and 2016, we made matching contributions of approximately \$78.3 thousand and \$68.7 thousand, respectively.

11. COMMITMENTS AND CONTINGENCIES

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

The balances of unused commitments to extend financing as of September 30, 2017 and March 31, 2017 were as follows:

<u>Portfolio Company</u>	<u>Investment Type</u>	<u>September 30, 2017</u>	<u>March 31, 2017</u>
I-45 SLF LLC	Equity Investment	\$ 3,200,000	\$ 7,200,000
Zenfolio Inc.	Delayed Draw Term Loan	2,500,000	–
Zenfolio Inc.	Revolving Loan	2,000,000	–
Total unused commitments to extend financing		<u>\$ 7,700,000</u>	<u>\$ 7,200,000</u>

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

12. RELATED PARTY TRANSACTIONS

As a BDC, we are obligated under the 1940 Act to make available to our portfolio companies significant managerial assistance. "Making available significant managerial assistance" refers to any arrangement whereby we provide significant guidance and counsel concerning the management, operations, or business objectives and policies of a portfolio company. We are also deemed to be providing managerial assistance to all portfolio companies that we control, either by ourselves or in conjunction with others. The nature and extent of significant managerial assistance provided by us will vary according to the particular needs of each portfolio company. During both the three months ended September 30, 2017 and 2016, we received management and other fees from certain of our portfolio companies totaling \$0.1 million, which were recognized as Fees and other income on the Consolidated Statements of Operations. During both the six months ended September 30, 2017 and 2016, we received management and other fees from certain of our portfolio companies totaling \$0.2 million, which were recognized as Fees and other income on the Consolidated Statements of Operations. Additionally, as of September 30, 2017 and March 31, 2017, we had dividends receivable from I-45 SLF 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.

13. SUBSEQUENT EVENTS

On October 2, 2017, CSWC paid quarterly dividends declared on August 30, 2017 in the amount of \$3.8 million, or \$0.24 per share.

14. SUMMARY OF PER SHARE INFORMATION

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

Per Share Data:	Three Months Ended September 30,		Six Months Ended September 30,	
	2017	2016	2017	2016
Investment income ¹	\$ 0.53	\$ 0.30	\$ 1.01	\$ 0.56
Operating expenses ¹	(0.27)	(0.18)	(0.53)	(0.39)
Income taxes ¹	(0.01)	(0.03)	(0.02)	(0.06)
Net investment income ¹	0.25	0.09	0.46	0.11
Net realized gain ¹	0.01	0.22	0.05	0.24
Net change in unrealized appreciation of investments ¹	0.28	0.13	0.37	0.27
Total increase from investment operations	0.54	0.44	0.88	0.62
Dividends to shareholders	(0.24)	(0.11)	(0.45)	(0.17)
Spin-off Compensation Plan distribution, net of tax	(0.01)	0.01	(0.02)	(0.08)
Forfeiture (issuance) of restricted stock ²	(0.01)	—	(0.01)	—
Share based compensation expense	0.03	0.01	0.05	0.03
Other ³	(0.01)	—	0.01	—
Increase in net asset value	0.30	0.35	0.46	0.40
Net asset value				
Beginning of period	17.96	17.39	17.80	17.34
End of period	\$ 18.26	\$ 17.74	\$ 18.26	\$ 17.74
Ratios and Supplemental Data				
Ratio of operating expenses, excluding interest expense, to average net assets ⁴	1.22 %	1.08 %	2.40 %	2.26 %
Ratio of net investment income to average net assets ⁴	1.36 %	0.50 %	2.56 %	0.63 %
Portfolio turnover	4.88 %	0.49 %	12.06 %	5.74 %
Total investment return ^{4,5}	8.02 %	8.34 %	4.04 %	7.23 %
Total return based on change in NAV ^{4,6}	3.01 %	2.65 %	5.11 %	3.29 %
Weighted-average common shares outstanding	16,010	15,726	16,010	15,728
Weighted-average fully diluted shares outstanding	16,078	15,806	16,075	15,802
Common shares outstanding at end of period	16,019	15,726	16,019	15,726

¹ Based on weighted average of common shares outstanding for the period.

² Reflects impact of the different share amounts as a result of issuance or forfeiture of restricted stock during the period.

³ 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.

⁴ Not annualized.

⁵ Total investment return based on purchase of stock at the current market price on the first day and a sale at the current market price on the last day of each period reported on the table and assumes reinvestment of dividends at prices obtained by CSWC's dividend reinvestment plan during the period. The return does not reflect any sales load that may be paid by an investor.

⁶ Total return based on change in NAV was calculated using the sum of ending NAV plus dividends to shareholders and other non-operating changes during the period, as divided by the beginning NAV, and has not been annualized.

15. SIGNIFICANT SUBSIDIARIES

Media Recovery, Inc.

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

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

	<u>September 30, 2017</u>		<u>March 31, 2017</u>	
Current Assets	\$	9,235	\$	9,935
Non-Current Assets		24,827		23,173
Current Liabilities		3,176		2,083
Non-Current Liabilities	\$	2,755	\$	2,396

	<u>Three months ended</u>		<u>Six months ended</u>	
	<u>9/30/2017</u>	<u>9/30/2016</u>	<u>9/30/2017</u>	<u>9/30/2016</u>
Revenue	\$	6,247	\$	11,242
Income (loss) from continuing operations		628		920
Net income		628		920

TitanLiner, Inc.

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

At September 30, 2017, the value of TitanLiner, Inc. represented 3.1% of our total assets. Below is certain selected key financial data from its Balance Sheet at September 30, 2017 and March 31, 2017 and Income Statement for the three and six months ended September 30, 2017 and 2016 (amounts in thousands).

	<u>September 30, 2017</u>		<u>March 31, 2017</u>	
Current Assets	\$	7,057	\$	5,712
Non-Current Assets		3,154		2,276
Current Liabilities		2,232		1,709
Non-Current Liabilities	\$	1,380	\$	1,638

	<u>Three months ended</u>		<u>Six months ended</u>	
	<u>9/30/2017</u>	<u>9/30/2016</u>	<u>9/30/2017</u>	<u>9/30/2016</u>
Revenue	\$	4,029	\$	8,237
Income (loss) from continuing operations		831		1,533
Net income		831		1,533

I-45 SLF LLC

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

As of September 30, 2017, I-45 SLF had total assets of \$240.0 million. I-45 SLF currently has approximately \$223.8 million of credit investments at fair value as of September 30, 2017. The portfolio companies in I-45 SLF are in industries similar to those in which we may invest directly. As of September 30, 2017, approximately \$13.5 million were unsettled trades. During the three months ended September 30, 2017, I-45 SLF declared a total dividend of \$2.9 million of which \$2.2 million was paid to CSWC in October 2017.

Additionally, I-45 SLF closed on a \$75.0 million 5-year senior secured credit facility (the "I-45 credit facility") in November 2015. This facility includes an accordion feature which will allow I-45 SLF to achieve leverage of approximately 2x debt-to-equity. Borrowings under the facility are secured by all of the assets of I-45 SLF and bear interest at a rate equal to LIBOR plus 2.5% per annum. During the year ended March 31, 2017, I-45 SLF increased debt commitments outstanding by an additional \$90.0 million by adding three additional lenders to the syndicate, bringing total debt commitments to \$165.0 million. In July 2017, the I-45 credit facility was amended to extend the maturity to July 2022. Additionally, borrowings bear interest at a rate equal to LIBOR plus 2.4% per annum. Under the I-45 credit facility, \$139.0 million has been drawn as of September 30, 2017.

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

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

Portfolio Company	Industry	Investment Type	Maturity Date	Current Interest Rate¹	Principal	Cost	Fair Value²
AAC Holdings	Healthcare services	First Lien	6/30/2023	L+6.75% (Floor 1.00%)	\$ 7,651,875	\$ 7,481,678	\$ 7,651,875
Ahead, LLC	Business services	First Lien	11/2/2020	L+ 6.50%	4,562,500	4,477,481	4,562,500
American Scaffold Holdings	Aerospace & defense	First Lien	3/31/2022	L+6.50% (Floor 1.00%)	2,850,000	2,816,842	2,835,750
American Teleconferencing	Telecommunications	First Lien	12/8/2021	L+6.50% (Floor 1.00%)	5,560,608	5,153,997	5,379,889
		Second Lien	6/6/2022	L+9.50% (Floor 1.00%)	1,708,571	1,647,900	1,696,825
Ansira Partners	Business services	First Lien	12/20/2022	L+6.50% (Floor 1.00%)	4,469,751	4,175,589	4,183,112
Array Technologies	Technology products & components	First Lien	6/22/2021	L+7.25% (Floor 1.00%)	3,807,227	3,744,499	3,797,709
ATX Networks Corp.	Technology products & components	First Lien	6/11/2021	L+6.00% (Floor 1.00%)	4,874,687	4,833,532	4,825,940
Beaver-Visitec International	Healthcare products	First Lien	8/21/2023	L+5.00% (Floor 1.00%)	4,950,000	4,907,818	4,974,750
California Pizza Kitchen	Food, agriculture & beverage	First Lien	8/23/2022	L+6.00% (Floor 1.00%)	6,934,962	6,894,479	6,888,741
CMN.com (Higher Education)	Consumer services	First Lien	11/3/2021	L+6.00% (Floor 1.00%)	6,825,000	6,713,318	6,825,000
Digital River	Software & IT services	First Lien	2/12/2021	L+6.50% (Floor 1.00%)	7,015,452	6,991,760	7,050,529
Digital Room	Paper & forest products	Second Lien	5/21/2023	L+10.00% (Floor 1.00%)	4,000,000	3,930,332	3,980,000
Highline Aftermarket	Automobile	First Lien	3/17/2024	L+4.25% (Floor 1.00%)	2,871,595	2,858,248	2,900,311
Hunter Defense Technologies	Aerospace & defense	First Lien	8/5/2019	L+6.00% (Floor 1.00%)	2,644,737	2,639,555	2,624,901
iEnergizer	Business services	First Lien	5/1/2019	L+6.00% (Floor 1.25%)	5,797,170	5,563,050	5,782,678
Imagine! Print Solutions	Media, marketing & entertainment	Second Lien	6/21/2023	L+8.75% (Floor 1.00%)	3,000,000	2,956,799	2,970,000
InfoGroup Inc.	Software & IT services	First Lien	4/3/2023	L+5.00% (Floor 1.00%)	2,985,000	2,957,395	2,921,569
Integro Parent Inc.	Business services	First Lien	10/31/2022	L+5.75% (Floor 1.00%)	4,913,923	4,779,886	4,901,639
iPayment, Inc.	Financial services	First Lien	4/11/2023	L+6.00% (Floor 1.00%)	5,000,000	4,953,502	5,062,500

Portfolio Company	Industry	Investment Type	Maturity Date	Current Interest Rate ¹	Principal	Cost	Fair Value ²
KeyPoint Government Solutions	Business services	First Lien	4/18/2024	L+6.00% (Floor 1.00%)	4,875,000	4,829,433	4,829,433
LifeMiles	Consumer services	First Lien	8/18/2022	L+5.50% (Floor 1.00%)	2,500,000	2,475,332	2,525,000
Logix Communications	Telecommunications	First Lien	8/9/2024	L+5.75% (Floor 1.00%)	4,729,730	4,682,432	4,771,115
LSF9 Atlantis Holdings	Telecommunications	First Lien	5/1/2023	L+6.00% (Floor 1.00%)	6,956,250	6,891,069	6,998,266
Lulu's Fashion Lounge	Consumer products & retail	First Lien	8/23/2022	L+7.00% (Floor 1.00%)	4,545,454	4,410,691	4,410,691
MHVC Acquisition	Aerospace & defense	First Lien	4/29/2024	L+5.25% (Floor 1.00%)	5,985,000	5,956,790	6,052,331
Nielsen and Bainbridge	Wholesale	First Lien	4/26/2024	L+5.50% (Floor 1.00%)	3,000,000	2,943,617	2,985,000
New Media Holdings II LLC	Media, marketing & entertainment	First Lien	7/14/2022	L+6.25% (Floor 1.00%)	7,864,532	7,842,054	7,876,840
PetValu	Consumer products & retail	First Lien	7/5/2022	L+5.50% (Floor 1.00%)	4,950,000	4,910,627	4,950,000
Polycom	Telecommunications	First Lien	9/27/2023	L+5.25% (Floor 1.00%)	6,022,333	6,022,333	6,111,163
Prepaid Legal Services, Inc.	Consumer services	First Lien	7/1/2019	L+5.25% (Floor 1.25%)	4,253,522	4,250,823	4,292,059
		Second Lien	7/1/2020	L+9.00% (Floor 1.25%)	405,000	397,143	408,291
PT Network	Healthcare products	First Lien	11/30/2021	L+6.50% (Floor 1.00%)	4,972,917	3,870,886	3,912,222
Redbox Automated Retail	Gaming & leisure	First Lien	9/27/2021	L+7.50% (Floor 1.00%)	4,900,000	4,781,800	4,949,000
Sigma Electric	Industrial products	First Lien	10/13/2021	L+7.50% (Floor 1.00%)	4,975,000	4,874,669	4,975,000
SRP Companies	Consumer services	First Lien	9/8/2023	L+6.50% (Floor 1.00%)	5,946,868	5,895,838	5,946,868
Teleguam Holdings	Telecommunications	Second Lien	4/12/2024	L+8.50% (Floor 1.00%)	2,000,000	1,960,957	2,020,000
Terra Millennium	Industrial products	First Lien	10/31/2022	L+6.25% (Floor 1.00%)	6,868,750	6,807,706	6,903,094
TestEquity	Capital equipment	First Lien	4/28/2022	L+5.50% (Floor 1.00%)	4,977,625	4,931,437	4,931,437
Time Manufacturing	Capital equipment	First Lien	2/3/2023	L+5.00% (Floor 1.00%)	4,972,506	4,929,391	4,941,428
Traeger Grills	Durable consumer goods	First Lien	9/25/2024	L+6.75% (Floor 1.00%)	4,000,000	3,417,627	3,473,813
		Second Lien	9/25/2025	L+8.50% (Floor 1.00%)	2,500,000	2,462,500	2,512,500

Portfolio Company	Industry	Investment Type	Maturity Date	Current Interest Rate ¹	Principal	Cost	Fair Value ²
Turning Point Brands	Consumer products & retail	First Lien	5/17/2022	L+6.00% (Floor 1.00%)	4,975,000	4,929,677	4,962,563
Tweddle Group	Media, marketing & entertainment	First Lien	10/24/2022	L+6.00% (Floor 1.00%)	2,443,269	2,401,613	2,449,377
UniTek Global Services	Telecommunications	First Lien	1/13/2019	L+8.50% (Floor 1.00%)	4,584,809	4,584,809	4,584,809
US Joiner (IMECO and RAACI)	Transportation & logistics	First Lien	4/16/2020	L+6.00% (Floor 1.00%)	4,482,308	4,439,693	4,448,690
US Telepacific	Telecommunications	First Lien	5/2/2023	L+5.00% (Floor 1.00%)	6,982,500	6,902,236	6,818,411
VIP Cinema	Hotel, gaming & leisure	First Lien	3/1/2023	L+6.00% (Floor 1.00%)	4,875,000	4,852,935	4,926,797
Wirepath	Durable consumer goods	First Lien	8/5/2024	L+6.00% (Floor 1.00%)	3,000,000	2,985,271	3,024,375
Total Investments						<u>\$ 221,119,049</u>	<u>\$ 223,806,791</u>

¹ Represents the interest rate as of September 30, 2017. All interest rates are payable in cash, unless otherwise noted. The majority of investments bear interest at a rate that may be determined by reference to London Interbank Offered Rate (“LIBOR” or “L”) or Prime (“P”) which reset daily, monthly, quarterly, or semiannually. For each the Company has provided the spread over LIBOR or Prime and the current contractual interest rate in effect at September 30, 2017. Certain investments are subject to a LIBOR or Prime interest rate floor.

² 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.

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

<u>Portfolio Company</u>	<u>Industry</u>	<u>Investment Type</u>	<u>Maturity Date</u>	<u>Current Interest Rate¹</u>	<u>Principal</u>	<u>Cost</u>	<u>Fair Value²</u>
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%)	3,921,777	3,884,092	3,893,523
Array Technologies	Technology products & components	First Lien	6/22/2021	L+7.25% (Floor 1.00%)	4,325,000	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	Paper & forest products	Second Lien	5/28/2023	L+10.00% (Floor 1.00%)	4,000,000	3,924,128	3,924,128
Highline Aftermarket	Automobile	First Lien	3/17/2024	L+4.25% (Floor 1.00%)	3,000,000	2,985,000	3,033,900
Hunter Defense Technologies	Aerospace & defense	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
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	4/3/2023	L+5.00% (Floor 1.50%)	3,000,000	2,970,000	2,970,000

Portfolio Company	Industry	Investment Type	Maturity Date	Current Interest Rate ¹	Principal	Cost	Fair Value ²
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%)	3,930,277	3,883,735	3,883,735
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	Industrial products	First Lien	11/23/2022	L+6.25% (Floor 1.00%)	6,956,250	6,889,423	6,956,250
Time 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

<u>Portfolio Company</u>	<u>Industry</u>	<u>Investment Type</u>	<u>Maturity Date</u>	<u>Current Interest Rate¹</u>	<u>Principal</u>	<u>Cost</u>	<u>Fair Value²</u>
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

¹ 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 (“P”) which reset daily, monthly, quarterly, or semiannually. For each the Company has provided the spread over LIBOR or Prime and the current contractual interest rate in effect at March 31, 2017. Certain investments are subject to a LIBOR or Prime interest rate floor.

² 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.

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

	<u>September 30, 2017</u>	<u>March 31, 2017</u>
Selected Balance Sheet Information:		
Investments, at fair value (cost \$221,119 and \$197,494)	\$ 223,807	\$ 200,243
Cash and cash equivalents	12,054	12,093
Due from broker	1,029	1,732
Deferred financing costs and other assets	2,357	1,659
Interest receivable	802	474
Total assets	<u>\$ 240,049</u>	<u>\$ 216,201</u>
Senior credit facility payable	\$ 139,000	\$ 122,000
Payable for unsettled transactions	13,497	11,795
Other liabilities	3,125	2,988
Total liabilities	<u>\$ 155,622</u>	<u>\$ 136,783</u>
Members' equity	<u>84,427</u>	<u>79,418</u>
Total liabilities and net assets	<u>\$ 240,049</u>	<u>\$ 216,201</u>

	<u>Three Months Ended</u>		<u>Six Months Ended</u>	
	<u>9/30/2017</u>	<u>9/30/2016</u>	<u>9/30/2017</u>	<u>9/30/2016</u>
Selected Statement of Operations Information:				
Total revenues	\$ 4,349	\$ 2,776	\$ 8,300	\$ 4,934
Total expenses	<u>(1,643)</u>	<u>(967)</u>	<u>(3,195)</u>	<u>(1,721)</u>
Net investment income	2,706	1,809	5,105	3,213
Net unrealized appreciation	(281)	1,589	(60)	2,397
Net realized gains	324	172	938	360
Net increase in members' equity resulting from operations	<u>\$ 2,749</u>	<u>\$ 3,570</u>	<u>\$ 5,983</u>	<u>\$ 5,970</u>

CAPITAL SOUTHWEST CORPORATION AND SUBSIDIARIES
Consolidated Schedule of Investments in and Advances to Affiliates (Unaudited)
Six Months Ended September 30, 2017
(amounts in thousands)

Portfolio Company	Type of Investment (1)	Amount of Interest or Dividends Credited in Income (2)	Fair Value at March 31, 2017	Amount of Realized Gain/(Loss)	Amount of Unrealized Gain/(Loss)	Gross Additions (3)	Fair Value at September 30, 2017
Control Investments							
I-45 SLF LLC	80% LLC equity interest	\$ 4,516	\$ 63,395	\$ —	\$ 6	\$ 4,000	\$ 67,401
Media Recovery, Inc.	800,000 shares Series A Convertible Preferred Stock, convertible into 800,000 shares common stock	222	5,590	—	299	—	5,889
	4,000,002 shares common stock	1,283	32,249	—	1,720	—	33,969
TitanLiner	1,189,609 shares Series B convertible preferred stock (6% PIK)	82	2,777	—	2,167	82	5,026
	702,475 shares Series A convertible preferred stock	—	—	—	6,303	—	6,303
Total Control Investments		\$ 6,103	\$ 104,011	\$ —	\$ 10,495	\$ 4,082	\$ 118,588
Affiliate Investments							
Chandler Signs, LP	Senior subordinated debt (12.00% cash)	281	4,478	—	(52)	6	4,432
	1,500,000 units of Class A-1 common stock	—	2,661	—	(602)	—	2,059
Total Affiliate Investments		\$ 281	\$ 7,139	\$ —	\$ (654)	\$ 6	\$ 6,491
Total Control & Affiliate Investments		\$ 6,384	\$ 111,150	\$ —	\$ 9,841	\$ 4,088	\$ 125,079

- (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.

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

The following discussion should be read in conjunction with our consolidated financial statements and the notes thereto included in our Annual Report on Form 10-K for the fiscal year ended March 31, 2017 as filed with the SEC on June 1, 2017 (the "Form 10-K").

The information contained herein may contain "forward-looking statements" based on our current expectations, assumptions and estimates about us and our industry. These forward-looking statements involve risks and uncertainties. Words such as "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 "Risk Factors" and elsewhere in our Form 10-K for the year ended March 31, 2017 and in this Form 10-Q. The forward-looking statements made in this Form 10-Q relate only to events as of the date on which the statements are made. You should read the following discussion in conjunction with the consolidated financial statements and related footnotes and other financial information included in our Form 10-K for the year ended March 31, 2017. We undertake no obligation to update publicly any forward-looking statements for any reason, whether as a result of new information, future events or otherwise, except as required by law.

OVERVIEW

Capital Southwest Corporation, which we refer to as CSWC or the Company, is an internally managed 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 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. 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, or EBITDA between \$3.0 million and \$15.0 million, and our LMM investments generally range from \$5.0 million to \$20.0 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 from \$5.0 million to \$10.0 million.

We seek to fill the financing gap for LMM businesses, 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 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 first lien senior debt, secured by a first lien on the assets of the portfolio company, as well as subordinated debt. Our LMM investments typically have a term of between five and seven years from the original investment date. We also often seek to invest in equity securities in 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.

CRITICAL ACCOUNTING POLICIES AND USE OF ESTIMATES

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

Valuation of Investments

The most significant determination inherent in the preparation of our consolidated financial statements is the valuation of our investment portfolio and the related amounts of unrealized appreciation and depreciation. As of September 30, 2017 and March 31, 2017, our investment portfolio at fair value represented approximately 87.3% and 88.1%, respectively, of our total assets. We are required to report our investments at fair value. We follow the provisions of Accounting Standards Codification, or ASC, 820, *Fair Value Measurements and Disclosures* ("ASC 820"). ASC 820 defines fair value, establishes a framework for measuring fair value, establishes a fair value hierarchy based on the quality of inputs used to measure fair value, and enhances disclosure requirements for fair value measurements. ASC 820 requires us to assume that the portfolio investment is to be sold in the principal market to independent market participants, which may be a hypothetical market. See Note 4 — "Fair Value Measurements" in the notes to consolidated financial statements for a detailed discussion of our investment portfolio valuation process and procedures.

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

Our Board of Directors has the final responsibility for reviewing and approving, in good faith, our determination of the fair value for our investment portfolio and our valuation procedures, consistent with the Investment Company Act of 1940 requirements. We believe our investment portfolio as of September 30, 2017 and March 31, 2017 approximates 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. 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 September 30, 2017, we did not have any investments on non-accrual status.

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. CSWC is currently evaluating the impact the adoption of this new accounting standard will have on its consolidated financial statements, but the impact of the adoption is not expected to be material.

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

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. Early application is permitted. The impact of the adoption of this new accounting standard on the Company's consolidated financial statements is not expected to be material.

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 from \$5.0 million to \$20.0 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 from \$5.0 million to \$10.0 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 \$321.9 million as of September 30, 2017, as compared to \$286.9 million as of March 31, 2017. As of September 30, 2017, we had investments in 27 portfolio companies with an aggregate cost of \$279.8 million. As of March 31, 2017, we had investments in 28 portfolio companies with an aggregate cost of \$250.5 million.

As of September 30, 2017 and March 31, 2017, approximately \$168.5 million, or 89.9%, and \$155.0 million, or 92.6%, respectively, of our debt investment portfolio (at fair value) bore interest at floating rates, all of which were subject to contractual minimum interest rates. As of September 30, 2017 and March 31, 2017, approximately \$18.8 million, or 10.1%, and \$12.4 million, or 7.4%, respectively, of our debt investment portfolio (at fair value) bore interest at fixed rates.

The following tables provide a summary of our investments in LMM and UMM companies as of September 30, 2017 and March 31, 2017 (excluding our investment in I-45 SLF LLC):

	<u>As of September 30, 2017</u>	
	<u>LMM (a)</u>	<u>UMM</u>
	(dollars in thousands)	
Number of portfolio companies	13	13
Fair value	\$ 170,139	\$ 84,320
Cost	\$ 131,762	\$ 83,283
% of portfolio at cost - debt	77.8%	100.0%
% of portfolio at cost - equity	22.2%	-
% of debt investments at cost secured by first lien	63.5%	61.6%
Weighted average annual effective yield(b)(c)	11.4%	9.9%
Weighted average EBITDA(c)	\$ 9.1	\$ 93.8
Weighted average leverage through CSWC security(c)(d)	3.5x	3.7x

- (a) At September 30, 2017, we had equity ownership in approximately 84.6% of our LMM investments.
- (b) The weighted-average annual effective yields were computed using the effective interest rates for all debt investments at cost as of September 30, 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 September 30, 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 relative risk of its position in each portfolio debt investment.

	As of March 31, 2017	
	LMM (a)	UMM
	(dollars in thousands)	
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(b)(c)	11.4%	9.6%
Weighted average EBITDA(c)	\$ 7.4	\$ 101.3
Weighted average leverage through CSWC security(c)(d)	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 relative risk of its position in each portfolio debt investment.

As of September 30, 2017 and March 31, 2017, our investment portfolio consisted of the following investments:

	<u>Fair Value</u>	<u>Percentage of Total Portfolio</u>	<u>Cost</u>	<u>Percentage of Total Portfolio</u>
	(dollars in millions)			
September 30, 2017:				
1st lien loans ¹	\$ 136.1	42.3 %	\$ 135.0	48.2 %
2nd lien loans	32.4	10.1	32.0	11.4
Subordinated debt	18.9	5.9	18.8	6.7
Preferred equity	22.3	6.9	15.3	5.5
Common equity & warrants	44.8	13.9	13.9	5.0
I-45 SLF LLC ²	67.4	20.9	64.8	23.2
	<u>\$ 321.9</u>	<u>100.0 %</u>	<u>\$ 279.8</u>	<u>100.0 %</u>
March 31, 2017³:				
1st lien loans	\$ 107.8	37.6 %	\$ 106.8	42.6 %
2nd lien loans	47.2	16.5	46.9	18.7
Subordinated debt	12.5	4.3	12.4	4.9
Preferred equity	18.3	6.4	14.8	5.9
Common equity & warrants	37.7	13.1	8.8	3.6
I-45 SLF LLC ²	63.4	22.1	60.8	24.3
	<u>\$ 286.9</u>	<u>100.0 %</u>	<u>\$ 250.5</u>	<u>100.0 %</u>

¹ Included in 1st lien loans are loans structured as first lien last out loans. These loans may in certain cases be subordinated in payment priority to other senior secured lenders. As of September 30, 2017 and March 31, 2017, the fair value of the first lien last out loans are \$22.0 million and \$21.8 million, respectively.

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

³ Presentation of the March 31, 2017 disclosure is updated to conform to the 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.
- 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 September 30, 2017 and March 31, 2017:

<u>Investment Rating</u>	<u>As of September 30, 2017</u>	
	<u>Debt Investments at Fair Value</u>	<u>Percentage of Debt Portfolio</u>
	<u>(dollars in thousands)</u>	
1	\$ 8,250	4.4 %
2	168,957	90.2
3	10,109	5.4
4	-	-
Total	\$ 187,316	100.0 %

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

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

As of September 30, 2017 and March 31, 2017, we did not have any investments on non-accrual status.

Investment Activity

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

During the six months ended September 30, 2016, we made debt investments in seven new portfolio companies totaling \$48.9 million, follow-on debt investments in three portfolio companies totaling \$6.4 million, and an equity investment in one existing portfolio company totaling \$12.0 million. We received contractual principal repayments totaling approximately \$1.2 million and full prepayments of approximately \$11.0 million from two portfolio companies. We received proceeds related to the sales of certain equity securities totaling \$4.4 million and recognized realized gains on such sales totaling \$4.0 million.

Total portfolio investment activity for the six months ended September 30, 2017 and 2016 was as follows (dollars in thousands):

Six months ended September 30, 2017	1st Lien Loans	2nd Lien Loans	Subordinated Debt	Preferred & Common Equity	I-45 SLF, LLC	Total
Fair value, beginning of period	\$107,817	\$ 47,176	\$ 12,453	\$ 56,039	\$63,395	\$286,880
New investments	45,323	-	14,406	5,441	4,000	69,170
Proceeds from sales of investments	-	-	-	(15)	-	(15)
Principal repayments received	(17,930)	(15,179)	(8,100)	-	-	(41,209)
PIK interest earned	-	-	-	142	-	142
Accretion of loan discounts	304	54	25	-	-	383
Realized gain	465	241	114	14	-	834
Unrealized gain (loss)	146	53	(52)	5,522	6	5,675
Fair value, end of period	<u>\$136,125</u>	<u>\$ 32,345</u>	<u>\$ 18,846</u>	<u>\$ 67,143</u>	<u>\$67,401</u>	<u>\$321,860</u>
Weighted average yield on debt investments at end of period						10.71 %
Weighted average yield on total investments at end of period						<u>10.65 %</u>

Six months ended September 30, 2016	1st Lien Loans	2nd Lien Loans	Subordinated Debt	Preferred & Common Equity	I-45 SLF, LLC	Total
Fair value, beginning of period	\$ 39,491	\$ 38,227	\$ 15,114	\$ 49,267	\$ 36,337	\$ 178,436
New investments	52,580	2,940	-	-	12,000	67,520
Proceeds from sales of investments	-	-	-	(4,442)	-	(4,442)
Principal repayments received	(7,098)	(5,088)	(79)	-	-	(12,265)
Accretion of loan discounts	114	45	17	-	-	176
Realized gain	28	193	-	3,998	-	4,219
Unrealized gain (loss)	1,160	146	(203)	1,388	2,184	4,675
Fair value, end of period	<u>\$ 86,275</u>	<u>\$ 36,463</u>	<u>\$ 14,849</u>	<u>\$ 50,211</u>	<u>\$ 50,521</u>	<u>\$ 238,319</u>
Weighted average yield on debt investments at end of period						10.00 %
Weighted average yield on total investments at end of period						<u>9.13 %</u>

RESULTS OF OPERATIONS

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

Comparison of three months ended September 30, 2017 and September 30, 2016

	Three Months Ended September 30,		Net Change	
	2017	2016	Amount	%
	(in thousands)			
Total investment income	\$ 8,509	\$ 4,726	\$ 3,783	80.0 %
Total operating expenses	(4,439)	(2,949)	(1,490)	50.5 %
Income before taxes	4,070	1,777	2,293	129.0 %
Income tax expense	133	412	(279)	(67.7)%
Net investment income	3,937	1,365	2,572	188.4 %
Net realized gain on investments before income tax	210	3,527	(3,317)	(94.0)%
Net change in unrealized appreciation on investments, net of tax	4,495	2,026	2,469	121.9 %
Net increase in net assets from operations	<u>\$ 8,642</u>	<u>\$ 6,918</u>	<u>\$ 1,724</u>	24.9 %

Investment Income

Total investment income consisted of interest income, management fees, dividend income and other income for each applicable period. For the three months ended September 30, 2017, Capital Southwest reported investment income of \$8.5 million, a \$3.8 million, or 80.0%, increase as compared to the three months ended September 30, 2016. The increase was primarily due to a \$2.7 million, or 103.6%, increase in interest income generated from our debt investments due to a 35.6% increase in the cost basis of debt investments held from \$137.0 million to \$185.8 million year over year in addition to an increase in the weighted average yield on debt investments from 10.00% to 10.71% year over year. Additionally, there was an increase of approximately \$1.0 million in dividend income due to an increase in dividends received from I-45 SLF LLC and Media Recovery, Inc.

Operating Expenses

Due to the nature of our business, the majority of our operating expenses are related to employees' and directors' compensation, office expenses, and legal, professional and accounting fees.

For the three months ended September 30, 2017, our total operating expenses were \$4.4 million, an increase of \$1.5 million, or 50.5%, as compared to the total operating expenses of \$2.9 million for the three months ended September 30, 2016. The increase was primarily attributable to a \$0.8 million increase in interest expense incurred on our senior secured credit facility, or Credit Facility, due to an increase in borrowings during the three months ended September 30, 2017. The remaining increase was due to individually immaterial items within compensation, professional fees and general and administrative fees.

Net Investment Income

For the three months ended September 30, 2017, income before taxes increased by \$2.3 million, or 129.0%. As a result of the \$3.8 million increase in total investment income, offset by a \$1.5 million increase in operating expenses, net investment income increased from the prior year period by \$2.6 million to \$3.9 million.

and a \$0.6 million increase in compensation (including both cash and share-based compensation) during the six months ended September 30, 2017.

Net Investment Income

For the six months ended September 30, 2017, income before taxes increased by \$5.0 million, or 183.9%. As a result of the \$7.4 million increase in total investment income, offset by a \$2.4 million increase in operating expenses, net investment income increased from the prior year period by \$5.6 million to \$7.4 million.

Increase in Net Assets from Operations

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

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

During the six months ended September 30, 2016, we recognized realized gains totaling \$3.7 million, which consisted of net gains on the partial repayments of seven non-control/non-affiliate investments, prepayment of one non-control/non-affiliate investment, the sale of certain equity securities, and the write down of two escrow receivables. In addition, during the six months ended September 30, 2016, we recorded a net change in unrealized appreciation of investments totaling \$4.2 million, consisting of net unrealized appreciation on our current portfolio of \$7.9 million, the reversal of \$3.2 million of net unrealized appreciation recognized in prior periods due to realized gains noted above, and net unrealized depreciation related to deferred tax associated with the Taxable Subsidiary of \$0.5 million. Net unrealized appreciation on our current portfolio included unrealized gains on Deepwater Corrosion Services of \$4.3 million and Media Recovery, Inc. of \$3.4 million.

FINANCIAL LIQUIDITY AND CAPITAL RESOURCES

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

Cash

At September 30, 2017, the Company had cash and cash equivalents of approximately \$33.3 million.

Financing Transactions

In August 2016, we entered into the Credit Facility, which provides additional liquidity to support our investment and operational activities, which included total commitments of \$100.0 million. The Credit Facility also contains an accordion feature which allows us 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. As of September 30, 2017, the Credit Facility includes total commitments of \$115.0 million from a diversified group of six lenders and is scheduled to mature August 30, 2020.

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

The Credit Facility contains certain affirmative and negative covenants, including but not limited to: (1) certain reporting requirements, (2) maintaining RIC and BDC status, (3) maintaining a minimum shareholders' equity, (4) maintaining a minimum consolidated net worth, (5) maintaining a regulatory asset coverage of not less than 200.0%, (6) maintaining a consolidated interest coverage ratio of at least 2.5 to 1.0, and (7) at any time the outstanding advances exceed 90.0% of the borrowing base, maintaining a minimum liquidity of not less than 10.0% of the covered debt amount.

The Credit Facility also contains customary events of default, including, without limitation, nonpayment, misrepresentation of representations and warranties in a material respect, breach of covenant, bankruptcy, and change of control, with customary cure and notice provisions. If the Company defaults on its obligations under the Credit Facility, the lenders may have the right to foreclose upon and sell, or otherwise transfer, the collateral subject to their security interests.

The Credit Facility is secured by (1) substantially all of the present and future property and assets of the Company and the guarantors and (2) 100.0% of the equity interests in the Company's wholly-owned subsidiaries. As of September 30, 2017, substantially all of the Company's assets were pledged as collateral for the Credit Facility.

At September 30, 2017, CSWC had \$56.0 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 \$0.9 million and \$1.6 million, respectively, for the three and six months ended September 30, 2017. The weighted average interest rate on the Credit Facility was 4.76% as of September 30, 2017. As of September 30, 2017, CSWC was in compliance with all financial covenants under the Credit Facility.

Our primary use of funds will be investments in portfolio companies and operating expenses.

CONTRACTUAL OBLIGATIONS

There have been no material changes to our contractual obligations from what was previously disclosed in our Annual Report filed with the SEC.

OFF-BALANCE SHEET ARRANGEMENTS

We may be a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financial needs of our portfolio companies. These instruments may include commitments to extend credit and fund equity capital and involve, to varying degrees, elements of liquidity and credit risk in excess of the amount recognized in the balance sheet. At September 30, 2017, we had a total of approximately \$7.7 million in currently unfunded commitments, consisting of \$3.2 million in equity capital commitments to I-45 SLF that had not been fully called and a \$2.0 million revolver and \$2.5 million delayed draw term loan to Zenfolio Inc. The Company believes its assets will provide adequate cover to satisfy these commitments. As of September 30, 2017, the Company had cash and cash equivalents of \$33.3 million and \$59.0 million in available borrowings under the Credit Facility. At March 31, 2017, we had a total of approximately \$7.2 million in outstanding commitments related to equity capital commitments to I-45 SLF that had not been fully called. At March 31, 2017, the commitment to I-45 SLF was our sole unfunded obligation.

RECENT DEVELOPMENTS

On October 2, 2017, CSWC paid quarterly dividends declared on August 30, 2017 in the amount of \$3.8 million, or \$0.24 per share.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

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

Interest Rate Risk

We are subject to interest rate risk. Interest rate risk is defined as the sensitivity of our current and future earnings to interest rate volatility, variability of spread relationships, the difference in re-pricing internals between our assets and liabilities and the effect that interest rates may have on our cash flows. Changes in the general level of interest rates can affect our net interest income, which is the difference between the interest income earned on interest earning assets and our interest expense incurred in connection with our interest-bearing liabilities. Changes in interest rates can also affect, among other things, our ability to acquire and originate loans and securities and the value of our investment portfolio. Our net investment income is affected by fluctuations in various interest rates including LIBOR and prime rates. Our risk management systems and procedures are designed to identify and analyze our risk, to set appropriate policies and limits and to continually monitor these risks. We regularly measure exposure to interest rate risk and determine whether or not any hedging transactions are necessary to mitigate exposure to changes in interest rates. As of June 30, 2017, we were not a party to any hedging arrangements.

As of September 30, 2017, approximately 89.9% of our debt investment portfolio (at fair value) bore interest at floating rates, all of which were subject to contractual minimum interest rates. A hypothetical 100 basis point increase in interest rates could increase our net investment income by a maximum of \$1.8 million, or \$0.11 per share, on an annual basis. A hypothetical 100 basis point decrease in interest rates could increase our net investment income by a maximum of \$0.5 million, or \$0.03 per share, on an annual basis. As of September 30, 2017, none of our idle fund investments bore interest at floating rates. Our Credit Facility bears interest on a per annum basis equal to the applicable LIBOR rate plus 3.25%. We pay unused commitment fees of 0.50% to 1.50% per annum, based on utilization.

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

Item 4. Controls and Procedures

As of the end of the period covered by this report, an evaluation was performed under the supervision and with the participation of our management, including the President and Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15 of the Securities Exchange Act of 1934). Based upon this evaluation, management, including our President and Chief Executive Officer and our Chief Financial Officer, concluded that our current disclosure controls and procedures are effective as of September 30, 2017.

During the three months ended September 30, 2017, there have been no changes in our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect our internal control over financial reporting.

PART II. – OTHER INFORMATION

Item 1. Legal Proceedings

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

Item 1A. Risk Factors

Investing in our common stock involves a number of significant risks. There have been no material changes to the risk factors as previously disclosed in our Annual Report on Form 10-K for the fiscal year ended March 31, 2017 that we filed with the SEC on June 1, 2017, and as updated in our registration statement on Form N-2 (No. 333-220385) filed on October 23, 2017 (Pre-Effective Amendment No. 1).

Item 5. Other Information

Form of Director and Officer Indemnification Agreement

On November 6, 2017, our Board of Directors approved the entry into a form of indemnification agreement, an Indemnification Agreement, with each of its directors and named executive officers, each an Indemnitee. The Indemnification Agreement provides for the indemnification, and advancement of expenses, to the full extent permitted by law, against judgments, arbitration awards, mediation amounts, penalties, settlements, fines, excise or similar taxes, and reasonable expenses incurred by the Indemnitee in connection with any threatened, pending or completed action, suit or proceeding on account of Indemnitee's service as a director, officer, employee or agent of the Company.

The foregoing description of the Indemnification Agreement does not purport to be complete and is qualified in its entirety by reference to the form Indemnification Agreement, a copy of which is attached hereto as Exhibit 10.1 to this Quarterly Report on Form 10-Q and incorporated herein by reference.

Second Amended and Restated Bylaws and Change to Nomination Procedures

On November 6, 2017, our Board of Directors approved an amendment and restatement of the Company's Amended and Restated Bylaws, as amended and restated, the Bylaws, effective as of such date. The amendment added Section 2.14, which is an advance notice provision for director nominations and stockholder proposals.

The advance notice provisions provides, among other things, that a shareholder who desires to (1) nominate a director for election to the Board of Directors at the Company's annual meeting or (2) propose other business to be considered by the shareholders at the Company's annual meeting, to provide written notice to the Company not earlier than the 120th day nor later than the 90th day prior to the first anniversary of the date of the proxy statement for the preceding year's annual meeting.

The advance notice provisions applies to the Company's 2018 annual meeting.

The foregoing summary of the revisions to the Bylaws does not purport to be complete and is qualified in its entirety by the full text of the Bylaws. The full text of the Bylaws is attached as Exhibit 3.2 to this Quarterly Report on Form 10-Q and is incorporated herein by reference.

Restricted Stock Award Plan and Stock Incentive Plan

On August 22, 2017, we received an exemptive order that allows us to withhold shares of our common stock to satisfy tax withholding obligations related to the vesting of restricted stock granted pursuant to the Company's 2010 Restricted Stock Award Plan, as amended (the "2010 Plan") and to pay the exercise price of options to purchase shares of our common stock granted pursuant to the Company's 2009 Stock Incentive Plan, as amended (the "2009 Plan").

In connection with the exemptive order, our Board of Directors approved an amendment to the 2010 Plan (the "Restricted Stock Plan Amendment"). The Restricted Stock Plan Amendment allows the Company to withhold shares of our common stock from a participant's restricted stock award in order to satisfy tax withholding obligations related to the vesting of such restricted stock. Shares withheld by us pursuant to the Restricted Stock Plan Amendment will not be available for issuance or reissuance under the 2010 Plan. Our Board of Directors approved the Restricted Stock Plan Amendment pursuant to the powers granted under Section 14 of the 2010 Plan. The foregoing description of the Restricted Stock Plan Amendment does not purport to be complete and is qualified in its entirety by reference to the Restricted Stock Plan Amendment, a copy of which is attached hereto as Exhibit 10.3 to this Quarterly Report on Form 10-Q and incorporated herein by reference.

In addition, our Board of Directors approved an amendment to the 2009 Plan (the “Stock Incentive Plan Amendment”). The Stock Incentive Plan Amendment allows a participant of such plan to pay the exercise price of an option with cash or pursuant to a net exercise feature that allows the Company to withhold the number of shares of our common stock from such participant’s option equal to the aggregate exercise price of the option being exercised divided by the fair market value of a share of our common stock. Shares withheld by us pursuant to the Stock Incentive Plan Amendment will not be available for issuance or reissuance under the 2009 Plan. Our Board of Directors approved the Stock Incentive Plan Amendment pursuant to the powers granted under Section 18 of the 2009 Plan. The foregoing description of the Stock Incentive Plan Amendment does not purport to be complete and is qualified in its entirety by reference to the Stock Incentive Plan Amendment, a copy of which is attached hereto as Exhibit 10.4 to this Quarterly Report on Form 10-Q and incorporated herein by reference.

Item 6. Exhibits

<u>Exhibit No.</u>	<u>Description</u>
3.2*	Second Amended and Restated Bylaws of Capital Southwest Corporation.
10.1*+	Form of Director and Officer Indemnification Agreement.
10.2*	Incremental Assumption Agreement dated as of August 18, 2017 among Capital Southwest Corporation, the Lenders party thereto, ING Capital LLC, as Administrative Agent, Arranger and Bookrunner and Texas Capital Bank, N.A., as Documentation Agent
10.3*+	Third Amendment to the Capital Southwest Corporation 2010 Restricted Stock Award Plan
10.4*+	Third Amendment to the Capital Southwest Corporation 2009 Stock Incentive Plan
31.1*	Certification of President and Chief Executive Officer required by Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended (the "Exchange Act").
31.2*	Certification of Chief Financial Officer required by Rule 13a-14(a) of the Exchange Act.
32.1*^	Certification of President and Chief Executive Officer required by Rule 13a-14(b) of the Exchange Act and Section 1350 of Chapter 63 of Title 18 of the United States Code.
32.2*^	Certification of Chief Financial Officer required by Rule 13a-14(b) of the Exchange Act and Section 1350 of Chapter 63 of Title 18 of the United States Code.

* Filed herewith

+ Indicates management contract or compensatory plan or arrangement

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

SIGNATURES

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

CAPITAL SOUTHWEST CORPORATION

November 7, 2017

Date

By: /s/ Bowen S. Diehl

Bowen S. Diehl

President and Chief Executive Officer

November 7, 2017

Date

By: /s/ Michael S. Sarnier

Michael S. Sarnier

Chief Financial Officer, Secretary and Treasurer