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

FORM 10-Q

(Mark One)

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

For the quarterly period ended **December 31, 2020**

OR

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

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

Commission File Number: **814-00061**

CAPITAL SOUTHWEST CORPORATION

(Exact name of registrant as specified in its charter)

Texas	**75-1072796**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
5400 Lyndon B Johnson Freeway, Suite 1300, Dallas, Texas	**75240**
(Address of principal executive offices)	(Zip Code)

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

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Trading Symbol(s)	Name of Each Exchange on Which Registered
Common Stock, $0.25 par value per share	**CSWC**	**The Nasdaq Global Select Market**

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 **X** No ___

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

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

Large accelerated filer	☐	Accelerated filer	x	Non-accelerated filer	☐	Smaller reporting company	☐	Emerging growth 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 **X**

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

19,867,848 shares of Common Stock, $0.25 value per share, as of January 29, 2021.

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PART I – FINANCIAL INFORMATION

Item 1. Consolidated Financial Statements

CAPITAL SOUTHWEST CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF ASSETS AND LIABILITIES

(In thousands, except shares and per share data)

	December 31, 2020 (Unaudited)	March 31, 2020
Assets		
Investments at fair value:		
Non-control/Non-affiliate investments (Cost: $496,654 and $436,463, respectively)	$ 497,326	$ 421,280
Affiliate investments (Cost: $90,954 and $94,724, respectively)	87,812	92,032
Control investments (Cost: $80,800 and $68,000, respectively)	63,635	39,760
Total investments (Cost: $668,408 and $599,187, respectively)	648,773	553,072
Cash and cash equivalents	43,724	13,744
Receivables:		
Dividends and interest	10,746	10,389
Escrow	1,150	1,643
Other	42	51
Income tax receivable	585	147
Deferred tax asset	—	1,402
Debt issuance costs (net of accumulated amortization of $3,359 and $2,720, respectively)	2,453	2,980
Other assets	1,361	1,531
Total assets	$ 708,834	$ 584,959
Liabilities		
December 2022 Notes (Par value: $37,136 and $77,136, respectively)	$ 36,689	$ 75,812
October 2024 Notes (Par value: $125,000 and $75,000, respectively)	122,775	73,484
January 2026 Notes (Par value: $75,000 and $0, respectively)	73,410	—
Credit facility	150,000	154,000
Other liabilities	6,783	4,883
Accrued restoration plan liability	2,975	3,082
Income tax payable	844	513
Deferred tax liability	2,708	963
Total liabilities	396,184	312,737
Commitments and contingencies (Note 10)		
Net Assets		
Common stock, $0.25 par value: authorized, 40,000,000 shares; issued, 22,207,360 shares at December 31, 2020 and 20,337,610 shares at March 31, 2020	5,552	5,085
Additional paid-in capital	337,822	310,846
Total distributable earnings (loss)	(6,787)	(19,772)
Treasury stock - at cost, 2,339,512 shares	(23,937)	(23,937)
Total net assets	312,650	272,222
Total liabilities and net assets	$ 708,834	$ 584,959
Net asset value per share (19,867,848 shares outstanding at December 31, 2020 and 17,998,098 shares outstanding at March 31, 2020)	$ 15.74	$ 15.13

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 December 31, 2020	Three Months Ended December 31, 2019	Nine Months Ended December 31, 2020	Nine Months Ended December 31, 2019
Investment income:				
Interest income:				
Non-control/Non-affiliate investments	$ 12,286	$ 9,526	$ 34,234	$ 27,793
Affiliate investments	2,401	2,159	6,980	6,210
Control investments	—	—	—	265
Dividend income:				
Non-control/Non-affiliate investments	1,235	(15)	1,589	140
Affiliate investments	—	122	—	141
Control investments	1,681	2,581	5,144	10,013
Interest income from cash and cash equivalents	1	21	8	49
Fees and other income	1,436	1,590	2,934	2,390
Total investment income	19,040	15,984	50,889	47,001
Operating expenses:				
Compensation	2,444	2,034	6,125	5,763
Share-based compensation	771	690	2,236	2,212
Interest	4,528	4,142	13,253	11,664
Professional fees	538	479	1,691	1,567
Net pension expense	33	36	99	107
General and administrative	754	728	2,240	2,748
Total operating expenses	9,068	8,109	25,644	24,061
Income before taxes	9,972	7,875	25,245	22,940
Income tax expense	1,455	761	1,590	1,651
Net investment income	$ 8,517	$ 7,114	$ 23,655	$ 21,289
Realized (loss) gain				
Non-control/Non-affiliate investments	$ (127)	$ (157)	$ (5,325)	$ 1,159
Affiliate investments	—	40	(1,628)	57
Control investments	—	44,399	—	44,566
Total net realized (loss) gain on investments, net of tax	(127)	40,818	(6,953)	42,318
Net unrealized appreciation (depreciation) on investments				
Non-control/Non-affiliate investments	5,593	(1,118)	16,417	(4,899)
Affiliate investments	245	(1,265)	(1,012)	(240)
Control investments	2,152	(52,208)	11,075	(55,027)
Income tax (provision) benefit	(719)	(174)	(1,968)	(832)
Total net unrealized appreciation (depreciation) on investments, net of tax	7,271	(54,765)	24,512	(60,998)
Net realized and unrealized gains (losses) on investments	7,144	(13,947)	17,559	(18,680)
Realized losses on extinguishment of debt	(262)	—	(548)	—
Net increase (decrease) in net assets from operations	$ 15,399	$ (6,833)	$ 40,666	$ 2,609
Pre-tax net investment income per share - basic and diluted	$ 0.52	$ 0.44	$ 1.36	$ 1.29
Net investment income per share – basic and diluted	$ 0.45	$ 0.39	$ 1.27	$ 1.20
Net increase in net assets from operations – basic and diluted	$ 0.80	$ (0.38)	$ 2.18	$ 0.15
Weighted average shares outstanding – basic	19,134,824	18,100,176	18,629,463	17,803,005
Weighted average shares outstanding – diluted	19,134,824	18,100,176	18,629,463	17,803,005

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)

	2020	2019
Net assets, March 31	$ 272,222	$ 325,963
Operations:		
Net investment income	6,819	7,360
Net realized (loss) gain on investments	(5,547)	1,217
Net unrealized appreciation (depreciation) on investments, net of tax	7,605	(1,864)
Net increase in net assets from operations	8,877	6,713
Dividends to shareholders ($0.51 and $0.49 per share, respectively)	(9,480)	(8,629)
Capital share transactions:		
Change in restoration plan liability	9	7
Issuance of common stock	5,622	3,972
Share-based compensation expense	612	837
Common stock withheld for payroll taxes upon vesting of restricted stock	(3)	(49)
Increase in net assets	5,637	2,851
Net assets, June 30	$ 277,859	$ 328,814
Operations:		
Net investment income	8,319	6,815
Net realized (loss) gain on investments	(1,279)	283
Net unrealized appreciation (depreciation) on investments, net of tax	9,636	(4,369)
Realized losses on extinguishment of debt	(286)	—
Net increase in net assets from operations	16,390	2,729
Dividends to shareholders ($0.51 and $0.50 per share, respectively)	(9,498)	(8,964)
Capital share transactions:		
Change in pension plan funded status	9	8
Issuance of common stock	516	4,827
Share-based compensation expense	853	685
Increase (decrease) in net assets	8,270	(715)
Net assets, September 30	$ 286,129	$ 328,099
Operations:		
Net investment income	8,517	7,114
Net realized (loss) gain on investments	(127)	44,282
Taxes on deemed distribution of long-term capital gains	—	(3,464)
Net unrealized appreciation (depreciation) on investments, net of tax	7,271	(54,765)
Realized losses on extinguishment of debt	(262)	—
Net increase (decrease) in net assets from operations	15,399	(6,833)
Dividends to shareholders ($0.51 and $1.25 per share, respectively)	(10,044)	(23,258)
Capital share transactions:		
Change in pension plan funded status	8	8
Issuance of common stock	20,623	13,518
Share-based compensation expense	771	690
Common stock withheld for payroll taxes upon vesting of restricted stock	(236)	(368)
Increase (decrease) in net assets	26,521	(16,243)
Net assets, December 31	$ 312,650	$ 311,856

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CAPITAL SOUTHWEST CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
(In thousands)

	Nine Months Ended December 31, 2020	Nine Months Ended December 31, 2019
Cash flows from operating activities		
Net increase in net assets from operations	$ 40,666	$ 2,609
Adjustments to reconcile net increase in net assets from operations to net cash used in operating activities:		
Purchases and originations of investments	(150,323)	(154,415)
Proceeds from sales and repayments of debt investments in portfolio companies	70,280	50,965
Proceeds from sales and return of capital of equity investments in portfolio companies	9,782	55,960
Payment of accreted original issue discounts	1,010	736
Depreciation and amortization	1,478	1,610
Net pension benefit	(81)	(58)
Realized losses on extinguishment of debt	548	—
Realized loss (gain) on investments before income tax	6,967	(45,782)
Net unrealized (appreciation) depreciation on investments before income tax	(26,480)	60,166
Accretion of discounts on investments	(1,730)	(1,427)
Payment-in-kind interest and dividends	(5,207)	(1,469)
Stock option and restricted awards expense	2,236	2,212
Deferred income taxes	3,146	1,592
Changes in other assets and liabilities:		
Decrease in dividend and interest receivable	(357)	(793)
Decrease in escrow receivables	493	71
(Increase) decrease in tax receivable	(439)	28
Decrease in other receivables	9	1,069
Decrease (increase) in other assets	66	(780)
Increase in taxes payable	332	905
Increase in other liabilities	1,900	321
Decrease in payable for unsettled transaction	—	(1,158)
Net cash used in operating activities	(45,704)	(24,174)
Cash flows from financing activities		
Proceeds from common stock offering	26,770	22,532
Equity offering costs paid	—	(106)
Borrowings under credit facility	147,000	102,000
Repayments of credit facility	(151,000)	(119,000)
Debt issuance costs paid	(325)	(442)
Proceeds from issuance of October 2024 Notes	49,000	73,500
Proceeds from issuance of January 2026 Notes	73,500	—
Partial redemption of December 2022 Notes	(40,000)	—
Dividends to shareholders	(29,022)	(40,851)
Common stock withheld for payroll taxes upon vesting of restricted stock	(239)	(417)
Net cash provided by financing activities	75,684	37,216
Net increase in cash and cash equivalents	29,980	13,042
Cash and cash equivalents at beginning of period	13,744	9,924
Cash and cash equivalents at end of period	$ 43,724	$ 22,966
Supplemental cash flow disclosures:		
Cash paid for income taxes	$ 619	$ —
Cash paid for interest	10,149	9,132

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

CAPITAL SOUTHWEST CORPORATION AND SUBSIDIARIES
CONSOLIDATED SCHEDULE OF INVESTMENTS
(Unaudited)
December 31, 2020

Portfolio Company[1]	Type of Investment[2]	Industry	Current Interest Rate[3]	Acquisition Date[14]	Maturity	Principal	Cost[17]	Fair Value[4]
Non-control/Non-affiliate Investments[5]								
AAC NEW HOLDCO INC.	First Lien	Healthcare services	10.00%, 8.00% PIK	12/11/2020	6/25/2025	$ 7,824	$ 7,824	$ 7,824
	374,543 shares common stock		—	12/11/2020	—	—	2,198	2,198
	Warrants (Expiration - December 11, 2025)		—	12/11/2020	—	—	1,785	1,785
							11,807	11,807
ACCELERATION PARTNERS, LLC[8,13]	First Lien	Media, marketing & entertainment	L+8.21% (Floor 1.00%)/Q, Current Coupon 9.21%	12/1/2020	12/1/2025	8,750	8,489	8,489
	Delayed Draw Term Loan[10]		L+8.21% (Floor 1.00%)/Q, Current Coupon 9.21%	12/1/2020	12/1/2025	2,800	2,724	2,724
	1,000 Preferred Units[9]		—	12/1/2020	12/1/2025	—	1,000	1,000
	1,000 Class A Common Units[9]		—	12/1/2020	12/1/2025	—	—	—
							12,213	12,213
ACE GATHERING, INC.	Second Lien[15]	Energy services (midstream)	L+10.50% (Floor 2.00%)/Q, Current Coupon 12.50%	12/13/2018	12/13/2023	9,500	9,372	9,035
ADAMS PUBLISHING GROUP, LLC	First Lien	Media, marketing & entertainment	L+7.00% (Floor 1.75%)/Q, Current Coupon 8.75%	7/2/2018	7/2/2023	10,304	10,167	10,304
AG KINGS HOLDINGS INC.	First Lien - DIP[10]	Food, agriculture & beverage	L+8.00% (Floor 1.00%)/M, Current Coupon 9.00%	8/26/2020	12/11/2020	952	952	952
	First Lien - Super-Priority DIP Rollup		L+10.00 (Floor 1.00%)/M, Current Coupon 11.00%	9/18/2020	12/11/2020	3,810	3,810	3,810
	First Lien[16]		L+9.00% (Floor 1.00%)/M, 2.00% PIK, Current Coupon 16.25%	8/4/2016	8/8/2021	3,590	3,532	739
							8,294	5,501
ALLIANCE SPORTS GROUP, L.P.	Senior subordinated debt	Consumer products & retail	13.00% PIK	8/1/2017	2/1/2023	10,778	10,677	10,584
	Unsecured convertible note		6.00% PIK	7/15/2020	9/30/2024	173	173	173
	3.88% membership preferred interest		—	8/1/2017	—	—	2,500	2,500
							13,350	13,257

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CONSOLIDATED SCHEDULE OF INVESTMENTS
(Unaudited)
December 31, 2020

Portfolio Company[1]	Type of Investment[2]	Industry	Current Interest Rate[3]	Acquisition Date[14]	Maturity	Principal	Cost[17]	Fair Value[4]
AMERICAN NUTS OPERATIONS LLC[13]	First Lien - Term Loan	Food, agriculture and beverage	L+8.00% (Floor 1.00%)/Q, Current Coupon 9.00%	4/10/2018	4/10/2023	17,063	16,883	17,011
	First Lien - Term Loan C[10]		L+8.00% (Floor 1.00%)/Q, Current Coupon 9.00%	12/21/2018	4/10/2023	1,804	1,784	1,798
	3,000,000 units of Class A common stock[9]		—	4/10/2018	—	—	3,000	2,752
							21,667	21,561
AMERICAN TELECONFERENCING SERVICES, LTD. (DBA PREMIERE GLOBAL SERVICES, INC.)	First Lien	Telecommunications	L+6.50% (Floor 1.00%)/Q, Current Coupon 7.50%	9/21/2016	6/8/2023	5,918	5,863	3,255
	Second Lien		0.5%, L+9.00% PIK (Floor 1.00%)/Q, Current Coupon 10.50%	11/3/2016	6/6/2024	2,283	2,255	913
							8,118	4,168
AMWARE FULFILLMENT LLC	First Lien	Distribution	L+9.50% (Floor 1.00%)/M, Current Coupon 10.50%	7/29/2016	12/31/2021	17,588	17,467	17,588
ASC ORTHO MANAGEMENT COMPANY, LLC[13]	Revolving Loan	Healthcare services	L+7.50% (Floor 1.00%)/Q, Current Coupon 8.50%	8/31/2018	8/31/2023	1,500	1,484	1,428
	First Lien		L+7.50% (Floor 1.00%)/Q, Current Coupon 8.50%	8/31/2018	8/31/2023	8,912	8,805	8,484
	Second Lien		13.25% PIK	8/31/2018	12/1/2023	4,094	4,044	3,750
	2,042 Common Units[9]		—	8/31/2018	—	—	750	356
							15,083	14,018
BINSWANGER HOLDING CORP.	First Lien	Distribution	L+8.50% (Floor 1.00%)/M, Current Coupon 9.50%	3/9/2017	3/9/2022	11,107	11,043	11,107
	900,000 shares of common stock		—	3/9/2017	—	—	900	924
							11,943	12,031

CAPITAL SOUTHWEST CORPORATION AND SUBSIDIARIES
CONSOLIDATED SCHEDULE OF INVESTMENTS
(Unaudited)
December 31, 2020

Portfolio Company[1]	Type of Investment[2]	Industry	Current Interest Rate[3]	Acquisition Date[14]	Maturity	Principal	Cost[17]	Fair Value[4]
BLASCHAK COAL CORP.	Second Lien- Term Loan[15]	Commodities & mining	L+11.00% (Floor 1.00%)/Q, 1.00% PIK, Current Coupon 13.00%	7/30/2018	7/30/2023	8,689	8,586	8,516
	Second Lien- Term Loan B[15]		L+11.00% (Floor 1.00%)/Q, 1.00% PIK, Current Coupon 13.00%	3/30/2020	7/30/2023	2,010	1,978	1,970
							10,564	10,486
BROAD SKY NETWORKS LLC[13]	Revolving Loan[10]	Telecommunications	L+7.50% (Floor 1.00%)/Q	12/11/2020	12/11/2025	—	(49)	—
	First Lien		L+7.50% (Floor 1.00%)/Q, Current Coupon 8.50%	12/11/2020	12/11/2025	15,000	14,703	14,703
	1,000,000 Series A Preferred units[9]		—	12/11/2020	—	—	1,000	1,000
							15,654	15,703
CALIFORNIA PIZZA KITCHEN, INC.	First Lien	Restaurants	L+10.00% (Floor 1.50%)/Q, Current Coupon 11.50%	11/23/2020	11/23/2024	669	652	651
	First Lien Rolled Up		1.00%, L+11.00% PIK (Floor 1.50%)/Q, Current Coupon 13.50%	11/23/2020	11/23/2024	719	716	717
	Second Lien		1.00%, L+12.50% PIK (Floor 1.50%)/Q, Current Coupon 15.00%	11/23/2020	5/23/2025	786	786	786
	48,423 shares of common stock		—	11/23/2020	—	—	1,317	1,317
							3,471	3,471
CAPITAL PAWN HOLDINGS, LLC	First Lien	Consumer products & retail	L+7.25% (Floor 1.00%)/Q, Current Coupon 8.25%	12/21/2017	7/8/2023	8,854	8,838	8,854
CLICKBOOTH.COM, LLC	Revolving Loan	Media, marketing & entertainment	L+8.50% (Floor 1.00%)/Q	12/5/2017	1/31/2025	—	(6)	—
	First Lien		L+8.50% (Floor 1.00%)/Q, Current Coupon 9.50%	12/5/2017	1/31/2025	18,644	18,415	18,644
							18,409	18,644
DANFORTH ADVISORS, LLC[13]	875 Class A equity units[9]	Business services	—	9/28/2018	—	—	875	2,302
DRIVEN, INC.	First Lien	Business services	L+8.00% (Floor 2.00%)/Q, Current Coupon 10.00%	6/28/2019	6/28/2024	5,850	5,762	5,909

CAPITAL SOUTHWEST CORPORATION AND SUBSIDIARIES
CONSOLIDATED SCHEDULE OF INVESTMENTS
(Unaudited)
December 31, 2020

Portfolio Company[1]	Type of Investment[2]	Industry	Current Interest Rate[3]	Acquisition Date[14]	Maturity	Principal	Cost[17]	Fair Value[4]
DUNN PAPER, INC.	Second Lien	Paper & forest products	L+8.75% (Floor 1.00%)/M, Current Coupon 9.75%	9/28/2016	8/26/2023	3,000	2,972	3,000
ELECTRONIC TRANSACTION CONSULTANTS LLC[13]	Revolving Loan[10]	Software & IT services	L+7.50% (Floor 1.00%)	7/24/2020	7/24/2025	—	(59)	—
	First Lien		L+7.50% (Floor 1.00%)/Q, Current Coupon 8.50%	7/24/2020	7/24/2025	10,000	9,837	9,840
	1,000 Class A units[9]		—	7/24/2020	7/24/2025	—	1,000	1,000
							10,778	10,840
ENVIRONMENTAL PEST SERVICE MANAGEMENT COMPANY, LLC	First Lien	Consumer services	L+6.75% (Floor 1.00%)/Q, Current Coupon 7.75%	6/22/2018	6/22/2023	11,597	11,484	11,597
	Delayed Draw Term Loan[10]		L+6.75% (Floor 1.00%)/Q, Current Coupon 7.75%	6/22/2018	6/22/2023	4,635	4,547	4,635
							16,031	16,232
ESCP DTFS, INC.	First Lien - Term Loan A	Industrial services	L+6.50% (Floor 1.75%)/Q, Current Coupon 8.25%	1/31/2020	1/31/2025	5,350	5,266	4,986
	First Lien - Term Loan B		L+8.50% (Floor 1.75%)/Q, Current Coupon 10.25%	1/31/2020	1/31/2025	5,350	5,265	4,986
	Delayed Draw Term Loan A1[10]		L+6.50% (Floor 1.75%)	1/31/2020	1/31/2025	—	(9)	—
	Delayed Draw Term Loan A2[10]		L+8.50% (Floor 1.75%)	1/31/2020	1/31/2025	—	(9)	—
	Delayed Draw Term Loan B1		L+6.50% (Floor 1.75%), Current Coupon 8.25%	1/31/2020	1/31/2025	500	491	466
	Delayed Draw Term Loan B2		L+8.50% (Floor 1.75%), Current Coupon 10.25%	1/31/2020	1/31/2025	500	491	466
							11,495	10,904
FAST SANDWICH, LLC	Revolving Loan[10]	Restaurants	L+9.00% (Floor 1.00%)	5/24/2018	5/23/2023	—	(35)	—
	First Lien		L+9.00% (Floor 1.00%)/Q, Current Coupon 10.00%	5/24/2018	5/23/2023	3,380	3,350	3,042
							3,315	3,042
GS OPERATING, LLC	First Lien	Distribution	L+6.50% (Floor 1.50%)/M, Current Coupon 8.00%	3/6/2020	2/24/2025	7,940	7,803	7,940

CAPITAL SOUTHWEST CORPORATION AND SUBSIDIARIES
CONSOLIDATED SCHEDULE OF INVESTMENTS
(Unaudited)
December 31, 2020

Portfolio Company[1]	Type of Investment[2]	Industry	Current Interest Rate[3]	Acquisition Date[14]	Maturity	Principal	Cost[17]	Fair Value[4]
IAN, EVAN, & ALEXANDER CORPORATION (DBA EVERWATCH)	Revolving Loan[10]	Aerospace & defense	L+8.50% (Floor 1.00%)	7/31/2020	7/31/2025	—	(37)	—
	First Lien		L+8.50% (Floor 1.00%)/Q, Current Coupon 9.50%	7/31/2020	7/31/2025	9,793	9,609	9,793
							9,572	9,793
ICS DISTRIBUTION, LLC[8]	First Lien	Industrial services	L+8.49% (Floor 2.00%)/Q, Current Coupon 10.49%	10/31/2019	10/29/2024	20,500	20,099	20,090
JVMC HOLDINGS CORP.	First Lien	Financial services	L+7.25% (Floor 1.00%)/M, Current Coupon 8.25%	2/28/2019	2/28/2024	7,161	7,110	7,032
KLEIN HERSH, LLC	Revolving Loan[10]	Business services	L+8.00% (Floor 0.75%)/S	11/13/2020	11/13/2025	—	(18)	—
	First Lien		L+8.00% (Floor 0.75%)/S, Current Coupon 8.75%	11/13/2020	11/13/2025	15,000	14,708	14,708
							14,690	14,708
LANDPOINT HOLDCO, INC.	First Lien	Business Services	L+10.50% (Floor 1.00%)/Q, Current Coupon 11.50%	12/30/2019	12/30/2024	19,005	18,687	17,713
LGM PHARMA, LLC[13]	First Lien	Healthcare products	L+8.50% (Floor 1.00%)/M, Current Coupon 9.50%	11/15/2017	11/15/2023	11,453	11,337	11,453
	Delayed Draw Term Loan		L+10.00% (Floor 1.00%)/Q, Current Coupon 11.00%	7/24/2020	11/15/2023	2,494	2,450	2,494
	142,278.89 units of Class A common stock[9]		—	11/15/2017	—	—	1,600	2,813
							15,387	16,760
LIGHTING RETROFIT INTERNATIONAL, LLC (DBA ENVOCORE)	First Lien	Environmental services	6.75%, L+2.25% PIK (Floor 2.00%)/Q, Current Coupon 11.00%	6/30/2017	6/30/2022	13,906	13,854	12,654
	25,603 shares of Series C preferred stock		—	8/13/2018	—	—	25	—
	396,825 shares of Series B preferred stock		—	6/30/2017	—	—	500	—
							14,379	12,654

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Portfolio Company[1]	Type of Investment[2]	Industry	Current Interest Rate[3]	Acquisition Date[14]	Maturity	Principal	Cost[17]	Fair Value[4]
NINJATRADER, INC.[13]	Revolving Loan[10]	Financial services	L+6.75% (Floor 1.50%)	12/18/2019	12/18/2024	—	(6)	—
	First Lien		L+6.75% (Floor 1.50%)/Q, Current Coupon 8.25%	12/18/2019	12/18/2024	19,250	18,759	19,250
	Delayed Draw Term Loan[10]		L+6.75% (Floor 1.50%)/Q	12/31/2020	12/18/2024	—	(38)	—
	2,000,000 Preferred Units[9]		—	12/18/2019	—	—	2,000	5,245
							20,715	24,495
RESEARCH NOW GROUP, INC.	Second Lien	Business services	L+9.50% (Floor 1.00%)/M, Current Coupon 10.50%	12/8/2017	12/20/2025	10,500	9,960	9,786
ROSELAND MANAGEMENT, LLC	Revolving Loan[10]	Healthcare services	L+7.00% (Floor 2.00%)/Q	11/9/2018	11/9/2023	—	(20)	—
	First Lien		L+7.00% (Floor 2.00%)/Q, Current Coupon 9.00%	11/9/2018	11/9/2023	14,306	14,131	14,306
	13,811 Class A Units		—	11/9/2018	—	—	1,381	1,720
							15,492	16,026
RTIC SUBSIDIARY HOLDINGS, LLC	Revolving Loan[10]	Consumer products & retail	L+7.75% (Floor 1.25%)	9/1/2020	9/1/2025	—	(13)	—
	First Lien		L+7.75% (Floor 1.25%)/Q, Current Coupon 9.00%	9/1/2020	9/1/2025	6,904	6,823	6,821
							6,810	6,821
SCRIP INC.[8]	First Lien	Healthcare products	L+9.72% (Floor 2.00%)/M, Current Coupon 11.72%	3/21/2019	3/21/2024	16,750	16,399	16,750
	100 shares of common stock		—	3/21/2019	—	—	1,000	967
							17,399	17,717
TAX ADVISORS GROUP, LLC[13]	143.3 Class A units[9]	Financial services	—	6/23/2017	—	—	541	1,282
TRINITY 3, LLC[13]	First Lien[15]	Technology products & components	L+7.00% (Floor 1.00%)/Q, Current Coupon 8.00%	9/30/2020	9/30/2025	10,000	9,856	10,000
	896.43 Class A units[9]		—	11/15/2019	—	—	1,205	2,349
							11,061	12,349
USA DEBUSK, LLC	First Lien	Industrial Services	L+5.75% (Floor 1.00%)/M, Current Coupon 6.75%	2/25/2020	10/22/2024	7,920	7,794	7,912

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Portfolio Company[1]	Type of Investment[2]	Industry	Current Interest Rate[3]	Acquisition Date[14]	Maturity	Principal	Cost[17]	Fair Value[4]
VISTAR MEDIA INC.	First Lien	Media, marketing & entertainment	L+7.50%, 3.50% PIK (Floor 2.00%)/M, Current Coupon 13.00%	2/17/2017	4/3/2023	11,381	10,759	11,154
	171,617 shares of Series A preferred stock		—	4/3/2019	—	—	1,874	3,292
	Warrants (Expiration - April 3, 2029)		—	4/3/2019	—	—	620	1,245
							13,253	15,691
VTX HOLDINGS, INC.[8]	First Lien	Software & IT services	L+9.06% (Floor 2.00%)/Q, Current Coupon 11.06%	7/23/2019	7/23/2024	21,575	21,162	21,575
	1,397,707 Series A Preferred units		—	7/23/2019	—	—	1,398	1,654
							22,560	23,229
ZENFOLIO INC.	Revolving Loan[10]	Business services	L+9.00% (Floor 1.00%)/Q, Current Coupon 10.00%	7/17/2017	7/17/2023	1,000	992	910
	First Lien		L+9.00% (Floor 1.00%)/Q, Current Coupon 10.00%	7/17/2017	7/17/2023	14,888	14,705	13,548
							15,697	14,458
Total Non-control/Non-affiliate Investments							$ 496,654	$ 497,326
Affiliate Investments[6]								
CENTRAL MEDICAL SUPPLY LLC[13]	Revolving Loan[10]	Healthcare services	L+7.00% (Floor 1.75%)/Q, Current Coupon 8.75%	5/22/2020	5/22/2025	$ 300	$ 274	$ 286
	First Lien		L+7.00% (Floor 1.75%)/Q, Current Coupon 8.75%	5/22/2020	5/22/2025	7,500	7,365	7,140
	Delayed Draw Capex Term Loan[10]		L+7.00% (Floor 1.75%)/Q, Current Coupon 8.75%	5/22/2020	5/22/2025	100	74	95
	875,000 Preferred Units[9]		—	5/22/2020	5/22/2025	—	875	641
							8,588	8,162
CHANDLER SIGNS, LLC[13]	1,500,000 units of Class A-1 common stock[9]	Business services	—	1/4/2016	—	—	1,500	2,892
DELPHI BEHAVIORAL HEALTH GROUP, LLC	First Lien	Healthcare services	P+10.00% (Floor 2.00%) PIK/M, Current Coupon 13.25%	4/8/2020	4/7/2023	1,397	1,396	1,381

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Portfolio Company[1]	Type of Investment[2]	Industry	Current Interest Rate[3]	Acquisition Date[14]	Maturity	Principal	Cost[17]	Fair Value[4]
	First Lien		P+8.00% (Floor 2.00%) PIK/M, Current Coupon 11.25%	4/8/2020	4/7/2023	1,561	1,561	1,482
	1,681.04 Common Units		—	4/8/2020	—	—	3,615	3,615
							6,572	6,478
DYNAMIC COMMUNITIES, LLC[13]	Revolving Loan[10]	Business services	L+3.75%, 7.75% PIK (Floor 1.00%)	7/17/2018	7/17/2023	—	(3)	—
	First Lien		L+3.75%, 7.75% PIK (Floor 1.00%)/Q, Current Coupon 12.50%	7/17/2018	7/17/2023	10,851	10,729	9,776
	Senior subordinated debt		25% PIK	12/4/2020	1/16/2024	350	350	350
	2,000,000 Preferred Units[9]		—	7/17/2018	—	—	2,000	1,274
							13,076	11,400
GRAMMATECH, INC.	Revolving Loan	Software & IT services	L+7.50% (Floor 2.00%)/Q, Current Coupon 9.50%	11/1/2019	11/1/2024	2,500	2,466	2,483
	First Lien		L+7.50% (Floor 2.00%)/Q, Current Coupon 9.50%	11/1/2019	11/1/2024	11,500	11,338	11,419
	1,000 Class A units		—	11/1/2019	—	—	1,000	1,455
							14,804	15,357
ITA HOLDINGS GROUP, LLC[13]	Revolving Loan[10]	Transportation & logistics	L+9.00% (Floor 1.00%)	2/14/2018	2/14/2023	—	(25)	—
	First Lien - Term Loan		L+8.00% (Floor 1.00%), 0.5% PIK/Q, Current Coupon 9.50%	2/14/2018	2/14/2023	10,077	9,990	10,016
	First Lien - Term B Loan		L+11.00% (Floor 1.00%) 0.5% PIK/Q, Current Coupon 12.50%	6/5/2018	2/14/2023	5,038	4,981	5,114
	First Lien - PIK Note A		10.00% PIK	3/29/2019	2/14/2023	2,611	2,189	2,593
	First Lien - PIK Note B		10.00% PIK	3/29/2019	2/14/2023	103	103	102
	Warrants (Expiration - March 29, 2029)[9]		—	3/29/2019	—	—	538	2,968
	9.25% Class A Membership Interest[9]		—	2/14/2018	—	—	1,500	2,532
							19,276	23,325

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Portfolio Company[1]	Type of Investment[2]	Industry	Current Interest Rate[3]	Acquisition Date[14]	Maturity	Principal	Cost[17]	Fair Value[4]
SIMR, LLC	First Lien	Healthcare services	L+10.00% (Floor 2.00%)/M, 7.00% PIK, Current Coupon 19.00%	9/7/2018	9/7/2023	12,331	12,193	10,740
	9,374,510.2 Class B Common Units		—	9/7/2018	—	—	6,107	—
							18,300	10,740
SONOBI, INC.[13]	First Lien	Media, marketing & entertainment	L+8.50% (Floor 1.00%)/Q, Current Coupon 9.50%	9/17/2020	9/16/2025	8,500	8,338	8,500
	500,000 Class A Common Units[9]		—	9/17/2020	—	—	500	958
							8,838	9,458
Total Affiliate Investments							$ 90,954	$ 87,812
Control Investments[7]								
I-45 SLF LLC[9, 11]	80% LLC equity interest	Multi-sector holdings	—	10/20/2015	—	—	$ 80,800	$ 63,635
Total Control Investments							$ 80,800	$ 63,635
TOTAL INVESTMENTS[12]							$ 668,408	$ 648,773

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 pledged as collateral 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 (D), monthly (M), quarterly (Q), or semiannually (S). For each the Company has provided the spread over LIBOR or Prime and the current contractual interest rate in effect at December 31, 2020. Certain investments are subject to a LIBOR or Prime interest rate floor. Certain investments, as noted, accrue payment-in-kind ("PIK") interest.

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

5 Non-Control/Non-Affiliate investments are generally defined by the Investment Company Act of 1940, as amended (the “1940 Act”), as investments that are neither control investments nor affiliate investments. At December 31, 2020, approximately 76.7% of the Company’s investment assets were non-control/non-affiliate investments. The fair value of these investments as a percent of net assets is 159.1%.

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 December 31, 2020, approximately 13.5% of the Company’s investment assets were affiliate investments. The fair value of these investments as a percent of net assets is 28.1%.

[7] Control investments are generally defined by the 1940 Act as investments in which more than 25% of the voting securities are owned. At December 31, 2020, approximately 9.8% of the Company's investment assets were control investments. The fair value of these investments as a percent of net assets is 20.4%.

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

[9] Indicates assets that are not considered "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 December 31, 2020, approximately 13.5% of the Company's assets are non-qualifying assets.

[10] The investment has an unfunded commitment as of December 31, 2020. Refer to Note 10 - Commitments and Contingencies for further discussion.

[11] Income producing through dividends or distributions.

[12] As of December 31, 2020, the cumulative gross unrealized appreciation for U.S. federal income tax purposes is approximately $20.3 million; cumulative gross unrealized depreciation for federal income tax purposes is $39.4 million. Cumulative net unrealized depreciation is $19.1 million, based on a tax cost of $665.5 million.

[13] Acceleration Partners preferred and common units, ASC Ortho Management Company, LLC common units, Broad Sky Networks LLC Series A Preferred units, Danforth Advisors, LLC common units, American Nuts Operations LLC Class A common stock, Electronic Transaction Consultants LLC Class A units, LGM Pharma, LLC Class A common stock, NinjaTrader, LLC preferred units, Trinity 3, LLC Class A units, Tax Advisors Group, LLC Class A units, Chandler Signs, LP Class A-1 common stock, Central Medical Supply LLC Preferred units, Dynamic Communities, LLC Preferred units, ITA Holdings Group, LLC membership interest and Sonobi, Inc. Class A common units are held through a wholly-owned taxable subsidiary.

[14] The Company generally acquires its investments in private transactions exempt from registration under the Securities Act of 1933, as amended (the "Securities Act"). These investments, which as of December 31, 2020 represented 207.6% of the Company's net assets or 91.5% of the Company's total assets, are generally subject to certain limitations on resale, and may be deemed "restricted securities" under the Securities Act.

[15] The investment is structured as a split lien term loan, which provides the Company with a first lien priority on certain assets of the obligor and a second lien priority on different assets of the obligor.

[16] Investment is on non-accrual status as of December 31, 2020, meaning the Company has ceased to recognize interest income on the investment.

[17] Negative cost in this column represents the original issue discount of certain undrawn revolvers and delayed draw term loans.

A brief description of the portfolio company in which we made an investment that represents greater than 5% of our total assets as of December 31, 2020 is included in Note 13. Significant Subsidiaries.

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

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Portfolio Company[1]	Type of Investment[2]	Industry	Current Interest Rate[3]	Acquisition Date[14]	Maturity	Principal	Cost[17]	Fair Value[4]
Non-control/Non-affiliate Investments[5]								
AAC HOLDINGS, INC.	First Lien - Priming Facility	Healthcare services	P +13.50% (Floor 1.00%)/Q, Current Coupon 16.75%	3/21/2019	4/15/2020	$ 1,968	$ 1,969	$ 1,968
	First Lien[16]		L+6.75% (Floor 1.00%)/Q, 4.00% PIK, Current Coupon 13.33%	6/28/2017	6/30/2023	9,079	8,915	3,977
							10,884	5,945
ACE GATHERING, INC.	Second Lien[15]	Energy services (midstream)	L+8.50% (Floor 2.00%)/Q, Current Coupon 10.50%	12/13/2018	12/13/2023	9,688	9,532	9,445
ADAMS PUBLISHING GROUP, LLC	First Lien	Media, marketing & entertainment	L+7.50% (Floor 1.75%)/Q, Current Coupon 9.29%	7/2/2018	7/2/2023	10,730	10,572	10,312
	Delayed Draw Term Loan		L+7.50% (Floor 1.75%)/Q, Current Coupon 9.25%	7/2/2018	7/2/2023	344	320	330
							10,892	10,642
AG KINGS HOLDINGS INC.[8,16]	First Lien	Food, agriculture & beverage	L+10.02% (Floor 1.00%)/M, Current Coupon 12.69%	8/4/2016	8/8/2021	9,308	9,194	5,445
ALLIANCE SPORTS GROUP, L.P.	Senior subordinated debt	Consumer products & retail	11.00%	8/1/2017	2/1/2023	10,100	9,980	9,747
	3.88% membership preferred interest		—	8/1/2017	—	—	2,500	2,335
							12,480	12,082
AMERICAN NUTS OPERATIONS LLC[13]	First Lien - Term Loan	Food, agriculture and beverage	L+9.50% (Floor 1.00%)/Q, Current Coupon 11.41%	4/10/2018	4/10/2023	17,194	16,963	16,884
	First Lien - Term Loan C[10]		L+9.50% (Floor 1.00%)/Q, Current Coupon 11.41%	12/21/2018	4/10/2023	1,804	1,781	1,771
	3,000,000 units of Class A common stock[9]		—	4/10/2018	—	—	3,000	1,523
							21,744	20,178
AMERICAN TELECONFERENCING SERVICES, LTD. (DBA PREMIERE GLOBAL SERVICES, INC.)	First Lien	Telecommunications	L+6.50% (Floor 1.00%)/Q, Current Coupon 8.24%	9/21/2016	6/8/2023	5,926	5,856	3,348
	Second Lien		0.5%, L+9.00% PIK (Floor 1.00%)/Q, Current Coupon 11.35%	11/3/2016	6/6/2024	2,111	2,072	792
							7,928	4,140

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Portfolio Company[1]	Type of Investment[2]	Industry	Current Interest Rate[3]	Acquisition Date[14]	Maturity	Principal	Cost[17]	Fair Value[4]
AMWARE FULFILLMENT LLC	First Lien	Distribution	L+9.50% (Floor 1.00%)/M, Current Coupon 10.95%	7/29/2016	12/31/2020	12,027	11,988	11,991
ASC ORTHO MANAGEMENT COMPANY, LLC[13]	Revolving Loan	Healthcare services	L+7.50% (Floor 1.00%)/Q, Current Coupon 8.70%	8/31/2018	8/31/2023	1,500	1,480	1,425
	First Lien		L+7.50% (Floor 1.00%)/Q, Current Coupon 9.41%	8/31/2018	8/31/2023	9,028	8,894	8,577
	Second Lien		13.25% PIK	8/31/2018	12/1/2023	3,709	3,649	3,275
	2,042 Common Units[9]		—	8/31/2018	—	—	750	356
							14,773	13,633
BINSWANGER HOLDING CORP.	First Lien	Distribution	L+8.50% (Floor 1.00%)/M, Current Coupon 9.96%	3/9/2017	3/9/2022	11,604	11,500	11,163
	900,000 shares of common stock		—	3/9/2017	—	—	900	636
							12,400	11,799
BLASCHAK COAL CORP.	Second Lien- Term Loan[15]	Commodities & mining	L+11.00%/Q, (Floor 1.00%) 1.00% PIK, Current Coupon 13.91%	7/30/2018	7/30/2023	8,624	8,497	8,451
	Second Lien- Term Loan B[15]		L+11.00%/Q, (Floor 1.00%) 1.00% PIK, Current Coupon 13.43%	3/30/2020	7/30/2023	2,000	1,960	1,960
							10,457	10,411
CALIFORNIA PIZZA KITCHEN, INC.[16]	First Lien	Restaurants	L+6.00% (Floor 1.00%)/M, Current Coupon 7.62%	8/19/2016	8/23/2022	4,825	4,802	2,441
CAPITAL PAWN HOLDINGS, LLC	First Lien	Consumer products & retail	L+9.50%/Q, Current Coupon 11.41%	12/21/2017	7/8/2020	11,097	11,068	11,075
CLICKBOOTH.COM, LLC	Revolving Loan	Media, marketing & entertainment	L+8.50% (Floor 1.00%)/Q, Current Coupon 9.5%	12/5/2017	1/31/2025	1,086	1,080	1,086
	First Lien		L+8.50% (Floor 1.00%)/Q, Current Coupon 10.41%	12/5/2017	1/31/2025	19,000	18,739	19,000
							19,819	20,086

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Portfolio Company[1]	Type of Investment[2]	Industry	Current Interest Rate[3]	Acquisition Date[14]	Maturity	Principal	Cost[17]	Fair Value[4]
DANFORTH ADVISORS, LLC[13]	Revolving Loan[10]	Business services	L+7.25% (Floor 2.00%)/Q, Current Coupon 9.25%	9/28/2018	9/28/2023	500	486	500
	First Lien		L+7.25% (Floor 2.00%)/Q, Current Coupon 9.25%	9/28/2018	9/28/2023	7,250	7,141	7,250
	875 Class A equity units[9]		—	9/28/2018	—	—	875	1,445
							8,502	9,195
DELPHI INTERMEDIATE HEALTHCO, LLC[16]	Revolving Loan	Healthcare services	L+9.50% (Floor 1.00%)/Q, Current Coupon 11.97%	10/2/2019	10/3/2022	1,223	1,223	1,223
	First Lien		L+9.50% (Floor 1.00%)/Q, Current Coupon 11.20%	11/3/2017	10/3/2022	10,605	10,533	5,101
							11,756	6,324
DRIVEN, INC.	First Lien	Business Services	L+8.00% (Floor 2.00%)/Q, Current Coupon 10.00%	6/28/2019	6/28/2024	11,940	11,730	11,940
DUNN PAPER, INC.	Second Lien	Paper & forest products	L+8.75% (Floor 1.00%)/M, Current Coupon 9.75%	9/28/2016	8/26/2023	3,000	2,965	3,000
ENVIRONMENTAL PEST SERVICE MANAGEMENT COMPANY, LLC	First Lien	Consumer services	L+7.00%(Floor 1.00%)/Q, Current Coupon 8.91%	6/22/2018	6/22/2023	15,292	15,103	15,292
	Delayed Draw Term Loan[10]		L+7.00%(Floor 1.00%)/Q, Current Coupon 8.91%	6/22/2018	6/22/2023	6,110	6,015	6,111
							21,118	21,403
ESCP DTFS, INC.	First Lien - Term Loan A	Industrial services	L+6.50%(Floor 1.75%)/Q, Current Coupon 8.27%	1/31/2020	1/31/2025	5,350	5,253	5,253
	First Lien - Term Loan B		L+8.50%(Floor 1.75%)/Q, Current Coupon 10.27%	1/31/2020	1/31/2025	5,350	5,253	5,253
	Delayed Draw Term Loan A1[10]		L+6.50%(Floor 1.75%)	1/31/2020	1/31/2025	—	(10)	—
	Delayed Draw Term Loan A2[10]		L+8.50%(Floor 1.75%)	1/31/2020	1/31/2025	—	(10)	—
	Delayed Draw Term Loan B1[10]		L+6.50%(Floor 1.75%)	1/31/2020	1/31/2025	—	(3)	—
	Delayed Draw Term Loan B2[10]		L+8.50%(Floor 1.75%)	1/31/2020	1/31/2025	—	(3)	—
							10,480	10,506

CAPITAL SOUTHWEST CORPORATION AND SUBSIDIARIES
CONSOLIDATED SCHEDULE OF INVESTMENTS
March 31, 2020

Portfolio Company[1]	Type of Investment[2]	Industry	Current Interest Rate[3]	Acquisition Date[14]	Maturity	Principal	Cost[17]	Fair Value[4]
FAST SANDWICH, LLC	Revolving Loan[10]	Restaurants	L+9.00% (Floor 1.00%)/Q, 5.0% PIK	5/24/2018	5/23/2023	—	(43)	—
	First Lien		L+9.00% (Floor 1.00%)/Q, 5.0% PIK,Current Coupon 15.91%	5/24/2018	5/23/2023	3,393	3,354	3,179
							3,311	3,179
GS OPERATING, LLC	First Lien	Distribution	L+6.50%(Floor 1.50%)/M, Current Coupon 8.00%	3/6/2020	2/24/2025	8,000	7,842	7,842
ICS DISTRIBUTION, LLC[8]	First Lien	Industrial services	L+8.21%(Floor 2.00%)/Q, Current Coupon 10.21%	10/31/2019	10/29/2024	18,000	17,617	17,617
IENERGIZER LIMITED	First Lien[9]	Business services	L+6.00%(Floor 1.00%)/M, Current Coupon 7.00%	4/17/2019	4/17/2024	12,000	11,899	12,000
JVMC HOLDINGS CORP.	First Lien	Financial services	L+6.50% (Floor 1.00%)/M, Current Coupon 7.50%	2/28/2019	2/28/2024	8,183	8,115	8,183
LANDPOINT HOLDCO, INC.	First Lien	Business Services	L+7.00%(Floor 1.00%)/Q, Current Coupon 8.96%	12/30/2019	12/30/2024	19,500	19,128	19,110
LGM PHARMA, LLC[13]	First Lien	Healthcare products	L+8.50% (Floor 1.00%)/M, Current Coupon 10.02%	11/15/2017	11/15/2022	11,541	11,400	11,472
	110,000 units of Class A common stock[9]		—	11/15/2017	—	—	1,100	821
							12,500	12,293
LIGHTING RETROFIT INTERNATIONAL, LLC (DBA ENVOCORE)	First Lien	Environmental services	6%, L+3.00% PIK (Floor 2.00%)/Q, Current Coupon 11.00%	6/30/2017	6/30/2022	13,439	13,364	12,149
	25,603 shares of Series C preferred stock		—	8/13/2018	—	—	25	—
	396,825 shares of Series B preferred stock		—	6/30/2017	—	—	500	—
							13,889	12,149
MEDIA RECOVERY, INC.	Earnout	Industrial products	—	11/25/2019	—	—	1,517	—
NINJATRADER, INC.[13]	Revolving Loan[10]	Financial Services	L+6.00% (Floor 1.50%)/Q, Current Coupon 7.90%	12/18/2019	12/18/2024	1,100	1,093	1,100
	First Lien		L+6.00% (Floor 1.50%)/Q, Current Coupon 7.90%	12/18/2019	12/18/2024	18,250	17,902	18,250

CAPITAL SOUTHWEST CORPORATION AND SUBSIDIARIES
CONSOLIDATED SCHEDULE OF INVESTMENTS
March 31, 2020

Portfolio Company[1]	Type of Investment[2]	Industry	Current Interest Rate[3]	Acquisition Date[14]	Maturity	Principal	Cost[17]	Fair Value[4]
	2,000,000 Preferred Units[9]		—	12/18/2019		—	2,000	2,000
							20,995	21,350
RESEARCH NOW GROUP, INC.	Second Lien	Business services	L+9.50% (Floor 1.00%)/M, Current Coupon 11.26%	12/8/2017	12/20/2025	10,500	9,904	10,217
SCRIP INC.[8]	First Lien	Healthcare products	L+9.86% (Floor 2.00%)/M, Current Coupon 11.86%	3/21/2019	3/21/2024	16,750	16,332	16,482
	100 shares of common stock		—	3/21/2019	—	—	1,000	1,000
							17,332	17,482
TAX ADVISORS GROUP, LLC[13]	143.3 Class A units[9]	Financial services	—	6/23/2017	—	—	541	1,053
TRINITY 3, LLC	First Lien	Technology products & components	L+7.50% (Floor 1.50%)/Q, Current Coupon 9.41%	11/15/2019	11/15/2024	14,161	13,894	14,048
	562.5 Class A units[9]		—	11/15/2019		—	563	563
							14,457	14,611
TINUITI INC.	1,114 Preferred Units	Media, marketing & entertainment		2/1/2017	—	—	1,114	3,100
	1,443 Common Units			2/1/2017			277	1,756
							1,391	4,856
USA DEBUSK, LLC	First Lien	Industrial Services	L+5.75% (Floor 1.00%)/M, Current Coupon 6.75%	2/25/2020	10/22/2024	7,980	7,833	7,833
VISTAR MEDIA INC.	First Lien	Media, marketing & entertainment	L+7.5% (Floor 2.00%)/M, Current Coupon 9.5%	2/17/2017	4/3/2023	11,416	10,605	11,416
	171,617 shares of Series A preferred stock		—	4/3/2019		—	1,874	4,776
	Warrants (Expiration - April 3, 2029)		—	4/3/2019	—	—	620	2,718
							13,099	18,910
VTX HOLDINGS, INC.[8]	First Lien	Software & IT services	L+8.87% (Floor 2.00%)/Q, Current Coupon 10.87%	7/23/2019	7/23/2024	20,075	19,581	19,914
	1,000,000 series A Preferred units			7/23/2019		—	1,000	1,000
							20,581	20,914
Total Non-control/Non-affiliate Investments							$ 436,463	$ 421,280

CAPITAL SOUTHWEST CORPORATION AND SUBSIDIARIES
CONSOLIDATED SCHEDULE OF INVESTMENTS
March 31, 2020

Portfolio Company[1]	Type of Investment[2]	Industry	Current Interest Rate[3]	Acquisition Date[14]	Maturity	Principal	Cost[17]	Fair Value[4]
Affiliate Investments[6]								
CHANDLER SIGNS, LLC[13]	1,500,000 units of Class A-1 common stock[9]	Business services	—	1/4/2016	—	—	$ 1,500	$ 3,110
DYNAMIC COMMUNITIES, LLC[13]	Revolving Loan[10]	Business services	L+8.00% (Floor 1.00%)	7/17/2018	7/17/2023	—	(3)	—
	First Lien		L+8.00% (Floor 1.00%)/M, Current Coupon 9.00%	7/17/2018	7/17/2023	10,780	10,625	9,928
	2,000,000 Preferred Units[9]		—	7/17/2018	—	—	2,000	1,850
							12,622	11,778
GRAMMATECH, INC.	Revolving Loan	Software & IT services	L+7.50% (Floor 2.00%)/Q, Current Coupon 9.50%	11/1/2019	11/1/2024	2,500	2,460	2,460
	First Lien		L+7.50% (Floor 2.00%)/Q, Current Coupon 9.50%	11/1/2019	11/1/2024	11,500	11,312	11,316
	1,000 Class A units			11/1/2019		—	1,000	1,000
							14,772	14,776
ITA HOLDINGS GROUP, LLC[13]	Revolving Loan[10]	Transportation & logistics	L+9.00% (Floor 1.00%)	2/14/2018	2/14/2023	—	(31)	—
	First Lien - Term Loan		L+8.00% (Floor 1.00%)/Q, Current Coupon 9.91%	2/14/2018	2/14/2023	10,030	9,910	9,900
	First Lien - Term B Loan		L+11.00% (Floor 1.00%)/Q, Current Coupon 12.91%	6/5/2018	2/14/2023	5,015	4,940	5,136
	First Lien - PIK Note A		10.00% PIK	3/29/2019	2/14/2023	2,425	1,950	2,233
	First Lien - PIK Note B		10.00% PIK	3/29/2019	2/14/2023	96	96	88
	Warrants (Expiration - March 29, 2029)[9]		—	3/29/2019	—	—	538	2,762
	9.25% Class A Membership Interest[9]		—	2/14/2018	—	—	1,500	2,099
							18,903	22,218
ROSELAND MANAGEMENT, LLC	Revolving Loan[10]	Healthcare services	L+7.00% (Floor 2.00%)/Q, Current Coupon 9.00%	11/9/2018	11/9/2023	500	475	500
	First Lien		L+7.00% (Floor 2.00%)/Q, Current Coupon 9.00%	11/9/2018	11/9/2023	10,369	10,228	10,369
	10,000 Class A Units		—	11/9/2018	—	—	1,000	1,334
							11,703	12,203

CAPITAL SOUTHWEST CORPORATION AND SUBSIDIARIES
CONSOLIDATED SCHEDULE OF INVESTMENTS
March 31, 2020

Portfolio Company[1]	Type of Investment[2]	Industry	Current Interest Rate[3]	Acquisition Date[14]	Maturity	Principal	Cost[17]	Fair Value[4]
SIMR, LLC	First Lien	Healthcare services	L+10.00% (Floor 2.00%)/M, 7.00% PIK, Current Coupon 19.00%	9/7/2018	9/7/2023	11,693	11,522	11,190
	9,374,510.2 Class B Common Units		—	9/7/2018	—	—	6,107	1,742
							17,629	12,932
ZENFOLIO INC.	Revolving Loan	Business services	L+9.00% (Floor 1.00%)/Q, Current Coupon 10.34%	7/17/2017	7/17/2022	2,000	1,991	1,888
	First Lien		L+9.00% (Floor 1.00%)/Q, Current Coupon 10.91%	7/17/2017	7/17/2022	13,906	13,704	13,127
	190 shares of common stock		—	7/17/2017	—	—	1,900	—
							17,595	15,015
Total Affiliate Investments							$ 94,724	$ 92,032
Control Investments[7]								
I-45 SLF LLC[9, 11]	80% LLC equity interest	Multi-sector holdings	—	10/20/2015	—	—	$ 68,000	$ 39,760
Total Control Investments							$ 68,000	$ 39,760
TOTAL INVESTMENTS[12]							$ 599,187	$ 553,072

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

2 All of the Company’s investments, unless otherwise noted, are pledged as collateral 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 (D), monthly (M), quarterly (Q), or semiannually (S). For each the Company has provided the spread over LIBOR or Prime and the current contractual interest rate in effect at March 31, 2020. Certain investments are subject to a LIBOR or Prime interest rate floor. Certain investments, as noted, accrue payment-in-kind ("PIK") interest.

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

[5] Non-Control/Non-Affiliate investments are generally defined by the Investment Company Act of 1940, as amended (the “1940 Act”), as investments that are neither control investments nor affiliate investments. At March 31, 2020, approximately 76.2% of the Company’s investment assets were non-control/non-affiliate investments. The fair value of these investments as a percent of net assets is 154.8%.

[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, 2020, approximately 16.6% of the Company’s investment assets were affiliate investments. The fair value of these investments as a percent of net assets is 33.8%.

[7] Control investments are generally defined by the 1940 Act as investments in which more than 25% of the voting securities are owned. At March 31, 2020, approximately 7.2% of the Company’s investment assets were control investments. The fair value of these investments as a percent of net assets is 14.6%.

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

[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 March 31, 2020, approximately 11.9% of the Company's assets are non-qualifying assets.

[10] The investment has an unfunded commitment as of March 31, 2020. Refer to Note 11 - Commitments and Contingencies for further discussion.

[11] Income producing through dividends or distributions.

[12] As of March 31, 2020, the cumulative gross unrealized appreciation for federal income tax purposes is approximately $19.3 million; cumulative gross unrealized depreciation for federal income tax purposes is $63.4 million. Cumulative net unrealized depreciation is $44.1 million, based on a tax cost of $597.7 million.

[13] Our investment in ASC Ortho Management Company, LLC common units, Danforth Advisors, LLC Class A units, American Nuts Operations LLC Class A common stock, LGM Pharma, LLC Class A common stock, NinjaTrader, LLC preferred units, Trinity 3, LLC Class A units, Tax Advisors Group, LLC Class A units, Chandler Signs, LLC Class A-1 common stock, Dynamic Communities, LLC Preferred units, and ITA Holdings Group, LLC Class A membership interest are held through a wholly-owned taxable subsidiary of the Company.

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

[15] The investment is structured as a split lien term loan, which provides the Company with a first lien priority on certain assets of the obligor and a second lien priority on different assets of the obligor.

[16] Investment was on non-accrual status as of March 31, 2020, meaning the Company has ceased to recognize interest income on the investment. The current interest rate and terms disclosed on investments on non-accrual reflect the terms at the time of placement on non-accrual status.

[17] Negative cost in this column represents the original issue discount of certain undrawn revolvers and delayed draw term loans.

A brief description of the portfolio company in which we made an investment that represents greater than 5% of our total assets as of March 31, 2020 is included in Note 16. Significant Subsidiaries.

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

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 investment segments located primarily in the United States. Our common stock currently trades on The Nasdaq Global Select Market under the ticker symbol "CSWC."

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

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

Capital Southwest Management Corporation ("CSMC"), a wholly-owned subsidiary of CSWC, was the management company for CSWC. Effective December 31, 2020, CSMC merged with and into CSWC, with CSWC continuing as the surviving entity in the merger. Prior to December 31, 2020, CSMC generally incurred all normal operating and administrative expenses, including, but not limited to, salaries and related benefits, rent, equipment and other administrative costs required for its day-to-day operations (the "Administrative Expenses"). After December 31, 2020, the Administrative Expenses will be directly incurred by CSWC. The Company continues to be internally managed and the merger has no impact on the day-to-day operations of the business.

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 U.S. federal income tax purposes must consist of qualifying investment income. The Taxable Subsidiary is taxed at normal corporate tax rates based on its taxable income.

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

Basis of Presentation

The consolidated financial statements have been prepared in accordance with Generally Accepted Accounting Principles in the United States of America ("U.S. GAAP"). We meet the definition of an investment company and follow the accounting and reporting guidance in the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 946 – *Financial Services – Investment Companies* ("ASC 946"). Under rules and regulations applicable to investment companies, we are generally precluded from consolidating any entity other than another investment 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 nine months ended December 31, 2020 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, 2020 and 2019. Consolidated financial statements prepared on a U.S. GAAP basis require management to make estimates and assumptions that affect the amounts and disclosures reported in the consolidated financial statements and accompanying notes. Such estimates and assumptions could change in the future as more information becomes known, which could impact the amounts reported and disclosed herein.

Portfolio Investment Classification

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

Under the 1940 Act, a BDC must meet certain requirements, including investing at least 70% of our total assets in qualifying assets. As of December 31, 2020, the Company has 86.5% of our assets in qualifying assets. The principal categories of qualifying assets relevant to our business are:

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

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

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

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

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

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

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

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

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

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

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

For the quarter ended December 31, 2020, we satisfied all RIC requirements and have 7.1% in nonqualified assets according to measurement criteria established in Section 851(d) of the Code.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

Net Realized Gains or Losses and Net 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 unrealized appreciation or depreciation reflects the net change in the fair value of the investment portfolio and financial instruments and the reclassification of any prior period unrealized appreciation or depreciation on exited investments and financial instruments to realized gains or losses.

Cash and Cash Equivalents Cash and cash equivalents, which consist of cash and highly liquid investments with an original maturity of three months or less at the date of purchase, are carried at cost, which approximates fair value. Cash may be held in a money market fund from time to time, which is a Level 1 security. Cash and cash equivalents includes deposits at financial institutions. We deposit our cash balances in financial institutions and, at times, such balances may be in excess of the Federal Deposit Insurance Corporation ("FDIC") insurance limits. At December 31, 2020 and March 31, 2020, cash balances totaling $42.2 million and $12.6 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 946, we generally do not consolidate our investment in a portfolio company other than an investment company subsidiary or a controlled operating company whose business consists of providing services to CSWC. Accordingly, we consolidated the results of CSWC's wholly-owned Taxable Subsidiary and CSWC's wholly-owned management company, CSMC. All intercompany balances have been eliminated upon consolidation.

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

Interest and Dividend Income Interest and dividend income is recorded on an accrual basis to the extent amounts are expected to be collected. Dividend income is recognized on the date dividends are declared by the portfolio company or at the point an obligation exists for the portfolio company to make a distribution. Discounts/premiums received to par on loans purchased are capitalized and accreted or amortized into income over the life of the loan using the effective interest method. In accordance with our valuation policy, accrued interest and dividend income is evaluated quarterly for collectability. When we do not expect the debtor to be able to service all of its debt or other obligations, we will generally establish a reserve against interest income receivable, thereby placing the loan or debt security on non-accrual status, and cease to recognize interest income on that loan or debt security until the borrower has demonstrated the ability and intent to pay contractual amounts due. If a loan or debt security's status significantly improves regarding its ability to service debt or other obligations, it will be restored to accrual basis. As of December 31, 2020, we had one investment on non-accrual status, which represents approximately 0.1% of our total investment portfolio's fair value and approximately 0.5% of its cost. As of March 31, 2020, we had four investments on non-accrual status which represented approximately 3.3% of our total investment portfolio's fair value and approximately 5.8% of its cost.

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 nine months ended December 31, 2020, approximately 3.5% and 3.4%, respectively, of CSWC's total investment income was attributable to non-cash interest income for the accretion of discounts associated with debt investments, net of any premium reduction. For the three and nine months ended December 31, 2019, 2.9% and 3.0%, respectively, of CSWC's total investment income was attributable to non-cash interest income for the accretion of discounts associated with debt investments, net of any premium reduction.

Payment-in-Kind Interest The Company currently holds, and expects to hold in the future, some investments in its portfolio that contain payment-in-kind ("PIK") interest and dividend provisions. The PIK interest and dividends, computed at the contractual rate specified in each loan agreement, are added to the principal balance of the loan, rather than being paid to the Company in cash, and are recorded as interest and dividend income. Thus, the actual collection of PIK interest and dividends may be deferred until the time of debt principal repayment or disposition of the equity investment. PIK interest and dividends, which are non-cash sources of income, are included in the Company's taxable income and therefore affect the amount the Company is required to distribute to shareholders to maintain its qualification as a RIC for U.S. federal income tax purposes, even though the Company has not yet collected the cash. Generally, when current cash interest and/or principal payments on a loan become past due, or if the Company otherwise does not expect the borrower to be able to service its debt and other obligations, the Company will place the investment on non-accrual status and will generally cease recognizing PIK interest and dividend income on that loan for financial reporting purposes until all principal and interest have been brought current through payment or due to a restructuring such that the interest and dividend income is deemed to be collectible. The Company writes off any accrued and uncollected PIK interest and dividends when it is determined that the PIK interest and dividends are no longer collectible. As of December 31, 2020 and March 31, 2020, we have not written off any accrued and uncollected PIK interest and dividends from prior periods. For the three months ended December 31, 2020, we had one investment for which we stopped accruing PIK interest. For the nine months ended December 31, 2020, we had two investments for which we stopped accruing PIK interest. For the three and nine months ended December 31, 2019, we had two investments for which we stopped accruing PIK interest. For the three and nine months ended December 31, 2020, approximately 8.4% and 8.8%, respectively, of CSWC's total investment income was attributable to non-cash PIK interest and dividend income. For the three and nine months ended December 31, 2019, approximately 5.0% and 3.0%, respectively, of CSWC's total investment income was attributable to non-cash PIK interest and dividend income.

Warrants In connection with the Company's debt investments, the Company will sometimes receive warrants or other equity-related securities from the borrower. The Company determines the cost basis of warrants based upon their respective fair values on the date of receipt in proportion to the total fair value of the debt and warrants received. Any resulting difference between the face amount of the debt and its recorded fair value resulting from the assignment of value to the warrants is treated as original issue discount ("OID"), and accreted into interest income using the effective interest method over the term of the debt investment.

Debt Issuance Costs Debt issuance costs include commitment fees and other costs related to CSWC's senior secured credit facility and its unsecured notes (as discussed further in Note 5). The costs in connection with the credit facility have been capitalized and are amortized into interest expense over the term of the credit facility. The costs in connection with the unsecured notes are a direct deduction from the related debt liability and amortized into interest expense over the term of the December 2022 Notes (as defined below), the October 2024 Notes (as defined below) and the January 2026 Notes (as defined below).

Deferred Offering Costs Deferred offering costs include registration expenses related to shelf registration statements and expenses related to the launch of the "at-the-market" ("ATM") program through which we can sell, from time to time, shares of our common stock (the "Equity ATM Program"). These expenses consist primarily of SEC registration fees, legal fees and accounting fees incurred related thereto. These expenses are included in other assets on the Consolidated Statements of Assets and Liabilities. Upon the completion of an equity offering or a debt offering, the deferred expenses are charged to additional paid-in capital or debt issuance costs, respectively. If there are any deferred offering costs remaining at the expiration of the shelf registration statement, these deferred costs are charged to expense.

Realized Losses on Extinguishment of Debt Upon the repayment of debt obligations that are deemed to be extinguishments, the difference between the principal amount due at maturity adjusted for any unamortized debt issuance costs is recognized as a loss (i.e., the unamortized debt issuance costs are recognized as a loss upon extinguishment of the underlying debt obligation).

Leases The Company is obligated under an operating lease pursuant to which it is leasing an office facility from a third party with a remaining term of approximately one year. The operating lease is included as an operating lease right-of-use ("ROU") asset and operating lease liability in the accompanying Consolidated Statements of Assets and Liabilities. The Company does not have any financing leases.

The ROU asset represents the Company's right to use an underlying asset for the lease term and the operating lease liability represents the Company's obligation to make lease payments arising from such lease. Operating lease ROU assets and liabilities are recognized at the commencement date based on the present value of lease payments over the remaining lease term. The Company's leases do not provide an implicit discount rate, and as such the Company uses its incremental borrowing rate based on the information available at the commencement date in determining the present value of the remaining lease payments. Lease expense is recognized on a straight-line basis over the remaining lease term.

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

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

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

CSMC, a wholly-owned subsidiary of CSWC, and the Taxable Subsidiary are not RICs and are required to pay taxes at the corporate rate of 21%. 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. Effective December 31, 2020, CSMC merged with and into CSWC and, as a result, the calendar year ended December 31, 2020 is the last year in which the Company will incur tax expense or benefit related to CSMC.

Management evaluates tax positions taken or expected to be taken in the course of preparing the Company’s consolidated financial statements to determine whether the tax positions are “more-likely-than-not” to be sustained by the applicable tax authority. Tax positions with respect to tax at the CSWC level not deemed to meet the “more-likely-than-not” threshold would be recorded as an expense in the current year. Management’s conclusions regarding tax positions will be subject to review and may be adjusted at a later date based on factors including, but not limited to, on-going analyses of tax laws, regulations and interpretations thereof. The Company has concluded that it does not have any uncertain tax positions that meet the recognition of measurement criteria of ASC 740, *Income Taxes*, ("ASC 740") for the current period. Also, we account for interest and, if applicable, penalties for any uncertain tax positions as a component of income tax expense. No interest or penalties expense was recorded during the three and nine months ended December 31, 2020 and 2019.

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

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

At both the three and nine months ended December 31, 2020 and 2019, there was no adjustment made for the dilutive effect of stock-based awards as there are no options to acquire shares of common stock outstanding.

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

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

Recently Issued or Adopted Accounting Standards In March 2020, the FASB issued ASU 2020-04, "Reference rate reform (Topic 848)—Facilitation of the effects of reference rate reform on financial reporting." The amendments in this update provide optional expedients and exceptions for applying U.S. GAAP to certain contracts and hedging relationships that reference LIBOR or another reference rate expected to be discontinued due to reference rate reform and became effective upon issuance for all entities. The Company has agreements that have LIBOR as a reference rate with certain portfolio companies and certain lenders, including financial instruments that mature after the end of 2021, when LIBOR will be discontinued. Many of these agreements include language for choosing an alternative successor rate when LIBOR reference is no longer considered to be appropriate. With respect to other agreements, the Company intends to work with its portfolio companies and lenders to modify agreements to choose an alternative successor rate. Contract modifications are required to be evaluated in determining whether the modifications result in the establishment of new contracts or the continuation of existing contracts. The standard is effective as of March 12, 2020 through December 31, 2022 and the Company plans to apply the amendments in this update to account for contract modifications due to changes in reference rates. The Company does not believe that it will have a material impact on its consolidated financial statements and disclosures.

In May 2020, the SEC adopted rule amendments that will impact the requirement of investment companies, including BDCs, to disclose the financial statements of certain of their portfolio companies or certain acquired funds (the "Final Rules"). The Final Rules adopted a new definition of "significant subsidiary" set forth in Rule 1-02(w)(2) of Regulation S-X under the Securities Act. Rules 3-09 and 4-08(g) of Regulation S-X require investment companies to include separate financial statements or summary financial information, respectively, in such investment company's periodic reports for any portfolio company that meets the definition of "significant subsidiary." The Final Rules adopt a new definition of "significant subsidiary" applicable only to investment companies that (i) modifies the investment test and the income test, and (ii) eliminates the asset test currently in the definition of "significant subsidiary" in Rule 1-02(w) of Regulation S-X. The new Rule 1-02(w)(2) of Regulation S-X is intended to more accurately capture those portfolio companies that are more likely to materially impact the financial condition of an investment company. The Final Rules became effective on January 1, 2021, but voluntary compliance is permitted in advance of the effective date. The Company evaluated the impact of the Final Rule and concluded it will not have a material impact on its consolidated financial statements.

In November 2020, the SEC issued a final rule that modernized and simplifies Management's Discussion and Analysis and certain financial disclosure requirements in Regulation S-K (the "Amendments"). Specifically, the Amendments: (i) eliminate Item 301 of Regulation S-K (Selected Financial Data); (ii) simplify Item 302 of Regulation S-K (Supplementary Financial Information); and (iii) amend certain aspects of Item 303 of Regulation S-K (Management's Discussion and Analysis of Financial Condition and Results of Operations). The Amendments will become effective on February 10, 2021 and compliance will be required for the registrants' fiscal year ending on or after August 9, 2021. Early adoption of the Amendments is permitted on an item-by-item basis after the effective date; however, a registrant must fully comply with each adopted item in its entirety. The Company is currently evaluating the impact of the Amendments on its consolidated financial statements.

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 December 31, 2020 and March 31, 2020:

	Fair Value	Percentage of Total Portfolio	Percentage of Net Assets	Cost	Percentage of Total Portfolio
			(dollars in thousands)		
December 31, 2020:					
First lien loans[1,2]	$ 482,240	74.3 %	154.2 %	$ 490,350	73.4 %
Second lien loans[2]	37,756	5.8	12.1	39,954	6.0
Subordinated debt[3]	11,107	1.7	3.6	11,200	1.6
Preferred equity	20,410	3.2	6.5	15,377	2.3
Common equity & warrants	33,625	5.2	10.8	30,727	4.6
I-45 SLF LLC[5]	63,635	9.8	20.4	80,800	12.1
	$ 648,773	100.0 %	207.6 %	$ 668,408	100.0 %
March 31, 2020:					
First lien loans[1]	$ 427,447	77.3 %	157.0 %	$ 446,925	74.6 %
Second lien loans[2]	37,139	6.7	13.6	38,580	6.4
Subordinated debt	9,747	1.8	3.6	9,980	1.7
Preferred equity	16,624	3.0	6.1	12,576	2.1
Common equity & warrants	22,355	4.0	8.2	21,609	3.6
Financial instruments[4]	—	—	—	1,517	0.3
I-45 SLF LLC[5]	39,760	7.2	14.6	68,000	11.3
	$ 553,072	100.0 %	203.1 %	$ 599,187	100.0 %

1 Included in first lien loans are loans structured as first lien last out loans. These loans may, in certain cases, be subordinated in payment priority to other senior secured lenders. As of December 31, 2020 and March 31, 2020, the fair value of the first lien last out loans are $69.6 million and $59.5 million, respectively.

2 Included in first lien loans and second lien loans are loans structured as split lien term loans. These loans provide the Company with a first lien priority on certain assets of the obligor and a second lien priority on different assets of the obligor. As of December 31, 2020 and March 31, 2020, the fair value of the split lien term loans included in first lien loans is $10.0 million and $0, respectively. As of December 31, 2020 and March 31, 2020, the fair value of the split lien term loans included in second lien loans is $19.5 million and $19.9 million, respectively.

3 Included in subordinated debt is an unsecured convertible note with a fair value of $0.2 million as of December 31, 2020.

4 Included in financial instruments is the earnout received in connection with the sale of Media Recovery, Inc.

5 I-45 SLF LLC is a joint venture between CSWC and Main Street Capital Corporation. This entity primarily invests in syndicated senior secured loans to the UMM. The portfolio companies held by I-45 SLF LLC represent a diverse set of industry classifications, which are similar to those in which CSWC invests directly. See Note 13 for further discussion.

The following tables show the composition of the investment portfolio by industry, at fair value and cost (with corresponding percentage of total portfolio investments) as of December 31, 2020 and March 31, 2020:

	Fair Value	Percentage of Total Portfolio	Percentage of Net Assets	Cost	Percentage of Total Portfolio
			(dollars in thousands)		
December 31, 2020:					
Business Services	$ 79,167	12.2 %	25.3 %	$ 80,246	12.0 %
Healthcare Services	67,231	10.4	21.5	75,841	11.3
Media, Marketing, & Entertainment	66,310	10.2	21.2	62,879	9.4
I-45 SLF LLC[1]	63,635	9.8	20.4	80,800	12.1
Software & IT Services	49,426	7.6	15.8	48,142	7.2
Industrial Services	38,906	6.0	12.4	39,389	5.9
Distribution	37,559	5.8	12.0	37,214	5.6
Healthcare Products	34,477	5.3	11.0	32,786	4.9
Financial Services	32,809	5.0	10.5	28,366	4.2
Consumer Products & Retail	28,932	4.5	9.3	28,998	4.3
Food, Agriculture & Beverage	27,063	4.2	8.7	29,961	4.5
Transportation & Logistics	23,325	3.6	7.5	19,276	2.9
Telecommunications	19,871	3.1	6.4	23,771	3.6
Consumer Services	16,232	2.5	5.2	16,031	2.4
Environmental Services	12,654	1.9	4.0	14,380	2.2
Technology Products & Components	12,349	1.9	3.9	11,062	1.7
Commodities & Mining	10,486	1.6	3.4	10,564	1.6
Aerospace & Defense	9,793	1.5	3.1	9,572	1.4
Energy Services (Midstream)	9,035	1.4	2.9	9,372	1.4
Restaurants	6,513	1.0	2.1	6,786	1.0
Paper & Forest Products	3,000	0.5	1.0	2,972	0.4
	$ 648,773	100.0 %	207.6 %	$ 668,408	100.0 %

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	Fair Value	Percentage of Total Portfolio	Percentage of Net Assets	Cost	Percentage of Total Portfolio
			(dollars in thousands)		
March 31, 2020:					
Business Services	$ 92,365	16.7 %	33.9 %	$ 92,879	15.5 %
Media, Marketing, & Entertainment	54,494	10.0	20.0	45,202	7.5
Healthcare Services	51,037	9.2	18.7	66,744	11.1
I-45 SLF LLC[1]	39,760	7.2	14.6	68,000	11.3
Industrial Services	35,956	6.5	13.2	35,931	6.0
Software & IT Services	35,690	6.5	13.1	35,353	5.9
Distribution	31,632	5.7	11.6	32,229	5.5
Financial Services	30,586	5.5	11.2	29,651	4.9
Healthcare Products	29,775	5.4	10.9	29,832	5.0
Food, Agriculture & Beverage	25,624	4.6	9.4	30,937	5.2
Consumer Products and Retail	23,157	4.2	8.5	23,549	3.9
Transportation & Logistics	22,218	4.0	8.2	18,903	3.2
Consumer Services	21,403	3.9	7.9	21,118	3.5
Technology Products & Components	14,610	2.6	5.4	14,457	2.4
Environmental Services	12,148	2.2	4.5	13,889	2.3
Commodities & Mining	10,411	1.9	3.8	10,458	1.7
Energy Services (Midstream)	9,445	1.7	3.5	9,532	1.6
Restaurants	5,621	1.0	2.1	8,113	1.4
Telecommunications	4,140	0.7	1.5	7,928	1.3
Paper & Forest Products	3,000	0.5	1.1	2,965	0.5
Industrial Products	—	—	—	1,517	0.3
	$ 553,072	100.0 %	203.1 %	$ 599,187	100.0 %

[1] I-45 SLF LLC is a joint venture between CSWC and Main Street Capital Corporation. This entity primarily invests in syndicated senior secured loans to the UMM. The portfolio companies in I-45 SLF LLC represent a diverse set of industry classifications, which are similar to those in which CSWC invests directly. See Note 13 for further discussion.

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 December 31, 2020 and March 31, 2020:

	Fair Value	Percentage of Total Portfolio	Percentage of Net Assets	Cost	Percentage of Total Portfolio
			(dollars in thousands)		
December 31, 2020:					
Southwest	$ 191,793	29.6 %	61.3 %	$ 193,819	29.0 %
Northeast	153,856	23.7	49.2	153,630	23.0
Southeast	119,660	18.4	38.3	124,071	18.6
West	79,689	12.3	25.5	77,202	11.5
I-45 SLF LLC[1]	63,635	9.8	20.4	80,800	12.1
Midwest	40,140	6.2	12.9	38,886	5.8
	$ 648,773	100.0 %	207.6 %	$ 668,408	100.0 %
March 31, 2020:					
Southwest	$ 167,082	30.2 %	61.3 %	$ 167,192	27.9 %
Northeast	124,250	22.4	45.6	121,201	20.2
Southeast	107,541	19.4	39.5	122,547	20.5
I-45 SLF LLC[1]	39,760	7.2	14.6	68,000	11.3
West	58,985	10.7	21.7	65,135	10.9
Midwest	43,454	7.9	16.0	43,214	7.2
International	12,000	2.2	4.4	11,898	2.0
	$ 553,072	100.0 %	203.1 %	$ 599,187	100.0 %

1 I-45 SLF LLC is a joint venture between CSWC and Main Street Capital Corporation. This entity primarily invests in syndicated senior secured loans to the UMM. The portfolio companies held by I-45 SLF LLC represent a diverse set of industry classifications, which are similar to those in which CSWC invests directly. See Note 13 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 valuation 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 820. As required by ASC 820, when the inputs used to measure fair value fall within different levels of the hierarchy, the level within which the fair value measurement is categorized is based on the lowest level input that is significant to the fair value measurement in its entirety. For example, a Level 3 fair value measurement may include inputs that are observable (Levels 1 and 2) and unobservable (Level 3). Therefore, unrealized appreciation and depreciation related to such investments categorized within the Level 3 tables below may include changes in fair value that are attributable to both observable inputs (Levels 1 and 2) and unobservable inputs (Level 3). CSWC conducts reviews of fair value hierarchy classifications on a quarterly basis. We also use judgment and consider factors specific to the investment in determining the significance of an input to a fair value measurement.

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

- *Level 1:* Investments whose values are based on unadjusted quoted prices in active markets for identical assets or liabilities.
- *Level 2:* Investments whose values are based on quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.
- *Level 3:* Investments whose values are based on unobservable inputs that are significant to the overall fair value measurement.

As of December 31, 2020 and March 31, 2020, 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 readily available. Therefore, CSWC determines the fair value of its investments (excluding investments for which fair value is measured at net asset value ("NAV") in good faith using Level 3 inputs, pursuant to a valuation policy and process that is established by the management of CSWC, with assistance from multiple third-party valuation advisors, which is subsequently approved by our Board of Directors.

Investment Valuation Inputs

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

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

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

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

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

Market Approach

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

Income Approach

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

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

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

Enterprise Value Waterfall Approach

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

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

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

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.

Option Pricing Model Method

In certain situations, CSWC will acquire financial instruments which are most appropriately valued using an option pricing model. Typically, option pricing models will use the Black Scholes model methodology and attempt to replicate the features of the underlying derivative instrument. The significant Level 3 input to the Option Pricing Model is the assumed volatility of the underlying portfolio company cash flows. Other inputs into the model are the current price of the security, the strike price of the security, and the time to maturity.

The following fair value hierarchy tables set forth our investment portfolio by level as of December 31, 2020 and March 31, 2020 (in thousands):

		Fair Value Measurements at December 31, 2020 Using		
Asset Category	**Total**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
First lien loans	$ 482,240	$ —	$ —	$ 482,240
Second lien loans	37,756	—	—	37,756
Subordinated debt	11,107	—	—	11,107
Preferred equity	20,410	—	—	20,410
Common equity & warrants	33,625	—	—	33,625
Investments measured at net asset value[1]	63,635	—	—	—
Total Investments	$ 648,773	$ —	$ —	$ 585,138

		Fair Value Measurements at March 31, 2020 Using		
Asset Category	**Total**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
First lien loans	$ 427,447	$ —	$ —	$ 427,447
Second lien loans	37,139	—	—	37,139
Subordinated debt	9,747	—	—	9,747
Preferred equity	16,624	—	—	16,624
Common equity & warrants	22,355	—	—	22,355
Investments measured at net asset value[1]	39,760	—	—	—
Total Investments	$ 553,072	$ —	$ —	$ 513,312

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. For the investment valued at net asset value per share at December 31, 2020 and March 31, 2020, the redemption restrictions dictate that we cannot withdraw our membership interest without unanimous approval. We are permitted to sell or transfer our membership interest and must deliver written notice of such transfer to the other member no later than 60 business days prior to the sale or transfer.

The tables below present the Valuation Techniques and Significant Level 3 Inputs (ranges and weighted averages) used in the valuation of CSWC's debt and equity securities at December 31, 2020 and March 31, 2020. Significant Level 3 Inputs were weighted by the relative fair value of the investments. The tables are not intended to be all inclusive, but instead capture the significant unobservable inputs relevant to our determination of fair value.

Type	**Valuation Technique**	**Fair Value at December 31, 2020 (in thousands)**	**Significant Unobservable Inputs**	**Range**	**Weighted Average**
First lien loans	Income Approach	$ 404,783	Discount Rate	7.6% - 41.4%	11.5%
	Market Approach	77,457	Cost	97.0 - 100.0	98.1
			Exit Value	20.6 - 101.0	98.1
Second lien loans	Income Approach	36,969	Discount Rate	10.2% - 39.2%	15.1%
			Third Party Broker Quote	93.2 - 93.2	93.2
	Market Approach	787	Cost	100.0	100.0
Subordinated debt	Income Approach	11,107	Discount Rate	6.22% - 27.1%	15.1%
Preferred equity	Enterprise Value Waterfall Approach	18,410	EBITDA Multiple	6.9x - 11.0x	8.7x
			Discount Rate	14.7% - 20.8%	19.2%
	Market Approach	2,000	Cost	100.0	100.0
Common equity & warrants	Enterprise Value Waterfall Approach	33,625	EBITDA Multiple	5.4x - 11.5x	8.4x
			Discount Rate	15.1% - 27.1%	19.7%
Total Level 3 Investments		$ 585,138			

Type	Valuation Technique	Fair Value at March 31, 2020 (in thousands)	Significant Unobservable Inputs	Range	Weighted Average
First lien loans	Income Approach	$ 401,266	Discount Rate	7.0% - 52.5%	12.0%
			Third Party Broker Quote	43.8 - 56.5	49.9
	Market Approach	26,181	Cost	98.0 - 98.2	98.1
Second lien loans	Income Approach	37,139	Discount Rate	10.3% - 19.8%	12.7%
			Third Party Broker Quote	37.5	37.5
Subordinated debt	Income Approach	9,747	Discount Rate	13.3%	13.3%
Preferred equity	Enterprise Value Waterfall Approach	16,624	EBITDA Multiple	7.4x - 11.4x	9.3x
			Discount Rate	17.2% - 22.9%	19.3%
Common equity & warrants	Enterprise Value Waterfall Approach	22,355	EBITDA Multiple	5.3x - 11.4x	8.2x
			Discount Rate	15.4% - 22.7%	19.2%
Financial Instruments	Option Pricing Model	—	Assumed Volatility	2.0%	2.0%
Total Level 3 Investments		$ 513,312			

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 nine months ended December 31, 2020 and 2019, 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 nine months ended December 31, 2020 and 2019 (in thousands):

	Fair Value March 31, 2020	Realized & Unrealized Gains (Losses)	Purchases of Investments[1]	Repayments	PIK Interest Capitalized	Divestitures	Conversion/Reclassification of Security	Fair Value December 31, 2020	YTD Unrealized Appreciation (Depreciation) on Investments held at period end
First lien loans	$ 427,447	$ (572)	$ 132,279	$ (71,102)	$ 3,880	$ —	$ (9,692)	$ 482,240	$ (987)
Second lien loans	37,139	(758)	143	(188)	642	—	778	37,756	(758)
Subordinated debt	9,747	141	534	—	685	—	—	11,107	141
Preferred equity	16,624	7,485	3,915	—	—	(7,614)	—	20,410	2,971
Common equity & warrants	22,355	2,143	2,381	—	—	(2,168)	8,914	33,625	1,731
Financial instruments	—	—	—	—	—	—	—	—	—
Total Investments	$ 513,312	$ 8,439	$ 139,252	$ (71,290)	$ 5,207	$ (9,782)	$ —	$ 585,138	$ 3,098

	Fair Value March 31, 2019	Realized & Unrealized Gains (Losses)	Purchases of Investments[1]	Repayments	PIK Interest Capitalized	Divestitures	Conversion/Reclassification of Security	Fair Value December 31, 2019	YTD Unrealized Appreciation (Depreciation) on Investments held at period end
First lien loans	$ 317,544	$ (9,247)	$ 148,601	$ (46,944)	$ 954	$ —	$ —	$ 410,908	$ (9,427)
Second lien loans	35,896	(704)	120	(188)	448	—	—	35,572	(704)
Subordinated debt	14,287	(153)	38	$ (4,569)	12	—	—	9,615	(217)
Preferred equity	17,936	1,291	4,563	—	55	(8,081)	1,597	17,361	1,738
Common equity & warrants	72,665	2,147	1,003	—	—	(48,933)	(1,597)	25,285	5,221
Financial instruments	—	—	1,517.00	—	—	—	—	1,517.00	—
Total Investments	$ 458,328	$ (6,666)	$ 155,842	$ (51,701)	$ 1,469	$ (57,014)	$ —	$ 500,258	$ (3,389)

1 Includes purchases of new investments, as well as discount accretion on existing investments.

5. BORROWINGS

In accordance with the 1940 Act, with certain limitations, effective April 25, 2019, the Company is only allowed to borrow amounts such that its asset coverage (i.e., the ratio of assets less liabilities not represented by senior securities to senior securities such as borrowings), calculated pursuant to the 1940 Act, is at least 150% after such borrowing. The Board of Directors also approved a resolution which limits the Company's issuance of senior securities such that the asset coverage ratio, taking into account any such issuance, would not be less than 166%, which became effective April 25, 2019. As of December 31, 2020, the Company's asset coverage was 181%.

The Company had the following borrowings outstanding as of December 31, 2020 and March 31, 2020 (amounts in thousands):

	December 31, 2020	March 31, 2020
Credit Facility	$ 150,000	$ 154,000
December 2022 Notes	37,136	77,136
Less: Unamortized debt issuance costs and debt discount	(447)	(1,324)
Total December 2022 Notes	36,689	75,812
October 2024 Notes	125,000	75,000
Less: Unamortized debt issuance costs and debt discount	(2,225)	(1,516)
Total October 2024 Notes	122,775	73,484
January 2026 Notes	75,000	—
Less: Unamortized debt issuance costs and debt discount	(1,590)	—
Total January 2026 Notes	73,410	—
Total Borrowings	$ 382,874	$ 303,296

Credit Facility

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

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

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

On December 21, 2018, CSWC entered into the Amended and Restated Senior Secured Revolving Credit Agreement (the "Credit Agreement"), and a related Amended and Restated Guarantee, Pledge and Security Agreement, to amend and restate its Credit Facility. The Credit Agreement (1) increased the total commitments by $60 million from $210 million to an aggregate total of $270 million, provided by a diversified group of nine lenders, (2) increased the Credit Facility's accordion feature to $350 million under the Credit Facility from new and existing lenders on the same terms and conditions as the existing commitments, (3) reduced the interest rate on borrowings from LIBOR plus 3.00% to LIBOR plus 2.50%, subject to certain conditions as outlined in the Credit Agreement, (4) reduced the minimum asset coverage with respect to senior securities representing indebtedness from 200% to 150% after the date on which such minimum asset coverage is permitted to be reduced by the Company under applicable law, and (5) extended the Credit Facility's revolving period from November 16, 2020 to December 21, 2022 and the final maturity was extended from November 16, 2021 to December 21, 2023.

The Credit Agreement modified certain covenants in the Credit Facility, including: (1) to provide for a minimum senior coverage ratio of 2-to-1 (in addition to the asset coverage ratio noted below), (2) to increase the minimum obligors’ net worth test from $160 million to $180 million, (3) to reduce the minimum consolidated interest coverage ratio from 2.50-to-1 to 2.25-to-1 as of the last day of any fiscal quarter, and (4) to provide for the fact that the Company will not declare or pay a dividend or distribution in cash or other property unless immediately prior to and after giving effect thereto the Company's asset coverage ratio exceeds 150% (and certain other conditions are satisfied). The Credit Facility also 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, and (5) at any time the outstanding advances exceed 90% of the borrowing base, maintaining a minimum liquidity of not less than 10% of the covered debt amount.

On May 23, 2019, CSWC entered into an Incremental Assumption Agreement, which increased the total commitments under the Credit Facility by $25 million. The increase was executed under the accordion feature of the Credit Facility and increased total commitments from $270 million to $295 million.

On March 19, 2020, CSWC entered into an Incremental Assumption Agreement that increased the total commitments under the accordion feature of the Credit Facility by $30 million, which increased total commitments from $295 million to $325 million.

On December 10, 2020, CSWC entered into Amendment No. 1 to the Credit Agreement, which expanded the accordion feature from $350 million to $400 million. In addition, on December 10, 2020, the Company entered into an Incremental Commitment Agreement that increased the total commitments under the Credit Agreement from $325 million to $340 million.

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

The Credit Facility is secured by (1) substantially all of the present and future property and assets of the Company and the guarantors and (2) 100% of the equity interests in the Company’s wholly-owned subsidiaries. As of December 31, 2020, substantially all of the Company’s assets were pledged as collateral for the Credit Facility.

At December 31, 2020, CSWC had $150.0 million in borrowings outstanding under the Credit Facility. CSWC recognized interest expense related to the Credit Facility, including unused commitment fees and amortization of deferred loan costs, of $1.8 million and $5.3 million, respectively, for the three and nine months ended December 31, 2020. For the three and nine months ended December 31, 2019, CSWC recognized interest expense of $1.7 million and $6.3 million, respectively. The weighted average interest rate on the Credit Facility was 2.91% and 3.13%, respectively, for the three and nine months ended December 31, 2020. For the three and nine months ended December 31, 2019, the weighted average interest rate on the Credit Facility was 4.67% and 4.96%, respectively. Average borrowings for the three and nine months ended December 31, 2020 were $184.1 million and $129.5 million, respectively. For the three and nine months ended December 31, 2019, average borrowings were $106.5 million and $102.9 million, respectively. As of December 31, 2020, CSWC was in compliance with all financial covenants under the Credit Facility.

December 2022 Notes

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

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

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

The Company has no current intention of issuing additional December 2022 Notes under this ATM debt distribution agreement. Accordingly, during the three months ended June 30, 2019, the Company amortized $0.2 million of the remaining debt issuance costs associated with the ATM debt distribution agreement, which is included in interest expense in the Consolidated Statement of Operations for the quarter ended June 30, 2019.

On each of September 29, 2020 and December 10, 2020 (the "Redemption Dates"), the Company redeemed $20,000,000 in aggregate principal, $40,000,000 in total, of the $77,136,175 in aggregate principal amount of issued and outstanding December 2022 Notes. The December 2022 Notes were redeemed at 100% of their principal amount, plus the accrued and unpaid interest thereon, through, but excluding the Redemption Dates. Accordingly, the Company recognized realized losses on extinguishment of debt, equal to the write-off of the related unamortized debt issuance costs, of $0.3 million and $0.5 million, respectively, during the three and nine months ended December 31, 2020. Subsequent to the fiscal quarter ended December 31, 2020, the Company redeemed the remaining $37,136,175 issued and outstanding December 2022 Notes. See Note 14 for more information.

As of December 31, 2020, the carrying amount of the December 2022 Notes was $36.7 million on an aggregate principal amount of $37.1 million at a weighted average effective yield of 5.93%. As of December 31, 2020, the fair value of the December 2022 Notes was $37.3 million. The fair value is based on the closing price of the security on The Nasdaq Global Select Market, which is a Level 1 input under ASC 820. The Company recognized interest expense related to the December 2022 Notes, including amortization of deferred issuance costs of $0.9 million and $3.4 million, respectively, for the three and nine months ended December 31, 2020. For the three and nine months ended December 31, 2019, the Company recognized interest expense of $1.3 million and $4.1 million, respectively. Average borrowings for the three and nine months ended December 31, 2020 were $52.4 million and $68.7 million, respectively. Average borrowings for both the three and nine months ended December 31, 2019 were $77.1 million.

The indenture governing the December 2022 Notes contains certain covenants including but not limited to (i) a requirement that the Company comply with the asset coverage requirement of Section 18(a)(1)(A) of the 1940 Act as modified by Section 61(a) of the 1940 Act or any successor provisions thereto, after giving effect to any exemptive relief granted to the Company by the SEC, (ii) a requirement, subject to limited exception, that the Company will not declare any cash dividend, or declare any other cash distribution, upon a class of its capital stock, or purchase any such capital stock, unless, in every such case, at the time of the declaration of any such dividend or distribution, or at the time of any such purchase, the Company has the minimum asset coverage required pursuant to Section 61(a) of the 1940 Act, or any successor provision thereto, after deducting the amount of such dividend, distribution or purchase price, as the case may be, giving effect to any exemptive relief granted to the Company by the SEC and (iii) a requirement to provide financial information to the holders of the December 2022 Notes and the trustee under the indenture if the Company should no longer be subject to the reporting requirements under the Securities Exchange Act of 1934, as amended (the "Exchange Act"). The indenture and supplement relating to the December 2022 Notes also provides for customary events of default. As of December 31, 2020, the Company was in compliance with all covenants of the December 2022 Notes.

October 2024 Notes

In September 2019, the Company issued $65.0 million in aggregate principal amount of 5.375% Notes due 2024 (the “Existing October 2024 Notes”). In October 2019, the Company issued an additional $10.0 million in aggregate principal amount of the October 2024 Notes (the "Additional October 2024 Notes"). In August 2020, the Company issued an additional $50.0 million in aggregate principal amount of the October 2024 Notes (the "New Notes" together with the Existing October 2024 Notes and the Additional October 2024 Notes, the "October 2024 Notes"). The Additional October 2024 Notes and the New Notes are being treated as a single series with the Existing October 2024 Notes under the indenture and have the same terms as the Existing October 2024 Notes. The October 2024 Notes mature on October 1, 2024 and may be redeemed in whole or in part at any time prior to July 1, 2024, at par plus a “make-whole” premium, and thereafter at par. The October 2024 Notes bear interest at a rate of 5.375% per year, payable semi-annually on April 1 and October 1 of each year, beginning on April 1, 2020. The October 2024 Notes are the direct unsecured obligations of the Company and rank pari passu with our other outstanding and future unsecured unsubordinated indebtedness and are effectively subordinated to all of our existing and future secured indebtedness, including borrowings under our Credit Facility.

As of December 31, 2020, the carrying amount of the October 2024 Notes was $122.8 million on an aggregate principal amount of $125.0 million at a weighted average effective yield of 5.375%. As of December 31, 2020, the fair value of the October 2024 Notes was $124.7 million. This is a Level 3 fair value measurement under ASC 820 based on a valuation model using a discounted cash flow analysis. The Company recognized interest expense related to the October 2024 Notes, including amortization of deferred issuance costs, of $1.8 million and $4.4 million, respectively, for the three and nine months ended December 31, 2020. For the three and nine months ended December 31, 2019, the Company recognized interest expense of $1.1 million and $1.2 million, respectively. For the three and nine months ended December 31, 2020, average borrowings were $125.0 million and $100.8 million, respectively. Since the issuance of the Existing October 2024 Notes on September 27, 2019 through December 31, 2019, average borrowings were $73.9 million.

The indenture governing the October 2024 Notes contains certain covenants, including certain covenants requiring the Company to comply with Section 18(a)(1)(A) as modified by Section 61(a)(2) of the 1940 Act, or any successor provisions, whether or not the Company continues to be subject to such provisions of the 1940 Act, but giving effect, in either case, to any exemptive relief granted to the Company by the SEC, to comply with Section 18(a)(1)(B) as modified by Section 61(a)(2) of the 1940 Act, or any successor provisions, after giving effect to any exemptive relief granted to the Company by the SEC and subject to certain other exceptions, and to provide financial information to the holders of the October 2024 Notes and the trustee under the indenture if the Company is no longer subject to the reporting requirements under the Exchange Act. These covenants are subject to important limitations and exceptions that are described in the indenture and the second supplemental indenture relating to the October 2024 Notes.

In addition, holders of the Notes can require the Company to repurchase some or all of the October 2024 Notes at a purchase price equal to 100% of their principal amount, plus accrued and unpaid interest to, but not including, the repurchase date upon the occurrence of a “Change of Control Repurchase Event,” as defined in the second supplemental indenture relating to the October 2024 Notes.

January 2026 Notes

In December 2020, the Company issued $75.0 million in aggregate principal amount of 4.50% Notes due 2026 (the "January 2026 Notes"). The January 2026 Notes mature on January 31, 2026 and may be redeemed in whole or in part at any time prior to October 31, 2025, at par plus a "make-whole" premium, and thereafter at par. The January 2026 Notes bear interest at a rate of 4.50% per year, payable semi-annually on January 31 and July 31 of each year, beginning on July 31, 2021. The January 2026 Notes are the direct unsecured obligations of the Company and rank pari passu with our other outstanding and future unsecured unsubordinated indebtedness and are effectively subordinated to all of our existing and future secured indebtedness, including borrowings under our Credit Facility.

As of December 31, 2020, the carrying amount of the January 2026 Notes was $73.4 million on an aggregate principal amount of $75.0 million at a weighted average effective yield of 4.50%. As of December 31, 2020, the fair value of the January 2026 Notes was $75.0 million. This is a Level 3 fair value measurement under ASC 820 based on a valuation model using a discounted cash flow analysis. The Company recognized interest expense related to the January 2026 Notes, including amortization of deferred issuance costs, of $0.1 million for both the three and nine months ended December 31, 2020. Since the issuance of the January 2026 Notes on December 29, 2020 through December 31, 2020, average borrowings were $75.0 million.

The indenture governing the January 2026 Notes contains certain covenants, including certain covenants requiring the Company to comply with Section 18(a)(1)(A) as modified by Section 61(a)(2) of the 1940 Act, or any successor provisions, whether or not the Company continues to be subject to such provisions of the 1940 Act, but giving effect, in either case, to any exemptive relief granted to the Company by the SEC, to comply with Section 18(a)(1)(B) as modified by Section 61(a)(2) of the 1940 Act, or any successor provisions, after giving effect to any exemptive relief granted to the Company by the SEC and subject to certain other exceptions, and to provide financial information to the holders of the January 2026 Notes and the trustee under the indenture if the Company is no longer subject to the reporting requirements under the Exchange Act. These covenants are subject to important limitations and exceptions that are described in the indenture and the third supplemental indenture relating to the January 2026 Notes.

In addition, holders of the Notes can require the Company to repurchase some or all of the January 2026 Notes at a purchase price equal to 100% of their principal amount, plus accrued and unpaid interest to, but not including, the repurchase date upon the occurrence of a “Change of Control Repurchase Event,” as defined in the third supplemental indenture relating to the January 2026 Notes.

6. INCOME TAXES

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

As of December 31, 2020, 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.

Book and tax basis differences relating to dividends and distributions to our shareholders and other permanent book and tax differences are typically reclassified among the CSWC’s capital accounts. In addition, the character of income and gains to be distributed is determined in accordance with income tax regulations that may differ from U.S. GAAP; accordingly, for the nine months ended December 31, 2020 and 2019, CSWC reclassified for book purposes amounts arising from permanent book/tax differences related to the tax treatment of return of capital and/or deemed distributions, tax treatment of investments upon disposition, and non-deductible expenses, as follows (amounts in thousands):

	Nine Months Ended December 31, 2020	2019
Additional capital	$ (1,341)	$ 11,262
Total distributable earnings (loss)	1,341	(11,262)

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

During the quarter ended March 31, 2020, CSWC declared total dividends of $9.5 million, or $0.51 per share ($0.41 per share in regular dividends and $0.10 in supplemental dividends). During the quarter ended June 30, 2020, CSWC declared total dividends of $9.5 million, or $0.51 per share ($0.41 per share in regular dividends and $0.10 in supplemental dividends). During the quarter ended September 30, 2020, CSWC declared total dividends of $9.5 million, or $0.51 per share ($0.41 per share in regular dividends and $0.10 in supplemental dividends). During the quarter ended December 31, 2020, CSWC declared total dividends of $10.0 million, or $0.51 per share ($0.41 per share in regular dividends and $0.10 in supplemental dividends).

Ordinary dividend distributions from a RIC do not qualify for the 20% maximum tax rate on dividend income from domestic corporations and qualified foreign corporations, except to the extent that the RIC received the income in the 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 tax character of distributions paid for the years ended December 31, 2020 and 2019 was as follows (amounts in thousands):

	Twelve Months Ended December 31, 2020	2019
Ordinary income	$ 37,517	$ 22,405
Distributions of long term capital gains	—	25,703
Distributions on tax basis	$ 37,517	$ 48,108

The following reconciles net increase in net assets resulting from operations to estimated RIC taxable income for the nine months ended December 31, 2020 and 2019:

Reconciliation of RIC Taxable Income[1]	Nine Months Ended December 31, 2020	2019
Net increase in net assets from operations	$ 40,666	$ 9,442
Net unrealized (appreciation) depreciation on investments	(24,512)	6,233
(Expense/loss) income/gain recognized for tax on pass-through entities	(8,937)	121
Loss (gain) recognized on dispositions	2,206	(930)
Capital loss carryover	14,227	—
Net operating loss - management company and taxable subsidiary	577	395
Non-deductible tax expense	587	317
Other book/tax differences	(320)	230
Estimated taxable income before deductions for distributions	$ 24,494	$ 15,808

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 all or a portion of its net capital gains by designating them as a “deemed distribution” to its shareholders and paying a federal tax on the net capital gains for the benefit of its shareholders. Shareholders then report their share of the retained capital gains on their income tax returns as if it had been received and report a tax credit for tax paid on their behalf by the RIC. Shareholders then add the amount of the “deemed distribution” net of such tax to the basis of their shares.

For the tax year ended December 31, 2020, we distributed all long-term capital gains and therefore had no deemed distributions to our shareholders or federal taxes incurred related to such items. "Deemed distributions" are generally reclassified from accumulated net realized gains into additional capital after our tax year ends each December 31. For the tax year ended December 31, 2019, we had net long-term capital gains of $42.2 million, of which $25.7 million was distributed to shareholders as capital gains dividends. We elected to retain net long-term capital gains of $16.5 million and designate the retained amount as a "deemed distribution" to our shareholders. As a result, we incurred federal taxes on the retained amount on behalf of our shareholders in the amount of $3.5 million for the tax year ended December 31, 2019.

CSMC and the Taxable Subsidiary, wholly-owned subsidiaries of CSWC, are not RICs and are required to pay taxes at the current corporate rate. 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 their taxable income and, as a result of their activities, may generate income tax expense or benefit. The taxable income, or loss, of CSMC and the Taxable Subsidiary may differ from 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 bonus accruals on a quarterly basis. Deferred taxes related to the changes in the restoration plan and bonus accruals are also recorded on a quarterly basis. The Taxable Subsidiary records valuation adjustments related to its investments on a quarterly basis. Deferred taxes related to the unrealized gain/loss on investments 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. Effective December 31, 2020, CSMC merged with and into CSWC, which is not subject to corporate federal income taxes. As such, the deferred tax asset was written off. As of March 31, 2020, CSMC had a deferred tax asset of approximately $1.4 million. As of December 31, 2020 and March 31, 2020, the Taxable Subsidiary had a deferred tax liability of $2.7 million and $1.0 million, respectively.

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

The following table sets forth the significant components of the deferred tax assets and liabilities as of December 31, 2020 and March 31, 2020 (amounts in thousands):

	December 31, 2020	March 31, 2020
Deferred tax asset:		
Net operating loss carryforwards	$ —	$ —
Compensation	—	776
Pension liability	—	647
Net unrealized depreciation on investments	—	—
Other	—	(21)
Total deferred tax asset	—	1,402
Less valuation allowance	—	—
Total net deferred tax asset	—	1,402
Deferred tax liabilities:		
Net unrealized appreciation on investments	(2,708)	(963)
Total deferred tax liabilities	(2,708)	(963)
Total net deferred tax assets (liabilities)	$ (2,708)	$ 439

In addition, the Taxable Subsidiary holds a portion of one or more of our portfolio investments that are listed on the Consolidated Schedule of Investments. The Taxable Subsidiary is consolidated for financial reporting purposes in accordance with U.S. GAAP, so that our consolidated financial statements reflect our investments in the portfolio companies owned by the Taxable Subsidiary. The purpose of the Taxable Subsidiary is to permit us to hold certain interests in portfolio companies that are organized as limited liability companies, or LLCs (or other forms of pass-through entities) and still satisfy the RIC tax requirement that at least 90% of our gross income for U.S. 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 tax treatment 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 December 31, 2020, we recognized net income tax expense of $1.5 million, principally consisting of a deferred expense for U.S. federal income taxes of $1.3 million (all of which is related to the write off of the deferred tax asset at CSMC) and a $0.2 million accrual for a 4% U.S. federal excise tax on our estimated undistributed taxable income. For the nine months ended December 31, 2020, we recognized net income tax expense of $1.6 million, principally consisting of a deferred expense for U.S. federal income taxes of $1.3 million (all of which is related to the write off of the deferred tax asset at CSMC), a $0.6 million accrual for U.S. federal excise tax on our estimated undistributed taxable income and $0.3 million of tax benefit (of which $0.1 million is current and $0.2 million is deferred) relating to the Taxable Subsidiary. For the three months ended December 31, 2019, we recognized net income tax expense of $0.8 million, principally consisting of a benefit for current U.S. federal income taxes of $0.1 million, deferred U.S. federal income tax expense of $0.3 million, a $0.5 million accrual for U.S. federal excise tax on our estimated undistributed taxable income and $0.1 million of deferred tax expense relating to our Taxable Subsidiary. For the nine months ended December 31, 2019, we recognized net income tax expense of $1.7 million, principally consisting of an expense for current U.S. federal income taxes of $0.1 million, deferred U.S. federal income tax expense of $0.4 million, a $0.9 million accrual for U.S. federal excise tax on our estimated undistributed taxable income and $0.3 million of deferred tax expense relating to our Taxable Subsidiary.

Although we believe our tax returns are correct, the final determination of tax examinations could be different from what was reported on the returns. In our opinion, we have made adequate tax provisions for years subject to examination. Generally, we are currently open to audit under the statute of limitations by the Internal Revenue Service as well as state taxing authorities for the years ended December 31, 2016 through December 31, 2019.

The following table sets forth the significant components of income tax expense as of December 31, 2020 and 2019 (amounts in thousands):

	Nine Months Ended December 31,	
Components of Income Tax Expense	**2020**	**2019**
Statutory federal income tax	$ —	$ 273
162(m) limitation	92	1,115
Excise tax	587	847
Write-off of deferred tax asset	1,389	—
Tax benefit related to Taxable Subsidiary	(325)	317
Compensation benefits	(155)	(911)
Other	2	10
Total income tax expense	$ 1,590	$ 1,651

7. SHAREHOLDERS' EQUITY

On October 26, 2010, we received an exemptive order from the SEC permitting us to issue restricted stock to our executive officers and certain key employees, or the Original Order. On August 22, 2017, we received the Exemptive Order that supersedes the Original Order and in addition to the relief granted under the Original Order, allows us to withhold shares to satisfy tax withholding obligations related to the vesting of restricted stock granted pursuant to the 2010 Restricted Stock Award Plan, or the 2010 Plan, and to pay the exercise price of options to purchase shares of our common stock granted pursuant to the 2009 Stock Incentive Plan, or the 2009 Plan. During the three months ended December 31, 2020, the Company repurchased 15,105 shares at an aggregate cost of $0.2 million and a weighted average price per share of $15.63 in connection with the vesting of restricted stock awards. During the nine months ended December 31, 2020, the Company repurchased 15,309 shares at an aggregate cost of $0.2 million and a weighted average price per share of $15.62 in connection with the vesting of restricted stock awards. During the three months ended December 31, 2019, the Company repurchased 17,570 shares at an aggregate cost of $0.4 million and a weighted average price per share of $20.93 in connection with the vesting of restricted stock awards. During the nine months ended December 31, 2019, the Company repurchased 19,828 shares at an aggregate cost of $0.4 million and a weighted average price per share of $21.04 in connection with the vesting of restricted stock awards.

On March 4, 2019, the Company established an "at-the-market" offering (the "Equity ATM Program") which the Company may offer and sell, from time to time through sales agents, shares of its common stock having an aggregate offering price of up to $50,000,000. On February 4, 2020, the Company (i) increased the maximum amount of shares of its common stock to be sold through the Equity ATM Program to $100,000,000 from $50,000,000 and (ii) added two additional sales agents to the Equity ATM Program.

During the three months ended December 31, 2020, the Company sold 1,264,776 shares of its common stock under the Equity ATM Program at a weighted-average price of $16.64 per share, raising $21.1 million of gross proceeds. Net proceeds were $20.6 million after commissions to the sales agents on shares sold. During the nine months ended December 31, 2020, the Company sold 1,673,065 shares of its common stock under the Equity ATM Program at a weighted-average price of $16.33 per share, raising $27.3 million of gross proceeds. Net proceeds were $26.8 million after commissions to the sales agents on shares sold.

During the three months ended December 31, 2019, the Company sold 623,111 shares of its common stock under the Equity ATM Program at a weighted-average price of $22.07 per share, raising $13.8 million of gross proceeds. Net proceeds were $13.5 million after commissions to the sales agents on shares sold. During the nine months ended December 31, 2019, the Company sold 1,049,932 shares of its common stock under the Equity ATM Program at a weighted-average price of $21.90 per share, raising $23.0 million of gross proceeds. Net proceeds were $22.5 million after commissions to the sales agents on shares sold.

Cumulative to date, the Company has sold 3,168,153 shares of its common stock under the Equity ATM Program at a weighted-average price of $18.85, raising $59.7 million of gross proceeds. Net proceeds were $58.5 million after commissions to the sales agents on shares sold. As of December 31, 2020, the Company has $40.3 million available under the Equity ATM Program.

On August 1, 2019, after receiving the requisite shareholder approval, the Company filed an amendment to its Amended and Restated Articles of Incorporation to increase the amount of authorized shares of common stock from 25,000,000 to 40,000,000.

Share Repurchase Program

In January 2016, the Company’s Board of Directors approved a share repurchase program authorizing the Company to repurchase up to $10 million of its outstanding common stock in the open market at certain thresholds below its NAV per share, in accordance with guidelines specified in Rules 10b5-1(c)(1)(i)(B) and 10b-18 under the Exchange Act. On March 1, 2016, the Company entered into a share repurchase agreement, which became effective immediately and terminated on March 26, 2020 upon the Company's purchase of the aggregate gross dollar amount (inclusive of commission fees) of its common stock under the share repurchase program meeting the threshold set forth in the share repurchase agreement.

8. EMPLOYEE STOCK BASED COMPENSATION PLANS

Stock Awards

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

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

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

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

The following table summarizes the restricted stock available for issuance for the nine months ended December 31, 2020:

Restricted stock available for issuance as of March 31, 2020	579,932
Additional restricted stock approved under the plan	—
Restricted stock granted during the nine months ended December 31, 2020	(239,574)
Restricted stock forfeited during the nine months ended December 31, 2020	27,580
Restricted stock available for issuance as of December 31, 2020	367,938

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.

For the three months ended December 31, 2020 and 2019, we recognized total share based compensation expense of $0.8 million and $0.7 million, respectively, related to the restricted stock issued to our employees and officers. For the nine months ended December 31, 2020 and 2019, we recognized total share based compensation expense of $2.3 million and $2.2 million, respectively, related to the restricted stock issued to our employees and officers.

During the three months ended June 30, 2019, the Company modified restricted stock awards to accelerate vesting of the unvested awards as of the retirement date for one employee. The Company accounted for this as a modification of awards and recognized incremental compensation cost of $0.2 million. The incremental compensation cost is measured as the excess of the fair value of the modified award over the fair value of the original award immediately before its terms were modified and recognized as compensation cost on the date of modification for vested awards.

As of December 31, 2020, the total remaining unrecognized compensation expense related to non-vested restricted stock awards was $6.6 million, which will be amortized over the weighted-average vesting period of approximately 2.8 years.

The following table summarizes the restricted stock outstanding as of December 31, 2020:

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, 2020	359,586	$ 18.64	2.4
Granted	239,574	15.18	3.4
Vested	(141,804)	17.61	2.0
Forfeited	(27,580)	18.63	—
Unvested at December 31, 2020	429,776	$ 17.05	2.8

9. OTHER EMPLOYEE COMPENSATION

We established a 401(k) plan ("401K Plan") effective October 1, 2015. All full-time employees are eligible to participate in the 401K Plan. The 401K Plan permits employees to defer a portion of their total annual compensation up to the Internal Revenue Service annual maximum based on age and eligibility. We made contributions to the 401K Plan of up to 4.5% of the Internal Revenue Service's annual maximum eligible compensation, all of which is fully vested immediately. During the three months ended December 31, 2020 and 2019, we made matching contributions of approximately $19.5 thousand and $20.7 thousand, respectively. During the nine months ended December 31, 2020 and 2019, we made matching contributions of approximately $112.3 thousand and $111.9 thousand, respectively.

10. COMMITMENTS AND CONTINGENCIES

Commitments

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

The balances of unused commitments to extend financing as of December 31, 2020 and March 31, 2020 were as follows (amounts in thousands):

Portfolio Company	Investment Type	December 31, 2020	March 31, 2020
Acceleration Partners, LLC	Delayed Draw Term Loan	$ 382	$ —
AG Kings Holdings Inc.	First Lien - DIP	952	—
American Nuts Operations LLC	Term Loan C	384	384
Broad Sky Networks LLC	Revolving Loan	2,500	—
Central Medical Supply LLC	Revolving Loan	1,200	—
Central Medical Supply LLC	Delayed Draw Capex Term Loan	1,400	—
Clickbooth.com, LLC	Revolving Loan	1,086	—
Danforth Advisors, LLC	Revolving Loan	—	500
Dynamic Communities, LLC	Revolving Loan	500	500
Electronic Transaction Consultants LLC	Revolving Loan	3,704	—
Environmental Pest Service Management Company, LLC	Delayed Draw Term Loan	525	525
ESCP DTFS Inc.	Delayed Draw Term Loan	4,250	5,250
Fast Sandwich, LLC	Revolving Loan	3,100	4,150
Ian, Evan, & Alexander Corporation	Revolving Loan	2,000	—
ITA Holdings Group, LLC	Revolving Loan	2,000	2,000
Klein Hersh, LLC	Revolving Loan	938	—
NinjaTrader, LLC	Revolving Loan	1,500	400
NinjaTrader, LLC	Delayed Draw Term Loan	2,655	—
Roseland Management, LLC	Revolving Loan	2,000	1,500
RTIC Subsidiary Holdings LLC	Revolving Loan	1,096	—
Zenfolio Inc.	Revolving Loan	1,000	—
Total unused commitments to extend financing		$ 33,172	$ 15,209

As of December 31, 2020, total revolving and delayed draw loan commitments included commitments to issue letters of credit through a financial intermediary on behalf of certain portfolio companies. As of December 31, 2020, the Company had $3.5 million in letters of credit issued and outstanding under these commitments on behalf of portfolio companies. For all of these letters of credit issued and outstanding, the Company would be required to make payments to third parties if the portfolio companies were to default on their related payment obligations. Of these letters of credit, $3.1 million expire in May 2021 and $0.4 million expire in July 2021. As of December 31, 2020, none of the letters of credit issued and outstanding were recorded as a liability on the Company's balance sheet as such letters of credit are considered in the valuation of the investments in the portfolio company.

Effective April 1, 2019, ASC 842 required that a lessee to evaluate its leases to determine whether they should be classified as operating or financing leases. The Company identified one operating lease for its office space. The lease commenced on October 1, 2014 and expires February 28, 2022.

As CSWC classified this lease as an operating lease prior to implementation, ASC 842 indicates that a right-of-use asset and lease liability should be recorded based on the effective date. CSWC adopted ASC 842 effective April 1, 2019 and recorded a right-of-use asset and a lease liability as of that date. After this date, the Company has recorded lease expense on a straight-line basis, consistent with the accounting treatment for lease expense prior to the adoption of ASC 842.

Total lease expense incurred for the three and nine months ended December 31, 2020 was $58.1 thousand and $174.4 thousand, respectively. For the three and nine months ended December 31, 2019, total lease expense incurred was $58.1 thousand and $170.7 thousand, respectively. As of December 31, 2020, the asset related to the operating lease was $0.2 million and the lease liability was $0.3 million. As of December 31, 2020, the remaining lease term was 1.1 years and the discount rate was 2.74%.

The following table shows future minimum payments under the Company's operating lease as of December 31, 2020 (in thousands):

Year ending March 31,	**Rent Commitment**
2021	$ 68
2022	248
Total	$ 316

Contingencies

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

11. 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 and nine months ended December 31, 2020, we did not receive any management fees from our portfolio companies. During the three and nine months ended December 31, 2019, we received management and other fees from certain of our portfolio companies totaling $0.1 million and $0.2 million, respectively, which were recognized as Fees and other income on the Consolidated Statements of Operations. Additionally, as of December 31, 2020 and March 31, 2020, we had dividends receivable from I-45 SLF LLC of $1.7 million and $2.1 million, respectively, which were included in dividends and interest receivables on the Consolidated Statements of Assets and Liabilities.

12. SUMMARY OF PER SHARE INFORMATION

The following presents a summary of per share data for the three and nine months ended December 31, 2020 and 2019 (share amounts presented in thousands).

	Three Months Ended December 31,		Nine Months Ended December 31,	
Per Share Data:	2020	2019	2020	2019
Investment income[1]	$ 0.99	$ 0.88	$ 2.73	$ 2.64
Operating expenses[1]	(0.47)	(0.44)	(1.37)	(1.35)
Income taxes[1]	(0.07)	(0.04)	(0.09)	(0.09)
Net investment income[1]	0.45	0.40	1.27	1.20
Net realized (loss) gain[1]	(0.01)	2.26	(0.37)	2.38
Net unrealized appreciation (depreciation) on investments, net of tax[1]	0.37	(3.03)	1.31	(3.43)
Realized losses on extinguishment of debt[1]	(0.01)	—	(0.03)	—
Total increase from investment operations	0.80	(0.37)	2.18	0.15
Accretive effect of share issuances and repurchases	0.04	0.11	—	0.19
Dividends to shareholders	(0.51)	(1.25)	(1.53)	(2.19)
Issuance of restricted stock[1,2]	—	(0.11)	(0.17)	(0.11)
Common stock withheld for payroll taxes upon vesting of restricted stock	—	(0.02)	—	(0.02)
Share based compensation expense	0.04	0.04	0.11	0.12
Other[3]	0.01	0.04	0.02	(0.02)
Increase (decrease) in net asset value	0.38	(1.56)	0.61	(1.88)
Net asset value				
Beginning of period	15.36	18.30	15.13	18.62
End of period	$ 15.74	$ 16.74	$ 15.74	$ 16.74
Ratios and Supplemental Data				
Ratio of operating expenses to average net assets[4]	3.05 %	2.53 %	9.00 %	7.43 %
Ratio of net investment income to average net assets[4]	2.87 %	2.22 %	8.30 %	6.58 %
Portfolio turnover	6.89 %	10.96 %	13.39 %	19.88 %
Total investment return[4,5]	29.96 %	1.19 %	71.42 %	9.43 %
Total return based on change in NAV[4,6]	5.79 %	(1.69)%	14.14 %	1.93 %
Per share market value at the end of the period	$ 17.75	$ 20.81	$ 17.75	$ 20.81
Weighted-average common shares outstanding	19,135	18,100	18,629	17,803
Weighted-average fully diluted shares outstanding	19,135	18,100	18,629	17,803
Common shares outstanding at end of period	19,868	18,628	19,868	18,628

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. The balance increases with the increase in variability of shares outstanding throughout the year due to share issuance and repurchase activity.
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.

13. SIGNIFICANT SUBSIDIARIES

I-45 SLF LLC

In September 2015, we entered into an LLC agreement with Main Street Capital Corporation to form I-45 SLF LLC. I-45 SLF LLC began investing in UMM syndicated senior secured loans during the quarter ended December 31, 2015. The initial equity capital commitment to I-45 SLF LLC totaled $85.0 million, consisting of $68.0 million from CSWC and $17.0 million from Main Street Capital Corporation. On April 30, 2020, pursuant to the terms of an amendment to the I-45 LLC Agreement, each of CSWC and Main Street made an additional equity capital commitment of $12.8 million and $3.2 million, respectively, which resulted in a total equity capital commitment to I-45 SLF LLC of $80.8 million and $20.2 million, respectively, all of which was funded as of December 31, 2020. CSWC owns 80% of I-45 SLF LLC and has a profits interest of 75.6%, while Main Street Capital Corporation owns 20% and has a profits interest of 24.4%. I-45 SLF LLC's Board of Managers makes all investment and operational decisions for the fund, and consists of equal representation from CSWC and Main Street Capital Corporation.

As of December 31, 2020 and March 31, 2020, I-45 SLF LLC had total assets of $167.0 million and $177.8 million, respectively. I-45 SLF LLC had approximately $159.6 million and $170.9 million of credit investments at fair value as of December 31, 2020 and March 31, 2020, respectively. The portfolio companies in I-45 SLF LLC are in industries similar to those in which CSWC may invest directly. As of December 31, 2020, none of the credit investments were unsettled trades. During the three months ended December 31, 2020, I-45 SLF LLC declared a total dividend of $2.2 million of which $1.7 million was paid to CSWC in October 2020.

Additionally, I-45 SLF LLC closed on a $75.0 million 5-year senior secured credit facility (the "I-45 credit facility") in November 2015. The I-45 credit facility includes an accordion feature which will allow I-45 SLF LLC to achieve leverage of approximately 2x debt-to-equity. Borrowings under the I-45 credit facility are secured by all of the assets of I-45 SLF LLC and bear interest at a rate equal to LIBOR plus 2.5% per annum. During the year ended March 31, 2017, I-45 SLF LLC increased debt commitments outstanding by an additional $90.0 million by adding three additional lenders to the syndicate, bringing total debt commitments to $165.0 million. In July 2017, the I-45 credit facility was amended to extend the maturity to July 2022. Additionally, the amendment reduced the interest rate on borrowings to LIBOR plus 2.4% per annum. In November 2019, the I-45 credit facility was amended to extend the maturity to November 2024 and to reduce the interest rate on borrowings to LIBOR plus 2.25% per annum. On April 30, 2020, the I-45 credit facility was amended to permanently reduce the I-45 credit facility amount through a prepayment of $15.0 million and to change the minimum utilization requirements. Under the I-45 credit facility, $85.0 million has been drawn as of December 31, 2020.

Below is a summary of I-45 SLF LLC's portfolio, followed by a listing of the individual loans in I-45 SLF LLC's portfolio as of December 31, 2020 and March 31, 2020 (in thousands):

I-45 SLF LLC Loan Portfolio as of December 31, 2020

Portfolio Company	Industry	Investment Type	Maturity Date	Current Interest Rate[1]	Principal	Cost	Fair Value[2]
AAC New Holdco Inc.	Healthcare services	First Lien	6/25/2025	10.00%, 8.00% PIK	$ 1,717	$ 1,717	$ 1,717
		304,075 shares common stock	—	—	—	1,449	1,449
		Warrants (Expiration - December 11, 2025)	—	—	—	482	482
ADS Tactical, Inc.	Aerospace & defense	First Lien	7/26/2023	L+6.25% (Floor 0.75%)	4,908	4,894	4,908
ALKU, LLC	Business services	First Lien	7/29/2026	L+5.50%	2,840	2,816	2,843
American Teleconferencing Services, Ltd.	Telecommunications	First Lien	6/8/2023	L+6.50% (Floor 1.00%)	6,762	6,680	3,719
ATX Canada Acquisitionco Inc.	Technology products & components	First Lien	6/11/2021	L+6.25%, 1.50% PIK (Floor 1.00%)	4,508	4,504	4,125
California Pizza Kitchen, Inc.	Restaurants	First Lien	11/23/2024	L+10.00% (Floor 1.50%)	937	913	913
		First Lien Rolled Up	11/23/2024	1.00%, L+11.00% PIK (Floor 1.50%)	1,007	1,004	1,004
		Second Lien	5/23/2025	1.00%, L+12.50% PIK (Floor 1.50%)	1,089	1,089	1,089
		67,841 shares common stock	—	—	—	1,845	1,845
Corel Inc.	Software & IT services	First Lien	7/2/2026	L+5.00%	4,875	4,631	4,805
Geo Parent Corporation	Building & infrastructure products	First Lien	12/19/2025	L+5.25%	4,913	4,878	4,900
Go Wireless Holdings, Inc.	Consumer products & retail	First Lien	12/22/2024	L+6.50% (Floor 1.00%)	5,950	5,916	5,902
Hunter Defense Technologies, Inc.	Aerospace & defense	First Lien	3/29/2023	L+7.00% (Floor 1.00%)	6,212	6,133	6,181
Imagine! Print Solutions, LLC	Media, marketing & entertainment	Second Lien[3]	6/21/2023	L+8.75% (Floor 1.00%)	2,851	2,834	78
InfoGroup Inc.	Software & IT services	First Lien	4/3/2023	L+5.00% (Floor 1.00%)	2,888	2,877	2,726

Portfolio Company	Industry	Investment Type	Maturity Date	Current Interest Rate[1]	Principal	Cost	Fair Value[2]
Integro Parent Inc.	Business services	First Lien	10/31/2022	L+5.75% (Floor 1.00%)	3,265	3,234	3,167
Intermedia Holdings, Inc.	Software & IT services	First Lien	7/21/2025	L+6.00% (Floor 1.00%)	5,750	5,725	5,745
Isagenix International, LLC	Consumer products & retail	First Lien	6/14/2025	L+5.75% (Floor 1.00%)	1,857	1,846	1,207
KORE Wireless Group Inc.	Telecommunications	First Lien	12/20/2024	L+5.50%	4,718	4,690	4,653
Lab Logistics, LLC	Healthcare services	First Lien	9/25/2023	L+6.50% (Floor 1.00%)	5,930	5,877	5,924
Lift Brands, Inc.	Consumer services	Tranche A	6/29/2025	L+3.25% (Floor 1.00%)	2,521	2,521	2,370
		Tranche B	6/29/2025	9.50% PIK	518	518	415
		Tranche C	6/29/2025	—	565	565	452
		Equity	—	—	—	749	749
Lightbox Intermediate, L.P.	Software & IT services	First Lien	5/9/2026	L+5.00%	2,955	2,921	2,866
LOGIX Holdings Company, LLC	Telecommunications	First Lien	12/23/2024	L+5.75% (Floor 1.00%)	5,905	5,876	5,463
LSF9 Atlantis Holdings, LLC	Telecommunications	First Lien	5/1/2023	L+6.00% (Floor 1.00%)	6,300	6,275	6,280
Lulu's Fashion Lounge, LLC	Consumer products & retail	First Lien	8/26/2022	L+9.50%, 2.50% PIK (Floor 1.00%)	3,748	3,690	3,205
Mills Fleet Farm Group LLC	Consumer products & retail	First Lien	10/24/2024	L+6.00% (Floor 1.00%)	4,625	4,567	4,533
NBG Acquisition, Inc.	Wholesale	First Lien	4/26/2024	L+5.50% (Floor 1.00%)	2,756	2,730	2,301
Novetta Solutions, LLC	Software & IT services	First Lien	10/17/2022	L+5.00% (Floor 1.00%)	4,857	4,800	4,847
PaySimple, Inc.	Software & IT services	Delayed Draw Term Loan	8/23/2025	L+5.50%	1,372	1,349	1,345
		First Lien	8/23/2025	L+5.50%	4,231	4,182	4,146
Peraton Corp. (fka MHVC Acquisition Corp.)	Aerospace & defense	First Lien	4/29/2024	L+5.25% (Floor 1.00%)	6,280	6,265	6,296
Pet Supermarket, Inc.	Consumer products & retail	First Lien	7/5/2022	L+5.50% (Floor 1.00%)	4,773	4,761	4,546
PT Network, LLC	Healthcare products	First Lien	11/30/2023	L+5.50%, 2.00% PIK (Floor 1.00%)	4,453	4,453	4,453
Signify Health, LLC	Healthcare services	First Lien	12/23/2024	L+4.50% (Floor 1.00%)	5,057	5,028	4,905
Tacala, LLC	Consumer products & retail	Second Lien	2/7/2028	L+7.50% (Floor 0.75%)	5,000	4,988	4,952

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Portfolio Company	Industry	Investment Type	Maturity Date	Current Interest Rate[1]	Principal	Cost	Fair Value[2]
TestEquity, LLC	Capital equipment	First Lien	4/28/2022	L+5.50% (Floor 1.00%)	3,816	3,806	3,053
		First Lien - Term Loan B	4/28/2022	L+5.50%	952	949	761
TGP Holdings III LLC	Durable consumer goods	Second Lien	9/25/2025	L+8.50% (Floor 1.00%)	2,500	2,478	2,413
Time Manufacturing Acquisition	Capital equipment	First Lien	2/3/2023	L+5.00% (Floor 1.00%)	4,810	4,794	4,666
UniTek Global Services, Inc.	Telecommunications	First Lien	8/26/2024	L+5.50%, 1.00% PIK (Floor 1.00%)	2,724	2,708	2,440
U.S. TelePacific Corp.	Telecommunications	First Lien	5/2/2023	L+5.50% (Floor 1.00%)	5,200	5,168	4,713
Vida Capital, Inc.	Financial services	First Lien	10/1/2026	L+6.00%	3,860	3,812	3,735
YS Garments, LLC	Consumer products & retail	First Lien	8/9/2024	L+6.00% (Floor 1.00%)	4,666	4,637	4,304
Total Investments						$ 170,624	$ 159,591

1 Represents the interest rate as of December 31, 2020. All interest rates are payable in cash, unless otherwise noted. The majority of investments bear interest at a rate that may be determined by reference to London Interbank Offered Rate (“LIBOR” or “L”) or Prime (“P”) which reset daily, monthly, quarterly, or semiannually. For each the Company has provided the spread over LIBOR or Prime in effect at December 31, 2020. 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 I-45 SLF LLC. It is not included in the Company’s Board of Directors’ valuation process described elsewhere herein.

3 Investment is on non-accrual status as of December 31, 2020, meaning the Company has ceased to recognize interest income on the investment.

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I-45 SLF LLC Loan Portfolio as of March 31, 2020

Portfolio Company	Industry	Investment Type	Maturity Date	Current Interest Rate[1]	Principal	Cost	Fair Value[2]
AAC Holdings, Inc.	Healthcare services	First Lien - Priming Facility	3/31/2020	P+13.50% (Floor 1.00%)	$ 1,598	$ 1,598	$ 1,598
		First Lien[5]	6/30/2023	L+ 6.75% (Floor 1.00%), 4.00% PIK	7,371	7,264	3,225
ADS Tactical	Aerospace & defense	First Lien	7/26/2023	L+6.25% (Floor 0.75%)	4,948	4,928	4,735
ALKU, LLC	Business services	First Lien	7/29/2026	L+5.50% (Floor 1.00%)	3,000	2,972	2,820
American Teleconferencing Services, Ltd.	Telecommunications	First Lien	6/8/2023	L+6.50% (Floor 1.00%)	6,771	6,623	3,825
ATX Canada Acquisitionco Inc.	Technology products & components	First Lien	6/11/2021	L+7.00% (Floor 1.00%), 1.0% PIK	4,573	4,561	3,796
California Pizza Kitchen, Inc.[5]	Restaurants	First Lien	8/23/2022	L+6.00% (Floor 1.00%)	6,760	6,741	3,418
Corel	Software & IT services	First Lien	7/2/2026	L+5.00%	4,969	4,720	4,410
Geo Parent Corporation	Building & infrastructure products	First Lien	12/19/2025	L+5.25%	4,950	4,909	4,678
Go Wireless Holdings, Inc.	Consumer products & retail	First Lien	12/22/2024	L+6.50% (Floor 1.00%)	6,213	6,170	5,042
Hunter Defense Technologies, Inc.	Aerospace & defense	First Lien	3/29/2023	L+7.00% (Floor 1.00%)	5,856	5,772	5,870
Imagine! Print Solutions, LLC	Media, marketing & entertainment	Second Lien	6/21/2023	L+8.75% (Floor 1.00%)	3,000	2,976	413
InfoGroup Inc.	Software & IT services	First Lien	4/3/2023	L+5.00% (Floor 1.00%)	2,910	2,895	2,610
Integro Parent Inc.	Business services	First Lien	10/31/2022	L+5.75% (Floor 1.00%)	3,301	3,256	3,252
Intermedia Holdings, Inc.	Software & IT services	First Lien	7/21/2025	L+6.00% (Floor 1.00%)	5,794	5,765	5,301
Isagenix International, LLC	Consumer products & retail	First Lien	6/14/2025	L+5.75% (Floor 1.00%)	1,953	1,939	728
JAB Wireless, Inc.	Telecommunications	First Lien	5/2/2023	L+8.00% (Floor 1.00%)	7,840	7,791	7,703
KORE Wireless Group Inc.	Telecommunications	First Lien	12/20/2024	L+5.50%	4,754	4,721	4,398
Lab Logistics, LLC	Healthcare services	First Lien	9/25/2023	L+6.50% (Floor 1.00%)	5,402	5,361	4,971

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Portfolio Company	Industry	Investment Type	Maturity Date	Current Interest Rate[1]	Principal	Cost	Fair Value[2]
Lift Brands, Inc.	Consumer services	First Lien	4/16/2023	L+7.00% (Floor 1.00%), 1.0% PIK	4,810	4,785	3,689
Lightbox Intermediate, L.P.	Software & IT services	First Lien	5/9/2026	L+5.00%	2,978	2,938	2,933
LOGIX Holdings Company, LLC	Telecommunications	First Lien	12/23/2024	L+5.75% (Floor 1.00%)	5,953	5,918	4,911
LSF9 Atlantis Holdings, LLC	Telecommunications	First Lien	5/1/2023	L+6.00% (Floor 1.00%)	6,519	6,485	5,382
Lulu's Fashion Lounge, LLC	Consumer products & retail	First Lien	8/26/2022	L+9.00% (Floor 1.00%)	3,778	3,707	3,231
Mills Fleet Farm Group LLC	Consumer products & retail	First Lien	10/24/2024	L+6.25% (Floor 1.00%), 0.75% PIK	4,958	4,883	4,214
NBG Acquisition, Inc.	Wholesale	First Lien	4/26/2024	L+5.50% (Floor 1.00%)	2,813	2,780	1,598
Nomad Buyer, Inc.	Healthcare services	First Lien	8/1/2025	L+5.00%	2,955	2,819	2,748
Novetta Solutions, LLC	Software & IT services	First Lien	10/17/2022	L+5.00% (Floor 1.00%)	4,896	4,813	4,365
PaySimple - Delayed Draw[3]	Software & IT services	First Lien	8/23/2025	L+5.50%	934	920	850
PaySimple, Inc.	Software & IT services	First Lien	8/23/2025	L+5.50%	4,263	4,206	3,879
Peraton Corp. (fka MHVC Acquisition Corp.)	Aerospace & defense	First Lien	4/29/2024	L+5.25% (Floor 1.00%)	6,329	6,310	5,918
Pet Supermarket, Inc.	Consumer products & retail	First Lien	7/5/2022	L+5.50% (Floor 1.00%)	4,810	4,792	4,425
PT Network, LLC	Healthcare products	First Lien	11/30/2023	L+5.50% (Floor 1.00%), 2.0% PIK	4,418	4,418	4,024
Signify Health, LLC	Healthcare services	First Lien	12/23/2024	L+4.50% (Floor 1.00%)	5,096	5,061	4,281
Tacala, LLC	Consumer products & retail	Second Lien	2/7/2028	L+7.50%	4,500	4,492	3,521
TestEquity, LLC	Capital equipment	First Lien	4/28/2022	L+5.50% (Floor 1.00%)	3,816	3,800	3,186
TestEquity, LLC - Term Loan B	Capital equipment	First Lien	4/28/2022	L+5.50%	959	955	801
TGP Holdings III LLC	Durable consumer goods	Second Lien	9/25/2025	L+8.50% (Floor 1.00%)	2,500	2,474	1,838
The Hoover Group, Inc.	Energy services (midstream)	First Lien	1/28/2021	L+7.25% (Floor 1.00%)	6,370	6,306	5,892
Time Manufacturing Acquisition	Capital equipment	First Lien	2/3/2023	L+5.00% (Floor 1.00%)	4,848	4,825	4,436
UniTek Global Services, Inc.	Telecommunications	First Lien	8/26/2024	L+5.50% (Floor 1.00%), 1.0% PIK	2,970	2,949	2,687

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Portfolio Company	Industry	Investment Type	Maturity Date	Current Interest Rate[1]	Principal	Cost	Fair Value[2]
U.S. TelePacific Corp.	Telecommunications	First Lien	5/2/2023	L+6.00% (Floor 1.00%)	5,200	5,158	4,056
Vida Capital, Inc.	Financial services	First Lien	10/1/2026	L+6.00%	3,965	3,910	3,668
VIP Cinema Holdings, Inc.	Hotel, gaming & leisure	First Lien - Superiority DIP[5]	5/20/2020	L+8.00%	719	708	129
		First Lien[5]	3/1/2023	P+7.00% (Floor 1.00%)	4,375	4,364	788
Wireless Vision Holdings, LLC[4]	Telecommunications	First Lien	9/29/2022	L+8.91% (Floor 1.00%), 1.0% PIK	7,327	7,253	6,264
YS Garments, LLC	Consumer products & retail	First Lien	8/9/2024	P+6.00%	4,813	4,777	4,355
Total Investments						$ 207,768	$ 170,860

1 Represents the interest rate as of March 31, 2020. All interest rates are payable in cash, unless otherwise noted. The majority of investments bear interest at a rate that may be determined by reference to London Interbank Offered Rate (“LIBOR” or “L”) or Prime (“Prime”) which reset daily, monthly, quarterly, or semiannually. For each the Company has provided the spread over LIBOR or Prime in effect at March 31, 2020. 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.

3 The investment has approximately $0.5 million in an unfunded delayed draw commitment as of March 31, 2020.

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

5 Investment was on non-accrual as of March 31, 2020, meaning the Company has ceased to recognize interest income on the investment.

Below is certain summarized financial information for I-45 SLF LLC as of December 31, 2020 and March 31, 2020 and for the three and nine months ended December 31, 2020 and 2019 (amounts in thousands):

	December 31, 2020	March 31, 2020
Selected Balance Sheet Information:		
Investments, at fair value (cost $170,624 and $207,768)	$ 159,591	$ 170,860
Cash and cash equivalents	5,131	3,739
Due from broker	152	38
Deferred financing costs and other assets	1,534	2,095
Interest receivable	628	1,076
Total assets	$ 167,036	$ 177,808
Senior credit facility payable	$ 85,000	$ 125,000
Other liabilities	2,380	3,029
Total liabilities	$ 87,380	$ 128,029
Members' equity	79,656	49,779
Total liabilities and members' equity	$ 167,036	$ 177,808

	Three Months Ended		Nine Months Ended	
	December 31, 2020	December 31, 2019	December 31, 2020	December 31, 2019
Selected Statement of Operations Information:				
Total revenues	$ 3,539	$ 4,910	$ 10,858	$ 15,836
Total expenses	(1,049)	(1,948)	(3,450)	(6,270)
Net investment income	2,490	2,962	7,408	9,566
Net unrealized appreciation (depreciation)	14,769	(4,709)	25,876	(9,171)
Net realized (losses) gains	(12,315)	64	(12,602)	425
Net increase (decrease) in members' equity resulting from operations	$ 4,944	$ (1,683)	$ 20,682	$ 820

14. SUBSEQUENT EVENTS

On January 20, 2021, the Board of Directors declared a total dividend of $0.52 per share, comprised of a regular dividend of $0.42 and a supplemental dividend of $0.10, for the quarter ended March 31, 2021. The record date for the dividend is March 15, 2021. The payment date for the dividend is March 31, 2021.

On January 21, 2021, the Company redeemed the remaining $37,136,175 in aggregate principal amount of the issued and outstanding December 2022 Notes. The December 2022 Notes were redeemed at 100% of their principal amount, plus the accrued and unpaid interest thereon, through but excluding January 21, 2021.

COVID-19

Subsequent to quarter ended December 31, 2020, the global outbreak of the coronavirus (“COVID-19”) pandemic continues to have adverse consequences on the U.S. and global economies. The ultimate economic fallout from the pandemic, and the long-term impact on economies, markets, industries and individual issuers, remains uncertain. As of February 2, 2021, there is no indication of a reportable subsequent event impacting the Company’s financial statements for the quarter ended December 31, 2020. The Company cannot predict the extent to which its financial condition and results of operations will be affected at this time. The potential impact to our results will depend to a large extent on future developments and new information that may emerge regarding the duration and severity of COVID-19. The Company continues to observe and respond to the evolving COVID-19 environment and its potential impact on areas across its business.

CAPITAL SOUTHWEST CORPORATION AND SUBSIDIARIES
Consolidated Schedule of Investments in and Advances to Affiliates (Unaudited)
Nine Months Ended December 31, 2020
(amounts in thousands)

Portfolio Company	Type of Investment (1)	Amount of Interest or Dividends Credited in Income (2)	Fair Value at March 31, 2020	Gross Additions (3)	Gross Reductions (4)	Amount of Realized Gain/(Loss) (5)	Amount of Unrealized Gain/(Loss)	Fair Value at December 31, 2020
Control Investments								
I-45 SLF LLC	80% LLC equity interest	$ 5,144	$ 39,760	$ 12,800	$ —	$ —	$ 11,075	$ 63,635
Total Control Investments		$ 5,144	$ 39,760	$ 12,800	$ —	$ —	$ 11,075	$ 63,635
Affiliate Investments								
Central Medical Supply LLC	Revolving Loan	$ 13	$ —	$ 274	$ —	$ —	$ 12	$ 286
	First Lien	423	—	7,365	—	—	(225)	7,140
	Delayed Draw Term Loan	10	—	73	—	—	22	95
	875,000 Preferred Units	—	—	875	—	—	(234)	641
Chandler Signs, LLC	1,500,000 units of Class A-1 common stock	—	3,110	—	—	—	(218)	2,892
Delphi Intermediate Healthco LLC	First Lien	126	—	1,397	—	—	(16)	1,381
	First Lien	118	—	1,561	—	—	(79)	1,482
	1,681.04 Common Units	—	—	3,615	—	—	—	3,615
Dynamic Communities, LLC	Revolving Loan	3	—	1	—	—	(1)	—
	First Lien	885	9,928	244	(140)	—	(256)	9,776
	Senior subordinated debt	6	—	350	—	—	—	350
	2,000,000 Preferred units	—	1,850	—	—	—	(576)	1,274
GrammaTech, Inc.	Revolving Loan	188	2,460	7	—	—	16	2,483
	First Lien	860	11,316	25	—	—	78	11,419
	1,000 Class A units	—	1,000	—	—	—	455	1,455
ITA Holdings Group, LLC	Revolving loan	63	—	2,205	(2,200)	—	(5)	—
	First Lien - Term Loan	797	9,900	80	—	—	36	10,016
	First Lien - Term Loan B	513	5,136	40	—	—	(62)	5,114
	First Lien - PIK Note A	191	2,233	240	—	—	120	2,593
	First Lien - PIK Note B	61	88	7	—	—	7	102
	Warrants	—	2,762	—	—	—	206	2,968
	9.25% Class A membership interest	—	2,099	—	—	—	433	2,532

Portfolio Company	Type of Investment (1)	Amount of Interest or Dividends Credited in Income (2)	Fair Value at March 31, 2020	Gross Additions (3)	Gross Reductions (4)	Amount of Realized Gain/(Loss) (5)	Amount of Unrealized Gain/(Loss)	Fair Value at December 31, 2020
Roseland Management, LLC	Revolving loan	15	500	2	(500)	—	(2)	—
	First lien	244	10,369	7	(10,368)	—	(8)	—
	10,000 Class A Units	—	1,334	—	(1,334)	—	—	—
SIMR, LLC	First lien	1,782	11,190	671	—	—	(1,121)	10,740
	9,374,510.2 Class B Common Units	—	1,742	—	—	—	(1,742)	—
Sonobi, Inc.	First Lien	245	—	8,338	—	—	162	8,500
	500,000 Class A Common Units	—	—	500	—	—	458	958
Zenfolio Inc.	Revolving Loan	53	1,888	1	(1,844)	—	(45)	—
	First Lien	384	13,127	21	(12,821)	—	(327)	—
	190 shares of common stock	—	—	—	(272)	(1,628)	1,900	—
Total Affiliate Investments		$ 6,980	$ 92,032	$ 27,899	$ (29,479)	$ (1,628)	$ (1,012)	$ 87,812
Total Control & Affiliate Investments		$ 12,124	$ 131,792	$ 40,699	$ (29,479)	$ (1,628)	$ 10,063	$ 151,447

(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.

(4) Gross reductions include decreases in the cost basis of investments resulting from principal repayments or sales and the exchange of one or more existing securities for one or more new securities. Gross reductions also include movement of an existing portfolio company out of this category and into a different category.

(5) The schedule does not reflect realized gains or losses on escrow receivables for investments which were previously exited and were not held during the period presented. Gains and losses on escrow receivables are classified in the Consolidated Statements of Operations according to the control classification at the time the investment was exited.

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 appearing elsewhere in this Quarterly Report on Form 10-Q.

The information contained herein may contain "forward-looking statements" based on our current expectations, assumptions and estimates about us and our industry. These forward-looking statements involve risks and uncertainties. Words such as "may," "predict," "will," "continue," "likely," "would," "could," "should," "expect," "anticipate," "potential," "estimate," "indicate," "seek," "believe," "target," "intend," "plan," or "project" and other similar expressions identify forward-looking statements. These risks include risks related to changes in the markets in which the Company invests; changes in the financial and lending markets; regulatory changes; tax treatment and general economic and business conditions; and uncertainties associated with the impact from the COVID-19 pandemic, including its impact on the global and U.S. capital markets and the global and U.S. economy, the length and duration of the COVID-19 outbreak in the United States as well as worldwide and the magnitude of the economic impact of that outbreak; the effect of the COVID-19 pandemic on our business prospects and the operational and financial performance of our portfolio companies, including our ability and their ability to achieve their respective objectives, and the effects of the disruptions caused by the COVID-19 pandemic on our ability to continue to effectively manage our business. 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 fiscal year ended March 31, 2020 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 fiscal year ended March 31, 2020. We undertake no obligation to update publicly any forward-looking statements for any reason, whether as a result of new information, future events or otherwise, except as required by law.

OVERVIEW

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

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

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

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

Because we are internally managed, we do not pay any external investment advisory fees, but instead directly incur the operating costs associated with employing investment and portfolio management professionals. We believe that our internally managed structure provides us with a beneficial operating expense structure when compared to other publicly traded and privately held investment firms that are externally managed, and our internally managed structure allows us the opportunity to leverage our non-interest operating expenses as we grow our investment portfolio. For the nine months ended December 31, 2020 and 2019, the ratio of our annualized third quarter operating expenses, excluding interest expense, as a percentage of our quarterly average total assets was 2.64% and 2.68%, respectively.

COVID-19 Developments

The outbreak of COVID-19 has severely impacted global economic activity and caused significant volatility and negative pressure in financial markets. The global impact of the outbreak has been rapidly evolving and many countries, including the United States, have reacted by instituting quarantines, restricting travel, and temporarily closing or limiting capacity at many corporate offices, retail stores, restaurants, fitness clubs and manufacturing facilities and factories in affected jurisdictions. Such actions are creating disruption in global supply chains and adversely impacting a number of industries. The outbreak could have a continued adverse impact on economic and market conditions and trigger a period of global economic slowdown.

We are closely monitoring the impact of the outbreak of COVID-19 on all aspects of our business, including how it will impact our portfolio companies, employees, due diligence and underwriting processes, and financial markets. Given the fluidity of the situation, we cannot estimate the long-term impact of COVID-19 on our business, future results of operations, financial position or cash flows at this time. Further, the operational and financial performance of the portfolio companies in which we make investments may be significantly impacted by COVID-19, which may in turn impact the valuation of our investments. We believe our portfolio companies have taken immediate actions to effectively and efficiently respond to the challenges posed by COVID-19 and related orders imposed by state and local governments, including developing liquidity plans supported by internal cash reserves, and shareholder support. The extent to which our operations may be impacted by the COVID-19 pandemic will depend largely on future developments, which are highly uncertain and cannot be accurately predicted, including new information which may emerge concerning the severity of the outbreak and actions by government authorities to contain the outbreak or treat its impact. Furthermore, the impacts of a potential worsening of global economic conditions and the continued disruptions to and volatility in the financial markets remain unknown.

We have evaluated subsequent events from December 31, 2020 through the filing date of this Quarterly Report on Form 10-Q, February 2, 2021. However, as the discussion in this Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations relates to the Company's financial statements for the quarter ended December 31, 2020, the analysis contained herein may not fully account for impacts relating to the COVID-19 pandemic. In that regard, for example, as of December 31, 2020, the Company valued its portfolio investments in conformity with U.S. GAAP based on the facts and circumstances known by the Company at that time, or reasonably expected to be known at that time. Due to the overall volatility that the COVID-19 pandemic has caused during the time that followed our December 31, 2020 valuation, any valuations conducted now or in the future in conformity with U.S. GAAP could result in a lower fair value of our portfolio. The impact to our results going forward may depend to a large extent on future developments and new information that may emerge regarding the duration and severity of COVID-19 and the actions taken by authorities and other entities to contain the COVID-19 or treat its impact, all of which are beyond our control. Accordingly, the Company cannot predict the extent to which its financial condition and results of operations will be affected at this time.

CRITICAL ACCOUNTING POLICIES AND USE OF ESTIMATES

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

Valuation of Investments

The most significant determination inherent in the preparation of our consolidated financial statements is the valuation of our investment portfolio and the related amounts of unrealized appreciation and depreciation. As of December 31, 2020 and March 31, 2020, our investment portfolio at fair value represented approximately 91.5% and 94.5%, 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 (including the impact of COVID-19 on the financial market), portfolio company performance, and other events may occur over the lives of the investments that may cause the gains or losses ultimately realized on these investments to be materially different than the valuations currently assigned. We determine fair value of each individual investment and record changes in fair value as unrealized appreciation or depreciation.

Our Board of Directors is responsible for determining, in good faith, the fair value of our investments and our valuation procedures, consistent with the 1940 Act requirements. Our Board of Directors believes that our investment portfolio as of December 31, 2020 and March 31, 2020 reflects the fair value as of those dates based on the markets in which we operate and other conditions in existence on those reporting dates.

Revenue Recognition

Interest and Dividend Income

Interest and dividend income is recorded on an accrual basis to the extent amounts are expected to be collected. Dividend income is recognized on the date dividends are declared by the portfolio company or at the point an obligation exists for the portfolio company to make a distribution. Discounts/premiums received to par on loans purchased are capitalized and accreted or amortized into income over the life of the loan using the effective interest method. In accordance 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 December 31, 2020, we had one investment on non-accrual status, which represent approximately 0.1% of our total investment portfolio's fair value and approximately 0.5% of its cost. As of March 31, 2020, we had four investments on non-accrual status, which represent approximately 3.3% of our total investment portfolio's fair value and approximately 5.8% of its cost.

Recently Issued Accounting Standards

In March 2020, the FASB issued ASU 2020-04, "Reference rate reform (Topic 848)—Facilitation of the effects of reference rate reform on financial reporting." The amendments in this update provide optional expedients and exceptions for applying U.S. GAAP to certain contracts and hedging relationships that reference LIBOR or another reference rate expected to be discontinued due to reference rate reform and became effective upon issuance for all entities. The Company has agreements that have LIBOR as a reference rate with certain portfolio companies and certain lenders, including financial instruments that mature after the end of 2021, when LIBOR will be discontinued. Many of these agreements include language for choosing an alternative successor rate when LIBOR reference is no longer considered to be appropriate. With respect to other agreements, the Company intends to work with its portfolio companies and lenders to modify agreements to choose an alternative successor rate. Contract modifications are required to be evaluated in determining whether the modifications result in the establishment of new contracts or the continuation of existing contracts. The standard is effective as of March 12, 2020 through December 31, 2022 and the Company plans to apply the amendments in this update to account for contract modifications due to changes in reference rates. The Company does not believe that it will have a material impact on its consolidated financial statements and disclosures.

In May 2020, the SEC adopted rule amendments that will impact the requirement of investment companies, including BDCs, to disclose the financial statements of certain of their portfolio companies or certain acquired funds (the “Final Rules”). The Final Rules adopted a new definition of “significant subsidiary” set forth in Rule 1-02(w)(2) of Regulation S-X under the Securities Act. Rules 3-09 and 4-08(g) of Regulation S-X require investment companies to include separate financial statements or summary financial information, respectively, in such investment company’s periodic reports for any portfolio company that meets the definition of “significant subsidiary.” The Final Rules adopt a new definition of “significant subsidiary” applicable only to investment companies that (i) modifies the investment test and the income test, and (ii) eliminates the asset test currently in the definition of “significant subsidiary” in Rule 1-02(w) of Regulation S-X. The new Rule 1-02(w)(2) of Regulation S-X is intended to more accurately capture those portfolio companies that are more likely to materially impact the financial condition of an investment company. The Final Rules will be effective on January 1, 2021, but voluntary compliance is permitted in advance of the effective date. The Company is currently evaluating the impact the Final Rule will have on its consolidated financial statements, but the impact is not expected to be material.

In November 2020, the SEC issued a final rule that modernized and simplifies Management's Discussion and Analysis and certain financial disclosure requirements in Regulation S-K (the “Amendments”). Specifically, the Amendments: (i) eliminate Item 301 of Regulation S-K (Selected Financial Data); (ii) simplify Item 302 of Regulation S-K (Supplementary Financial Information); and (iii) amend certain aspects of Item 303 of Regulation S-K (Management's Discussion and Analysis of Financial Condition and Results of Operations). The Amendments will become effective on February 10, 2021 and compliance will be required for registrants' fiscal year ending on or after August 9, 2021. Early adoption of the Amendments is permitted on an item-by-item basis after the effective date; however, a registrant must fully comply with each adopted item in its entirety. The Company is currently evaluating the impact of the Amendments on its consolidated financial statements.

INVESTMENT PORTFOLIO COMPOSITION

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

Our UMM investments consist of direct investments in or secondary purchases of interest-bearing debt securities in privately held companies based in the United States that are generally larger in size than the LMM companies included in our portfolio with EBITDA generally greater than $50.0 million. Our UMM investments typically range in size from $5.0 million to $15.0 million. Our UMM debt investments are generally secured by ether 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 $648.8 million as of December 31, 2020, as compared to $553.1 million as of March 31, 2020. As of December 31, 2020, we had investments in 51 portfolio companies with an aggregate cost of $668.4 million. As of March 31, 2020, we had investments in 46 portfolio companies with an aggregate cost of $599.2 million.

As of December 31, 2020 and March 31, 2020, approximately $505.7 million, or 95.2%, and $459.0 million, or 96.8%, respectively, of our debt investment portfolio (at fair value) bore interest at floating rates, of which 100.0% and 97.6%, respectively, were subject to contractual minimum interest rates. As of December 31, 2020 and March 31, 2020, the weighted average contractual minimum interest rate is 1.34% and 1.38%, respectively. As of December 31, 2020 and March 31, 2020, approximately $25.4 million, or 4.8%, and $15.3 million, or 3.2%, 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 December 31, 2020 and March 31, 2020 (excluding our investment in I-45 SLF LLC):

	As of December 31, 2020	
	LMM (a)	UMM
	(dollars in thousands)	
Number of portfolio companies	39	11
Fair value	$ 502,987	$ 82,151
Cost	$ 500,044	$ 87,564
% of portfolio at cost - debt	92.1 %	92.6 %
% of portfolio at cost - equity	7.9 %	7.4 %
% of debt investments at cost secured by first lien	85.0 %	74.3 %
Weighted average annual effective yield (b)	10.8 %	10.2 %
Weighted average EBITDA (c)	$ 9,480	$ 79,227
Weighted average leverage through CSWC security (d)	3.8x	3.6x

(a) At December 31, 2020, we had equity ownership in approximately 61.5% of our LMM investments.

(b) The weighted-average annual effective yields were computed using the effective interest rates during the quarter for all debt investments at cost as of December 31, 2020, including accretion of original issue discount but excluding fees payable upon repayment of the debt instruments. As of December 31, 2020, there was one investment on non-accrual status. Weighted-average annual effective yield is not a return to shareholders and is higher than what an investor in shares in our common stock will realize on its investment because it does not reflect our expenses or any sales load paid by an investor.

(c) Weighted average EBITDA metric is calculated using investment cost basis weighting. For the quarter ended December 31, 2020, four portfolio companies are excluded from this calculation due to a reported debt to adjusted EBITDA ratio that was not meaningful.

(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. Weighted average leverage is calculated using investment cost basis weighting. Management uses this metric as a guide to evaluate relative risk of its position in each portfolio debt investment. For the quarter ended December 31, 2020, four portfolio companies are excluded from this calculation due to a reported debt to adjusted EBITDA ratio that was not meaningful.

	As of March 31, 2020	
	LMM (a)	UMM
	(dollars in thousands)	
Number of portfolio companies	34	11
Fair value	$ 437,142	$ 76,170
Cost	$ 435,015	$ 96,172
% of portfolio at cost - debt	91.8 %	100.0 %
% of portfolio at cost - equity	8.2 %	—
% of debt investments at cost secured by first lien	84.1 %	84.5 %
Weighted average annual effective yield (b)	11.2 %	6.6 %
Weighted average EBITDA (c)	$ 8,322	$ 74,143
Weighted average leverage through CSWC security (d)	3.7x	4.2x

(a) At March 31, 2020, we had equity ownership in approximately 64.7% of our LMM investments.

(b) The weighted-average annual effective yields were computed using the effective interest rates during the quarter for all debt investments at cost as of March 31, 2020, including accretion of original issue discount but excluding fees payable upon repayment of the debt instruments. As of March 31, 2020, there were four investments on non-accrual status. Weighted-average annual effective yield is not a return to shareholders and is higher than what an investor in shares in our common stock will realize on its investment because it does not reflect our expenses or any sales load paid by an investor.

(c) Weighted average EBITDA metric is calculated using investment cost basis weighting. For the year ended March 31, 2020, two UMM portfolio companies are excluded from this calculation due to a reported debt to adjusted EBITDA ratio that was not meaningful.

(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. Weighted average leverage is calculated using investment cost basis weighting. Management uses this metric as a guide to evaluate relative risk of its position in each portfolio debt investment. For the year ended March 31, 2020, two UMM portfolio companies are excluded from this calculation due to a reported debt to adjusted EBITDA ratio that was not meaningful.

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 COVID-19 pandemic may impact our investment ratings, causing downgrades of certain portfolio companies. As the COVID-19 situation continues to evolve, we are maintaining close communications with our portfolio companies to proactively assess and manage potential risks across our debt investment portfolio. We have also increased oversight and analysis of credits in vulnerable industries in an attempt to improve loan performance and reduce credit risk.

The following table shows the distribution of our debt portfolio investments on the 1 to 4 investment rating scale at fair value as of December 31, 2020 and March 31, 2020:

	As of December 31, 2020	
Investment Rating	**Debt Investments at Fair Value**	**Percentage of Debt Portfolio**
	(dollars in thousands)	
1	$ 60,034	11.3 %
2	419,308	79.0
3	51,021	9.6
4	740	0.1
Total	$ 531,103	100.0 %

	As of March 31, 2020	
Investment Rating	**Debt Investments at Fair Value**	**Percentage of Debt Portfolio**
	(dollars in thousands)	
1	$ 53,488	11.3 %
2	347,056	73.2
3	59,266	12.5
4	14,523	3.0
Total	$ 474,333	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 December 31, 2020, we had one debt investment on non-accrual status, which represents approximately 0.1% of our total investment portfolio's fair value and approximately 0.5% of its cost. As of March 31, 2020, we had four investments on non-accrual status, which represents approximately 3.3% of our total investment portfolio's fair value and approximately 5.8% of its cost.

Investment Activity

During the nine months ended December 31, 2020, we made new debt investments in ten portfolio companies totaling $101.3 million, follow-on debt investments in twelve portfolio companies totaling $25.4 million, and equity investments in four existing and five new portfolio companies totaling $6.3 million. We also funded $12.8 million on our existing equity commitment to I-45 SLF LLC. We received contractual principal repayments totaling approximately $22.9 million and full prepayments of approximately $39.9 million. We funded $4.5 million on revolving loans and received $8.5 million in repayments on revolving loans. In addition, we received proceeds from sales of investments totaling $9.8 million.

During the nine months ended December 31, 2019, we made new debt investments in eight portfolio companies totaling $127.0 million, follow-on debt investments in eight portfolio companies totaling $20.3 million, and equity investments in two existing and four new portfolio companies totaling $5.6 million. In connection with the sale of Media Recovery, Inc., we also received, an earnout with a current fair value of $1.5 million, which is included in financial instruments. We received contractual principal repayments totaling approximately $19.7 million and full prepayments of approximately $32.0 million from three portfolio companies. In addition, we received proceeds from sales of investments totaling $57.0 million.

Total portfolio investment activity for the nine months ended December 31, 2020 and 2019 was as follows (dollars in thousands):

Nine months ended December 31, 2020	First Lien Loans	Second Lien Loans	Subordinated Debt	Preferred & Common Equity	Financial Instruments	I-45 SLF, LLC	Total
Fair value, beginning of period	$ 427,447	$ 37,139	$ 9,747	$ 38,979	$ —	$ 39,760	$ 553,072
New investments	130,710	—	516	6,297	—	12,800	150,323
Proceeds from sales of investments	—	—	—	(9,782)	—	—	(9,782)
Principal repayments received	(71,102)	(188)	—	—	—	—	(71,290)
Conversion of security	(9,692)	778	—	8,914	—	—	—
PIK interest earned	3,880	642	685	—	—	—	5,207
Accretion of loan discounts	1,569	143	18	—	—	—	1,730
Realized (loss) gain	(11,939)	—	—	6,489	(1,517)	—	(6,967)
Unrealized gain (loss)	11,367	(758)	141	3,138	1,517	11,075	26,480
Fair value, end of period	$ 482,240	$ 37,756	$ 11,107	$ 54,035	$ —	$ 63,635	$ 648,773
Weighted average yield on debt investments at end of period							10.64 %
Weighted average yield on total investments at end of period							11.20 %

Nine months ended December 31, 2019	First Lien Loans	Second Lien Loans	Subordinated Debt	Preferred & Common Equity	Financial Instruments	I-45 SLF, LLC	Total
Fair value, beginning of period	$ 317,544	$ 35,896	$ 14,287	$ 90,601	$ —	$ 65,743	$ 524,071
New investments	147,332	—	—	5,566	1,517	—	154,415
Proceeds from sales of investments	—	—	—	(57,014)	—	—	(57,014)
Principal repayments received	(46,944)	(188)	(4,569)	—	—	—	(51,701)
PIK interest earned	954	448	12	55	—	—	1,469
Accretion of loan discounts	1,269	120	38	—	—	—	1,427
Realized gain	703	—	32	45,316	—	—	46,051
Unrealized gain (loss)	(9,950)	(704)	(185)	(41,878)	—	(7,449)	(60,166)
Fair value, end of period	$ 410,908	$ 35,572	$ 9,615	$ 42,646	$ 1,517	$ 58,294	$ 558,552
Weighted average yield on debt investments at end of period							11.26 %
Weighted average yield on total investments at end of period							10.69 %

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 four 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 (loss) gain on investments before income tax," which is the difference between the proceeds received from the disposition of portfolio securities and their stated cost. The third element is the "Net unrealized appreciation (depreciation) on investments, net of tax," which is the net change in the market or fair value of our investment portfolio, compared with stated cost. The "Net realized (loss) gain on investments before income tax" and "Net unrealized appreciation (depreciation) on investments, net of tax" are directly related in that when an appreciated portfolio security is sold to realize a gain, a corresponding decrease in net unrealized appreciation occurs by transferring the gain associated with the transaction from being "unrealized" to being "realized." Conversely, when a loss is realized on a depreciated portfolio security, an increase in net unrealized appreciation occurs. The fourth element is the "Realized losses on extinguishment of debt," which is the difference between the principal amount due at maturity adjusted for any unamortized debt issuance costs at the time of the debt extinguishment.

Comparison of three months ended December 31, 2020 and December 31, 2019

	Three Months Ended December 31,		Net Change	
	2020	2019	Amount	%
	(in thousands)			
Total investment income	$ 19,040	$ 15,984	$ 3,056	19.1 %
Interest expense	(4,528)	(4,142)	(386)	9.3 %
Other operating expenses	(4,540)	(3,967)	(573)	14.4 %
Income before taxes	9,972	7,875	2,097	26.6 %
Income tax expense	1,455	761	694	91.2 %
Net investment income	8,517	7,114	1,403	19.7 %
Net realized (loss) gain on investments, net of tax	(127)	40,818	(40,945)	(100.3)%
Net unrealized appreciation (depreciation) on investments, net of tax	7,271	(54,765)	62,036	(113.3)%
Realized losses on extinguishment of debt	(262)	—	(262)	100.0 %
Net increase (decrease) in net assets from operations	$ 15,399	$ (6,833)	$ 22,232	(325.4)%

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 December 31, 2020, we reported investment income of $19.0 million, a $3.1 million, or 19.1%, increase as compared to the three months ended December 31, 2019. The increase was primarily due to a $3.0 million increase in interest income generated from our debt investments, which is due to a 15.5% increase in the cost basis of debt investments held from $469.0 million to $541.5 million year-over-year.

Operating Expenses

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

Interest and Fees on our Borrowings

For the three months ended December 31, 2020, our total interest expense was $4.5 million, an increase of $0.4 million as compared to the total interest expense of $4.1 million for the three months ended December 31, 2019. The increase was primarily attributable to the issuance of the October 2024 Notes and an increase of $77.6 million in average borrowings on our Credit Facility. The increase is partially offset by a decrease due to the redemption of the December 2022 Notes and a decrease in the weighted average interest rate on our Credit Facility from 4.67% to 2.91% during the three months ended December 31, 2019 and December 31, 2020, respectively.

Salaries, General and Administrative Expenses

For the three months ended December 31, 2020, our total employee compensation expense (including both cash and share-based compensation) increased by $0.5 million, or 18.0%, as compared to the total employee compensation expense for the three months ended December 31, 2019. The increase is primarily due to an increase in share-based compensation as a result of additional restricted stock awards granted in June 2020, as well as an increase in the accrued bonus compensation. For the three months ended December 31, 2020, our total general and administrative expense was $1.3 million, an increase of $0.1 million or 6.6%, as compared to the total general and administrative expense of $1.2 million for the three months ended December 31, 2019. The increase was primarily due to an increase in legal fees.

Net Investment Income

For the three months ended December 31, 2020, income before taxes increased by $2.1 million, or 26.6%. Net investment income increased from the prior year period by $1.4 million, or 19.7%, to $8.5 million as a result of a $3.1 million increase in total investment income, partially offset by a $0.7 million increase in income tax expense and a $0.4 million increase in interest expense.

Net Realized and Unrealized Gains (Losses) on Investments

During the three months ended December 31, 2020, we recognized net realized losses totaling $0.1 million, which primarily consisted of losses of $7.1 million on the restructuring of two non-control/non-affiliate debt investments and a loss of $1.5 million on the write off of a financial instrument, partially offset by a gain of $8.1 million on the sale of one non-control/non-affiliate equity investment and gains on repayments of debt investments.

In addition, during the three months ended December 31, 2020, we recorded net unrealized appreciation on our current portfolio of $3.0 million, consisting of unrealized gains of $2.2 million on I-45 SLF LLC, and $3.1 million on equity investments, offset by unrealized losses on UMM debt investments of $2.0 million and LMM debt investments of $0.3 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. We also recorded the reversal of $5.0 million of net unrealized depreciation recognized in prior periods due to realized losses described above, and net unrealized depreciation related to deferred tax associated with the Taxable Subsidiary of $0.7 million, totaling $7.3 million of net unrealized appreciation on investments.

During the three months ended December 31, 2019, we recognized realized gains totaling $40.8 million, which consisted of gains on the full repayment of one affiliate investment, partial repayments on one non-control/non-affiliate investment and one affiliate investment and the sale of one control equity investment. We elected to retain $16.5 million of net long-term capital gains and to designate the retained amount as a "deemed distribution" to our shareholders. We incurred $3.5 million of federal taxes on such retained amount on behalf of our shareholders for the three months ended December 31, 2019, which is included in net realized gain on investments.

In addition, during the three months ended December 31, 2019, we recorded net unrealized depreciation on our current portfolio of $6.3 million, the reversal of $48.3 million of net unrealized appreciation recognized in prior periods due to realized gains described above, and net unrealized depreciation related to deferred tax associated with the Taxable Subsidiary of $0.2 million, which totaled $54.8 million of net unrealized depreciation on investments. Net unrealized depreciation on our current portfolio included unrealized gains on Tinuiti Inc. of $1.3 million, Vistar Media Inc. of $2.1 million and American Nuts Operations LLC of $1.4 million, offset by unrealized losses on I-45 SLF LLC of $3.6 million, Delphi Intermediate Healthco, LLC of $3.3 million and AG Kings Holdings Inc. of $1.0 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.

Realized Losses on Extinguishment of Debt

During the three months ended December 31, 2020, we recognized losses on extinguishment of debt of $0.3 million due to the partial redemption of the December 2022 Notes.

Comparison of nine months ended December 31, 2020 and December 31, 2019

	Nine Months Ended December 31,		Net Change	
	2020	2019	Amount	%
	(in thousands)			
Total investment income	$ 50,889	$ 47,001	$ 3,888	8.3 %
Interest expense	(13,253)	(11,664)	(1,589)	13.6 %
Other operating expenses	(12,391)	(12,397)	6	0.0 %
Income before taxes	25,245	22,940	2,305	10.0 %
Income tax expense	1,590	1,651	(61)	(3.7)%
Net investment income	23,655	21,289	2,366	11.1 %
Net realized (loss) gain on investments, net of tax	(6,953)	42,318	(49,271)	(116.4)%
Net unrealized appreciation (depreciation) on investments, net of tax	24,512	(60,998)	85,510	(140.2)%
Realized losses on extinguishment of debt	(548)	—	(548)	100.0 %
Net increase in net assets from operations	$ 40,666	$ 2,609	$ 38,057	1,458.7 %

Investment Income

Total investment income consisted of interest income, management fees, dividend income and other income for each applicable period. For the nine months ended December 31, 2020, we reported investment income of $50.9 million, a $3.9 million, or 8.3%, increase as compared to the nine months ended December 31, 2019. The increase was primarily due to a $6.9 million increase in interest income generated from our debt investments, which was due to a 15.5% increase in the cost basis of debt investments held from $469.0 million to $541.5 million year-over-year, partially offset by a $3.6 million decrease in dividend income as a result of the sale of Media Recovery, Inc. and a decrease in the dividend income received from I-45 SLF.

Operating Expenses

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

Interest and Fees on our Borrowings

For the nine months ended December 31, 2020, our total interest expense was $13.3 million, an increase of $1.6 million as compared to the total interest expense of $11.7 million for the nine months ended December 31, 2019. The increase was primarily attributable to the issuance of the October 2024 Notes and an increase of $26.6 million in average borrowings on our Credit Facility. The increase was partially offset by a decrease due to the redemption of the December 2022 Notes and a decrease in the weighted average interest rate on our Credit Facility from 4.96% to 3.13% during the nine months ended December 31, 2019 and December 31, 2020, respectively.

Salaries, General and Administrative Expenses

For the nine months ended December 31, 2020, our total employee compensation expense (including both cash and share-based compensation) increased by $0.4 million, or 4.8%, as compared to the total employee compensation expense for the nine months ended December 31, 2019. The increase is primarily due to an increase in bonus compensation, partially offset by a decrease in headcount. For the nine months ended December 31, 2020, our total general and administrative expense was $4.0 million, a decrease of $0.4 million or 8.9%, as compared to the total general and administrative expense of $4.4 million for the nine months ended December 31, 2019. The decrease was primarily due to the write off of deferred offering costs of approximately $0.5 million related to our previous registration statement on Form N-2 during the quarter ended September 30, 2019.

Net Investment Income

For the nine months ended December 31, 2020, income before taxes increased by $2.3 million, or 10.0%. Net investment income increased from the prior year period by $2.4 million, or 11.1%, to $23.7 million as a result of a $3.9 million increase in total investment income and a $0.1 million decrease in income tax expense, partially offset by a $1.6 million increase in interest expense.

Net Realized and Unrealized Gains (Losses) on Investments

During the nine months ended December 31, 2020, we recognized net realized losses totaling $7.0 million, which consisted of losses on the restructuring of three non-control/non-affiliate investment and on the sale of one affiliate equity investment, partially offset by gains on the sale of one non-control/non-affiliate equity investment and on partial and full repayments of debt investments.

In addition, during the nine months ended December 31, 2020, we recorded net unrealized appreciation on our current portfolio of $14.2 million, consisting of unrealized gains of $11.1 million on I-45 SLF LLC, $4.7 million on equity investments and $0.7 million on UMM debt investments, offset by unrealized losses on LMM debt investments of $2.3 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. We also recorded the reversal of $12.3 million of net unrealized depreciation recognized in prior periods due to realized losses described above, and net unrealized depreciation related to deferred tax associated with the Taxable Subsidiary of $2.0 million, totaling $24.5 million of net unrealized appreciation on investments.

During the nine months ended December 31, 2019, we recognized realized gains totaling $42.3 million, which consisted of gains on the full repayment of one non-control/non-affiliate, one affiliate investment and one control investment, partial repayments on nine non-control/non-affiliate investments and three affiliate investments and the sale of one control equity investment. We elected to retain $16.5 million of net long-term capital gains and to designate the retained amount as a "deemed distribution" to our shareholders. We incurred $3.5 million of federal taxes on such retained amount on behalf of our shareholders for the nine months ended December 31, 2019, which is included in net realized gain on investments.

In addition, during the nine months ended December 31, 2019, we recorded net unrealized depreciation on our current portfolio of $10.9 million, the reversal of $49.3 million of net unrealized appreciation recognized in prior periods due to realized gains described above, and net unrealized depreciation related to deferred tax associated with the Taxable Subsidiary of $0.8 million, which totaled $61.0 million of net unrealized depreciation on investments. Net unrealized depreciation on our current portfolio included unrealized gains on Vistar Media Inc. of $5.4 million, ITA Holdings Group, LLC of $2.6 million, and Tinuiti Inc. of $1.6 million, offset by unrealized losses on I-45 SLF LLC of $7.4 million, Delphi Intermediate Healthco, LLC of $3.9 million, SIMR, LLC of $3.2 million, AAC Holdings, Inc. of $2.5 million and AG Kings Holdings Inc. of $2.4 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.

Realized Losses on Extinguishment of Debt

During the nine months ended December 31, 2020, we recognized losses on extinguishment of debt of $0.5 million due to the partial redemption of the December 2022 Notes.

FINANCIAL LIQUIDITY AND CAPITAL RESOURCES

Our liquidity and capital resources are generated primarily from cash flows from operations, the net proceeds of public offerings of debt and equity securities and advances from the Credit Facility. Management believes that the Company’s cash and cash equivalents, cash available from investments, and commitments under the Credit Facility are adequate to meet its needs for the next twelve months. We anticipate that we will continue to fund our investment activities through existing cash and cash equivalents, cash flows generated through our ongoing operating activities, utilization of available borrowings under our Credit Facility and future issuances of debt and equity on terms we believe are favorable to the Company and our shareholders. Our primary uses of funds will be investments in portfolio companies and operating expenses. Due to the diverse capital sources available to us at this time, we believe we have adequate liquidity to support our near-term capital requirements. As the impact of COVID-19 continues to evolve, we will continually evaluate our overall liquidity position and take proactive steps to maintain that position based on the current circumstances.

Cash Flows

For the nine months ended December 31, 2020, we experienced a net increase in cash and cash equivalents in the amount of $30.0 million. During the foregoing period, our operating activities used $45.7 million in cash, consisting primarily of new portfolio investments of $150.3 million, partially offset by $70.3 million from sales and repayments received from debt investments in portfolio companies and $9.8 million from sales and return of capital of equity investments in portfolio companies. In addition, our financing activities increased cash by $75.7 million, consisting primarily of net proceeds from issuance of the October 2024 Notes of $49.0 million, net proceeds from issuance of the January 2026 Notes of $73.5 million and net proceeds from the Equity ATM Program of $26.8 million, partially offset by the partial redemption of the December 2022 Notes of $40.0 million, cash dividends paid in the amount of $29.0 million and net repayments of our Credit Facility of $4.0 million. At December 31, 2020, the Company had cash and cash equivalents of approximately $43.7 million.

For the nine months ended December 31, 2019, we experienced a net increase in cash and cash equivalents in the amount of $13.0 million. During that period, our operating activities used $24.2 million in cash, consisting primarily of new portfolio investments of $154.4 million, partially offset by $51.0 million of sales and repayments received from debt investments in portfolio companies and $56.0 million from sales and return of capital of equity investments in portfolio companies. In addition, our financing activities increased cash by $37.2 million, consisting primarily of net proceeds from the October 2024 Notes of $73.5 million, as well as net proceeds from the Equity ATM Program of $22.5 million, partially offset by net repayments of our Credit Facility of $17.0 million and cash dividends paid in the amount of $40.9 million. At December 31, 2019, the Company had cash and cash equivalents of approximately $23.0 million.

Financing Transactions

In accordance with the 1940 Act, with certain limitations, effective April 25, 2019, the Company is only allowed to borrow amounts such that its asset coverage (i.e., the ratio of assets less liabilities not represented by senior securities to senior securities such as borrowings), calculated pursuant to the 1940 Act, is at least 150% after such borrowing. The Board of Directors also approved a resolution which limits the Company’s issuance of senior securities such that the asset coverage ratio, taking into account any such issuance, would not be less than 166%, which became effective April 25, 2019. As of December 31, 2020, the Company’s asset coverage was 181%.

Credit Facility

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

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

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

On December 21, 2018, CSWC entered into the Amended and Restated Senior Secured Revolving Credit Agreement (the "Credit Agreement"), and a related Amended and Restated Guarantee, Pledge and Security Agreement, to amend and restate its Credit Facility. The Credit Agreement (1) increased the total commitments by $60 million from $210 million to an aggregate total of $270 million, provided by a diversified group of nine lenders, (2) increased the Credit Facility's accordion feature to $350 million under the Credit Facility from new and existing lenders on the same terms and conditions as the existing commitments, (3) reduced the interest rate on borrowings from LIBOR plus 3.00% to LIBOR plus 2.50%, subject to certain conditions as outlined in the Credit Agreement, (4) reduced the minimum asset coverage with respect to senior securities representing indebtedness from 200% to 150% after the date on which such minimum asset coverage is permitted to be reduced by the Company under applicable law, and (5) extended the Credit Facility's revolving period from November 16, 2020 to December 21, 2022 and the final maturity was extended from November 16, 2021 to December 21, 2023.

The Credit Agreement modified certain covenants in the Credit Facility, including: (1) to provide for a minimum senior coverage ratio of 2-to-1 (in addition to the asset coverage ratio noted below), (2) to increase the minimum obligors' net worth test from $160 million to $180 million, (3) to reduce the minimum consolidated interest coverage ratio from 2.50-to-1 to 2.25-to-1 as of the last day of any fiscal quarter, and (4) to provide for the fact that the Company will not declare or pay a dividend or distribution in cash or other property unless immediately prior to and after giving effect thereto the Company's asset coverage ratio exceeds 150% (and certain other conditions are satisfied). The Credit Facility also 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, and (5) at any time the outstanding advances exceed 90% of the borrowing base, maintaining a minimum liquidity of not less than 10% of the covered debt amount.

On May 23, 2019, CSWC entered into an Incremental Assumption Agreement, which increased the total commitments under the Credit Facility by $25 million. The increase was executed under the accordion feature of the Credit Facility and increased total commitments from $270 million to $295 million.

On March 19, 2020, CSWC entered into an Incremental Assumption Agreement that increased the total commitments under the accordion feature of the Credit Facility by $30 million, which increased total commitments from $295 million to $325 million.

On December 10, 2020, CSWC entered into Amendment No. 1 to the Credit Agreement, which expanded the accordion feature from $350 million to $400 million. In addition, on December 10, 2020, the Company entered into an Incremental Commitment Agreement that increased the total commitments under the Credit Agreement from $325 million to $340 million.

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

The Credit Facility is secured by (1) substantially all of the present and future property and assets of the Company and the guarantors and (2) 100% of the equity interests in the Company's wholly-owned subsidiaries. As of December 31, 2020, substantially all of the Company's assets were pledged as collateral for the Credit Facility.

At December 31, 2020, CSWC had $150.0 million in borrowings outstanding under the Credit Facility. CSWC recognized interest expense related to the Credit Facility, including unused commitment fees and amortization of deferred loan costs, of $1.8 million and $5.3 million, respectively, for the three and nine months ended December 31, 2020. For the three and nine months ended December 31, 2019, CSWC recognized interest expense of $1.7 million and $6.3 million, respectively. The weighted average interest rate on the Credit Facility was 2.91% and 3.13%, respectively, for the three and nine months ended December 31, 2020. For the three and nine months ended December 31, 2019, the weighted average interest rate on the Credit Facility was 4.67% and 4.96%, respectively. Average borrowings for the three and nine months ended December 31, 2020 were $184.1 million and $129.5 million, respectively. For the three and nine months ended December 31, 2019, average borrowings were $106.5 million and $102.9 million, respectively. As of December 31, 2020, CSWC was in compliance with all financial covenants under the Credit Facility.

December 2022 Notes

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

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

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

The Company has no current intention of issuing additional December 2022 Notes under this ATM debt distribution agreement. Accordingly, during the three months ended June 30, 2019, the Company amortized $0.2 million of the remaining debt issuance costs associated with the ATM debt distribution agreement, which is included in interest expense in the Consolidated Statement of Operations for the quarter ended June 30, 2019.

On each of September 29, 2020 and December 10, 2020 (the "Redemption Dates"), the Company redeemed $20,000,000 in aggregate principal, $40,000,000 in total, of the $77,136,175 in aggregate principal amount of issued and outstanding December 2022 Notes. The December 2022 Notes were redeemed at 100% of their principal amount, plus the accrued and unpaid interest thereon, through, but excluding the Redemption Dates. Accordingly, the Company recognized realized losses on extinguishment of debt, equal to the write-off of the related unamortized debt issuance costs, of $0.3 million and $0.5 million, respectively, during the three and nine months ended December 31, 2020. Subsequent to the fiscal quarter ended December 31, 2020, the Company redeemed the remaining $37,136,175 issued and outstanding December 2022 Notes. See "Recent Developments" for more information.

As of December 31, 2020, the carrying amount of the December 2022 Notes was $36.7 million on an aggregate principal amount of $37.1 million at a weighted average effective yield of 5.93%. As of December 31, 2020, the fair value of the December 2022 Notes was $37.3 million. The fair value is based on the closing price of the security on The Nasdaq Global Select Market, which is a Level 1 input under ASC 820. The Company recognized interest expense related to the December 2022 Notes, including amortization of deferred issuance costs of $0.9 million and $3.4 million, respectively, for the three and nine months ended December 31, 2020. For the three and nine months ended December 31, 2019, the Company recognized interest expense of $1.3 million and $4.1 million, respectively. Average borrowings for the three and nine months ended December 31, 2020 were $52.4 million and $68.7 million, respectively. Average borrowings for both the three and nine months ended December 31, 2019 were $77.1 million.

The indenture governing the December 2022 Notes contains certain covenants including but not limited to (i) a requirement that the Company comply with the asset coverage requirement of Section 18(a)(1)(A) of the 1940 Act as modified by Section 61(a) of the 1940 Act or any successor provisions thereto, after giving effect to any exemptive relief granted to the Company by the SEC, (ii) a requirement, subject to limited exception, that the Company will not declare any cash dividend, or declare any other cash distribution, upon a class of its capital stock, or purchase any such capital stock, unless, in every such case, at the time of the declaration of any such dividend or distribution, or at the time of any such purchase, the Company has the minimum asset coverage required pursuant to Section 61(a) of the 1940 Act, or any successor provision thereto, after deducting the amount of such dividend, distribution or purchase price, as the case may be, giving effect to any exemptive relief granted to the Company by the SEC and (iii) a requirement to provide financial information to the holders of the December 2022 Notes and the trustee under the indenture if the Company should no longer be subject to the reporting requirements under the Securities Exchange Act of 1934, as amended (the "Exchange Act"). The indenture and supplement relating to the December 2022 Notes also provides for customary events of default. As of December 31, 2020, the Company was in compliance with all covenants of the December 2022 Notes.

October 2024 Notes

In September 2019, the Company issued $65.0 million in aggregate principal amount of 5.375% Notes due 2024 (the “Existing October 2024 Notes”). In October 2019, the Company issued an additional $10.0 million in aggregate principal amount of the October 2024 Notes (the "Additional October 2024 Notes"). In August 2020, the Company issued an additional $50.0 million in aggregate principal amount of the October 2024 Notes (the "New Notes" together with the Existing October 2024 Notes and the Additional October 2024 Notes, the "October 2024 Notes"). The Additional October 2024 Notes and the New Notes are being treated as a single series with the Existing October 2024 Notes under the indenture and have the same terms as the Existing October 2024 Notes. The October 2024 Notes mature on October 1, 2024 and may be redeemed in whole or in part at any time prior to July 1, 2024, at par plus a “make-whole” premium, and thereafter at par. The October 2024 Notes bear interest at a rate of 5.375% per year, payable semi-annually on April 1 and October 1 of each year, beginning on April 1, 2020. The October 2024 Notes are the direct unsecured obligations of the Company and rank pari passu with our other outstanding and future unsecured unsubordinated indebtedness and are effectively subordinated to all of our existing and future secured indebtedness, including borrowings under our Credit Facility.

As of December 31, 2020, the carrying amount of the October 2024 Notes was $122.8 million on an aggregate principal amount of $125.0 million at a weighted average effective yield of 5.375%. As of December 31, 2020, the fair value of the October 2024 Notes was $124.7 million. This is a Level 3 fair value measurement under ASC 820 based on a valuation model using a discounted cash flow analysis. The Company recognized interest expense related to the October 2024 Notes, including amortization of deferred issuance costs, of $1.8 million and $4.4 million, respectively, for the three and nine months ended December 31, 2020. For the three and nine months ended December 31, 2019, the Company recognized interest expense of $1.1 million and $1.2 million, respectively. For the three and nine months ended December 31, 2020, average borrowings were $125.0 million and $100.8 million, respectively. Since the issuance of the Existing October 2024 Notes on September 27, 2019 through December 31, 2019, average borrowings were $73.9 million.

The indenture governing the October 2024 Notes contains certain covenants, including certain covenants requiring the Company to comply with Section 18(a)(1)(A) as modified by Section 61(a)(2) of the 1940 Act, or any successor provisions, whether or not the Company continues to be subject to such provisions of the 1940 Act, but giving effect, in either case, to any exemptive relief granted to the Company by the SEC, to comply with Section 18(a)(1)(B) as modified by Section 61(a)(2) of the 1940 Act, or any successor provisions, after giving effect to any exemptive relief granted to the Company by the SEC and subject to certain other exceptions, and to provide financial information to the holders of the October 2024 Notes and the trustee under the indenture if the Company is no longer subject to the reporting requirements under the Exchange Act. These covenants are subject to important limitations and exceptions that are described in the indenture and the second supplemental indenture relating to the October 2024 Notes.

In addition, holders of the Notes can require the Company to repurchase some or all of the October 2024 Notes at a purchase price equal to 100% of their principal amount, plus accrued and unpaid interest to, but not including, the repurchase date upon the occurrence of a “Change of Control Repurchase Event,” as defined in the second supplemental indenture relating to the October 2024 Notes.

January 2026 Notes

In December 2020, the Company issued $75.0 million in aggregate principal amount of 4.50% Notes due 2026 (the "January 2026 Notes"). The January 2026 Notes mature on January 31, 2026 and may be redeemed in whole or in part at any time prior to October 31, 2025, at par plus a "make-whole" premium, and thereafter at par. The January 2026 Notes bear interest at a rate of 4.50% per year, payable semi-annually on January 31 and July 31 of each year, beginning on July 31, 2021. The January 2026 Notes are the direct unsecured obligations of the Company and rank pari passu with our other outstanding and future unsecured unsubordinated indebtedness and are effectively subordinated to all of our existing and future secured indebtedness, including borrowings under our Credit Facility.

As of December 31, 2020, the carrying amount of the January 2026 Notes was $73.4 million on an aggregate principal amount of $75.0 million at a weighted average effective yield of 4.50%. As of December 31, 2020, the fair value of the January 2026 Notes was $75.0 million. This is a Level 3 fair value measurement under ASC 820 based on a valuation model using a discounted cash flow analysis. The Company recognized interest expense related to the January 2026 Notes, including amortization of deferred issuance costs, of $0.1 million for both the three and nine months ended December 31, 2020. Since the issuance of the January 2026 Notes on December 29, 2020 through December 31, 2020, average borrowings were $75.0 million.

The indenture governing the January 2026 Notes contains certain covenants, including certain covenants requiring the Company to comply with Section 18(a)(1)(A) as modified by Section 61(a)(2) of the 1940 Act, or any successor provisions, whether or not the Company continues to be subject to such provisions of the 1940 Act, but giving effect, in either case, to any exemptive relief granted to the Company by the SEC, to comply with Section 18(a)(1)(B) as modified by Section 61(a)(2) of the 1940 Act, or any successor provisions, after giving effect to any exemptive relief granted to the Company by the SEC and subject to certain other exceptions, and to provide financial information to the holders of the January 2026 Notes and the trustee under the indenture if the Company is no longer subject to the reporting requirements under the Exchange Act. These covenants are subject to important limitations and exceptions that are described in the indenture and the third supplemental indenture relating to the January 2026 Notes.

In addition, holders of the Notes can require the Company to repurchase some or all of the January 2026 Notes at a purchase price equal to 100% of their principal amount, plus accrued and unpaid interest to, but not including, the repurchase date upon the occurrence of a “Change of Control Repurchase Event,” as defined in the third supplemental indenture relating to the January 2026 Notes.

Equity Capital Activities

In January 2016, our board of directors approved a share repurchase program authorizing us to repurchase up to $10 million in the aggregate of our outstanding common stock in the open market at certain thresholds below our net asset value per share, in accordance with Rules 10b-18 under the Exchange Act. On March 1, 2016, the Company entered into a share repurchase agreement, which became effective immediately and terminated on March 26, 2020 upon the Company's purchase of the aggregate gross dollar amount (inclusive of commission fees) of its common stock under the share repurchase program meeting the threshold set forth in the share repurchase agreement. .

Cumulative to date, we have repurchased a total of 840,543 shares of our common stock in the open market under the stock repurchase program, at an average price of $11.85, including commissions paid. Accordingly, during the nine months ended December 31, 2020, the Company did not repurchase any shares of the Company's common stock under the share repurchase program.

On March 4, 2019, the Company established an "at-the-market" offering (the "Equity ATM Program") which the Company may offer and sell, from time to time through sales agents, shares of its common stock having an aggregate offering price of up to $50,000,000. On February 4, 2020, the Company (i) increased the maximum amount of shares of its common stock to be sold through the Equity ATM Program to $100,000,000 from $50,000,000 and (ii) added two additional sales agents to the Equity ATM Program.

During the three months ended December 31, 2020, the Company sold 1,264,776 shares of its common stock under the Equity ATM Program at a weighted-average price of $16.64 per share, raising $21.1 million of gross proceeds. Net proceeds were $20.6 million after commissions to the sales agents on shares sold. During the nine months ended December 31, 2020, the Company sold 1,673,065 shares of its common stock under the Equity ATM Program at a weighted-average price of $16.33 per share, raising $27.3 million of gross proceeds. Net proceeds were $26.8 million after commissions to the sales agents on shares sold.

During the three months ended December 31, 2019, the Company sold 623,111 shares of its common stock under the Equity ATM Program at a weighted-average price of $22.07 per share, raising $13.8 million of gross proceeds. Net proceeds were $13.5 million after commissions to the sales agents on shares sold. During the nine months ended December 31, 2019, the Company sold 1,049,932 shares of its common stock under the Equity ATM Program at a weighted-average price of $21.90 per share, raising $23.0 million of gross proceeds. Net proceeds were $22.5 million after commissions to the sales agents on shares sold.

Cumulative to date, the Company has sold 3,168,153 shares of its common stock under the Equity ATM Program at a weighted-average price of $18.85, raising $59.7 million of gross proceeds. Net proceeds were $58.5 million after commissions to the sales agents on shares sold. As of December 31, 2020, the Company has $40.3 million available under the Equity ATM Program.

On August 1, 2019, after receiving the requisite shareholder approval, the Company filed an amendment to its Amended and Restated Articles of Incorporation to increase the amount of authorized shares of common stock from 25,000,000 to 40,000,000.

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

CONTRACTUAL OBLIGATIONS

As shown below, we had the following contractual obligations as of December 31, 2020.

	Payments Due By Period (in thousands)				
Contractual Obligations	**Total**	**Less than 1 Year**	**1-3 Years**	**3-5 Years**	**More Than 5 Years**
Operating lease obligations	$ 316	$ 271	$ 45	$ —	$ —
Credit Facility (1)	163,154	4,429	158,725	—	—
December 2022 Notes (2)	41,463	2,209	39,254	—	—
October 2024 Notes (2)	151,875	6,719	13,437	131,719	—
January 2026 Notes (2)	92,166	1,978	6,750	83,438	—
	$ 448,974	$ 15,606	$ 218,211	$ 215,157	$ —

(1) Amounts include interest payments calculated at an average rate of 2.91% of outstanding credit facility borrowings, which were $150.0 million as of December 31, 2020.

(2) Includes interest payments.

OFF-BALANCE SHEET ARRANGEMENTS

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

At December 31, 2020 and March 31, 2020, we had a total of approximately $33.2 million and $15.2 million, respectively, in currently unfunded commitments (as discussed in Note 10 to the Consolidated Financial Statements). Included within the total unfunded commitments as of December 31, 2020 were commitments to issue letters of credit through a financial intermediary on behalf of certain portfolio companies. As of December 31, 2020, we had $3.5 million in letters of credit issued and outstanding under these commitments on behalf of the portfolio companies. For the letters of credit issued and outstanding, we would be required to make payments to third parties if the portfolio companies were to default on their related payment obligations. Of these letters of credit, $3.1 million expire in May 2021 and $0.4 million expire in July 2021. As of December 31, 2020, none of the letters of credit issued and outstanding were recorded as a liability on the Company's balance sheet as such letters of credit are considered in the valuation of the investments in the portfolio company.

The Company believes its assets will provide adequate coverage to satisfy these commitments. As of December 31, 2020, the Company had cash and cash equivalents of $43.7 million and $186.9 million in available borrowings under the Credit Facility.

RECENT DEVELOPMENTS

On January 20, 2021, the Board of Directors declared a total dividend of $0.52 per share, comprised of a regular dividend of $0.42 and a supplemental dividend of $0.10, for the quarter ended March 31, 2021. The record date for the dividend is March 15, 2021. The payment date for the dividend is March 31, 2021.

On January 21, 2021, the Company redeemed the remaining $37,136,175 in aggregate principal amount of the issued and outstanding December 2022 Notes. The December 2022 Notes were redeemed at 100% of their principal amount, plus the accrued and unpaid interest thereon, through but excluding January 21, 2021.

COVID-19

Subsequent to quarter ended December 31, 2020, the global outbreak of COVID-19 pandemic continues to have adverse consequences on the U.S. and global economies. The ultimate economic fallout from the pandemic, and the long-term impact on economies, markets, industries and individual issuers, remains uncertain. As of February 2, 2021, there is no indication of a reportable subsequent event impacting the Company’s financial statements for the quarter ended December 31, 2020. The Company cannot predict the extent to which its financial condition and results of operations will be affected at this time. The potential impact to our results will depend to a large extent on future developments and new information that may emerge regarding the duration and severity of COVID-19. The Company continues to observe and respond to the evolving COVID-19 environment and its potential impact on areas across its business.

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, including the impact of COVID-19; overall market changes, including an increase in market volatility due to COVID-19; 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. A large portion of our portfolio is comprised of floating rate investments that utilize LIBOR. In connection with the COVID-19 pandemic, the U.S. Federal Reserve and other central banks have reduced certain interest rates and LIBOR has decreased. A prolonged reduction in interest rates will reduce our gross investment income and could result in a decrease in our net investment income if such decreases in LIBOR are not offset by a corresponding increase in the spread over LIBOR that we earn on any portfolio investments or a decrease in the interest rate of our floating interest rate liabilities tied to LIBOR. Our interest expenses will also be affected by changes in the published LIBOR rate in connection with our Credit Facility. The interest rates on the October 2024 Notes and the January 2026 Notes are fixed for the life of such debt. Our risk management systems and procedures are designed to identify and analyze our risk, to set appropriate policies and limits and to continually monitor these risks. We regularly measure exposure to interest rate risk and determine whether or not any hedging transactions are necessary to mitigate exposure to changes in interest rates. As of December 31, 2020, we were not a party to any hedging arrangements.

As of December 31, 2020, approximately 95.2% of our debt investment portfolio (at fair value) bore interest at floating rates, 100.0% of which were subject to contractual minimum interest rates. Based on interest rates as of December 31, 2020, a hypothetical 100 basis point increase in interest rates could decrease our net investment income by a maximum of $1.0 million, or $0.05 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 $0.02 per share, on an annual basis. Our Credit Facility bears interest on a per annum basis equal to the applicable LIBOR rate plus 2.50%. We pay unused commitment fees of 0.50% to 1.00% per annum, based on utilization.

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

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

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 December 31, 2020.

During the three months ended December 31, 2020, 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, 2020 that we filed with the SEC on June 2, 2020.

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

Sales of Unregistered Securities

None.

Issuer Purchases of Equity Securities

On January 25, 2016, our Board of Directors approved a share repurchase program authorizing us to repurchase up to $10 million of our outstanding common stock in the open market at certain thresholds below our net asset value per share, in accordance with guidelines specified in Rules 10b5-1(c)(1)(i)(B) and 10b-18 under the Securities Exchange Act of 1934, as amended. On March 1, 2016, the Company entered into a share repurchase agreement, which became effective immediately and terminated on March 26, 2020 upon the Company's purchase of the aggregate gross dollar amount (inclusive of commission fees) of its common stock under the share repurchase program meeting the threshold set forth in the share repurchase agreement.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Mine Safety Disclosures.

None.

Item 5. Other Information.

None.

Item 6. Exhibits

Exhibit No.	Description
31.1*	Certification of President and Chief Executive Officer required by Rule 13a-14(a) of 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.

^ The certifications, attached as Exhibits 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, 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

February 2, 2021	By:	/s/ Bowen S. Diehl
Date		Bowen S. Diehl
		President and Chief Executive Officer
February 2, 2021	By:	/s/ Michael S. Sarner
Date		Michael S. Sarner
		Chief Financial Officer, Secretary and Treasurer

Exhibit 31.1

CERTIFICATIONS

I, Bowen S. Diehl, certify that:

1 I have reviewed this quarterly report on Form 10-Q of Capital Southwest Corporation (the "registrant");

2 Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3 Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4 The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5 The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 2, 2021

By: /s/ Bowen S. Diehl
Bowen S. Diehl
President and Chief Executive Officer

Exhibit 31.2

CERTIFICATIONS

I, Michael S. Sarner, certify that:

1 I have reviewed this quarterly report on Form 10-Q of Capital Southwest Corporation (the "registrant");

2 Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3 Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4 The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5 The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 2, 2021

By: /s/ Michael S. Sarner
Michael S. Sarner
Chief Financial Officer

Exhibit 32.1

Certification of the President and Chief Executive Officer
Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the
Sarbanes-Oxley Act of 2002

I, Bowen S. Diehl, President and Chief Executive Officer of Capital Southwest Corporation, certify that, to my knowledge:

1. The Form 10-Q for the quarter ended December 31, 2020, filed with the Securities and Exchange Commission on February 2, 2021 (“accompanied report”) fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the accompanied report fairly presents, in all material respects, the consolidated financial condition and results of operations of Capital Southwest Corporation.

Date: February 2, 2021

By: /s/ Bowen S. Diehl
Bowen S. Diehl
President and Chief Executive Officer

Exhibit 32.2

Certification of the Chief Financial Officer
Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the
Sarbanes-Oxley Act of 2002

I, Michael S. Sarner, Chief Financial Officer of Capital Southwest Corporation, certify that, to my knowledge:

1. The Form 10-Q for the quarter ended December 31, 2020, filed with the Securities and Exchange Commission on February 2, 2021 (“accompanied report”) fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the accompanied report fairly presents, in all material respects, the consolidated financial condition and results of operations of Capital Southwest Corporation.

Date: February 2, 2021

By: /s/ Michael S. Sarner
Michael S. Sarner
Chief Financial Officer