CAPITAL SOUTHWEST CORP
Form 497
March 04, 2019
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PROSPECTUS SUPPLEMENT

(to Prospectus dated September 12, 2018)

Up to $50,000,000

Common Stock

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

We have entered into separate equity distribution agreements, each dated March 4, 2019, with Jefferies LLC (Jefferies) and Raymond James & Associates, Inc. (Raymond James), each a Sales Agent and, collectively, the Sales Agents, relating to the sale of shares of common stock offered by this prospectus supplement and the accompanying prospectus. The equity distribution agreements provide that we may offer and sell shares of our common stock having an aggregate offering price of up to $50,000,000 from time to time through the Sales Agents. Sales of our common stock, if any, under this prospectus supplement and the accompanying prospectus may be made in negotiated transactions or by transactions that are deemed to be part of an at the market offering as defined in Rule 415(a)(4) under the Securities Act of 1933, as amended (the Securities Act), including at market prices prevailing at the time of sale, at prices related to prevailing market prices or at negotiated prices. There is no arrangement for funds to be received in any escrow, trust or similar arrangement.

Our common stock is traded on the NASDAQ Global Select Market under the symbol CSWC. On March 1, 2019, the last reported sales price on the NASDAQ Global Select Market for our common stock was $21.51 per share. We are required to determine the net asset value per share of our common stock on a quarterly basis. Our net asset value per share of our common stock as of December 31, 2018 was $18.43. The offering price per share of our common stock in this offering, less the Sales Agents commissions, will not be less than the net asset value per share of our common stock at the time we make this offering.

Under the terms of the equity distribution agreements, the Sales Agents will receive a commission from us equal to 2.0% of the gross sales price of any shares of our common stock sold through the Sales Agents under the equity distribution agreements. See Plan of Distribution beginning on page S-37 of this prospectus supplement for additional information regarding the compensation to be paid to the Sales Agents. The Sales Agents are not required to sell any specific number or dollar amount of common stock, but will use commercially reasonable efforts consistent with their normal sales and trading practices to sell the shares of our common stock offered by this prospectus supplement and the accompanying prospectus. We may also sell shares of our common stock to a Sales Agent, as principal for its own respective account, at a price agreed upon at the time of sale. If we sell shares to a Sales Agent as principal, we will enter into a separate terms agreement with the applicable Sales Agent, setting forth the terms of such transaction, and we will describe the agreement in a separate prospectus supplement.

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

Investing in our common stock involves a high degree of risk, and should be considered highly speculative. See the Risk Factors beginning on page 12 of the accompanying prospectus to read about factors you should consider, including the risk of leverage, before investing in our common stock.

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

Jefferies **Raymond James**

The date of this prospectus supplement is March 4, 2019

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Prospectus Supplement

Prospectus

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ABOUT THIS PROSPECTUS SUPPLEMENT

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

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

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PROSPECTUS SUPPLEMENT SUMMARY

This summary highlights some of the information in this prospectus supplement and the accompanying prospectus. It is not complete and may not contain all of the information that you may want to consider. To understand the terms of the common stock offered hereby, you should read the entire prospectus supplement and the accompanying prospectus carefully, including Risk Factors, Use of Proceeds, Selected Financial Data, Management s Discussion and Analysis of Financial Condition and Results of Operations, and the financial statements contained elsewhere in this prospectus supplement and/or the accompanying prospectus. Together, these documents describe the specific terms of the common stock we are offering. In this prospectus supplement and the accompanying prospectus, unless the context otherwise requires, the Company, Capital Southwest Corporation, we, us and our refer to Capital Southwest Corporation and our subsidiaries. You should also read and review the documents identified in the section titled Available Information in this prospectus supplement.

Organization

Capital Southwest Corporation, which we refer to as CSWC or the Company, is an internally managed closed-end, non-diversified management investment company that specializes in providing customized financing to middle market companies in a broad range of industry segments located primarily in the United States. Our common stock currently trades on The Nasdaq Global Select Market under the ticker symbol CSWC.

CSWC was organized as a Texas corporation on April 19, 1961. Prior to March 30, 1988, CSWC was registered as a closed-end, non-diversified investment company under the Investment Company Act of 1940, as amended, or the 1940 Act. On that date, we elected to be treated as a business development company, or BDC, under the 1940 Act.

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

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

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

The following diagram depicts CSWC s current summary organizational structure:

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

CSWC also has a direct wholly-owned subsidiary that has been elected to be a taxable entity, or the Taxable Subsidiary. The primary purpose of the Taxable Subsidiary is to permit CSWC to hold certain interests in portfolio companies that are organized as limited liability companies (or other forms of pass-through entities) and still allow us to satisfy the RIC tax requirement that at least 90.0% of our gross income for U.S. federal income tax purposes consist of qualifying investment income. The Taxable Subsidiary is taxed at normal corporate tax rates based on its taxable income.

Overview

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

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

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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.

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

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

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

Business Strategies

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

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

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

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

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

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

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

Capital Structures Appropriate for Potential Industry and Business Volatility. Our investment team spends significant time understanding the performance of both the target portfolio company and its specific industry throughout a full economic cycle. The history of each specific industry and target portfolio company will demonstrate a different level of potential volatility in financial performance. We seek to understand this dynamic thoroughly and invest our capital at leverage levels in the capital structure that will remain within enterprise value and in securities that will receive interest payments if such downside volatility were to occur.

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

Risk Factors

Investing in our common stock involves a high degree of risk. You should consider carefully the information found in the section titled Risk Factors beginning on page 12 of the accompanying prospectus, including, but not limited to, the following risks:

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

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

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

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

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

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

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

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

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

In addition to regulatory limitations on our ability to raise capital, our current debt obligations contain various covenants, which, if not complied with, could accelerate our repayment obligations under our senior secured credit facility (as amended, restated, supplemented or otherwise modified from time to time, the Credit Facility) or the Notes due 2022 (the December 2022 Notes), thereby materially and adversely affecting our liquidity, financial condition, results of operations and ability to pay distributions.

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

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

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

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

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

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

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

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

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

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

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

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

- The market price of our common stock may fluctuate significantly.

Investment Criteria

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

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

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

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

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

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

Recent Developments

On February 28, 2019, CSWC s board of directors declared a total dividend of $0.48 per share of common stock for the quarter ending March 31, 2019, comprised of a regular dividend of $0.38 per share and a supplemental dividend of $0.10 per share. The dividend is payable on March 29, 2019 to shareholders of record on March 15, 2019.

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THE OFFERING

Common stock offered by us	Shares of our common stock having an aggregate offering price of up to $50,000,000
Common stock outstanding as of March 1, 2019	17,233,385 shares
Manner of offering	At the market offering that may be made from time to time through Jefferies and Raymond James, using commercially reasonable efforts. See Plan of Distribution on page S-37 of this prospectus supplement.
	On March 4, 2019, we established the at the market program to which this prospectus supplement relates and entered into separate equity distribution agreements with Jefferies and Raymond James.
Use of proceeds	If we sell shares of our common stock with an aggregate offering price of $50,000,000, we anticipate that our net proceeds, after deducting the Sales Agents commissions and estimated offering expenses payable by us, will be approximately $48,450,000 million. We intend to use the net proceeds from this offering to repay outstanding indebtedness under our Credit Facility. Pending such use, we will invest a portion of the net proceeds of this offering in short-term investments, such as cash and cash equivalents. Over time, through re-borrowings under our Credit Facility, we intend to make investments in LMM and UMM portfolio companies in accordance with our investment objective and strategies and for other general corporate purposes, including payment of operating expenses. As of March 1, 2019, we had $122.0 million of indebtedness outstanding under our Credit Facility. Our Credit Facility matures on December 21, 2023, and borrowings under the Credit Facility currently bear interest on a per annum basis equal to LIBOR plus 2.50%. See Use of Proceeds on page S-12 of this prospectus supplement for more information.
NASDAQ Global Select Market symbol of Common Stock	CSWC
Distribution	We currently pay quarterly dividends and may pay supplemental dividends to our stockholders. Our

quarterly dividends, if any, will be determined by our board of directors on a quarterly basis. Our supplemental dividends, if any, will be determined by our board of directors.

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	Our ability to declare dividends depends on our earnings, our overall financial condition (including our liquidity position), maintenance of our RIC tax treatment and such other factors as our board of directors may deem relevant from time to time.
	When we make distributions, we are required to determine the extent to which such distributions are paid out of current or accumulated earnings, recognized capital gains or capital. To the extent there is a return of capital (a distribution of the stockholders invested capital), investors will be required to reduce their basis in our stock for U.S. federal tax purposes. In the future, our distributions may include a return of capital.
Taxation	We have elected to be treated for U.S. federal income tax purposes as a RIC under Subchapter M of the Code. As a RIC, 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 stockholders as dividends. To continue to maintain our RIC tax treatment, we must meet specified source-of-income and asset diversification requirements and distribute annually at least 90% of our ordinary income and realized net short-term capital gains in excess of realized net long-term capital losses, if any.
Risk factors	An investment in our common stock is subject to risks and involves a heightened risk of total loss of investment. In addition, the companies in which we invest are subject to special risks. See Risk Factors beginning on page 12 of the accompanying prospectus, to read about factors you should consider, including the risk of leverage, before investing in our common stock.

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FEES AND EXPENSES

The following table is intended to assist you in understanding the costs and expenses you will bear directly or indirectly. We caution you that some of the percentages indicated in the table below are estimates and may vary. Except where the context suggests otherwise, whenever this prospectus supplement and the accompanying prospectus contains a reference to fees or expenses paid by you, us or CSWC, or that we will pay fees or expenses, you will indirectly bear such fees or expenses as investors in us.

Stockholder Transaction Expenses:	
Sales load (as a percentage of offering price)	2.00%(1)
Offering expenses (as a percentage of offering price)	1.10%(2)
Dividend reinvestment plan expenses	%(3)
Total stockholder transaction expenses (as a percentage of offering price)	3.10%
Annual Expenses (as a percentage of net assets attributable to common stock for the quarter ended December 31, 2018):	
Operating expenses	4.72%(4)
Interest payments on borrowed funds	4.77%(5)
Income tax expense	0.13%(6)
Acquired fund fees and expenses	1.60%(7)
Total annual expenses	11.22%

(1) Represents the Sales Agents commission with respect to the shares of common stock being sold in this offering. There is no guarantee that there will be any sales of our common stock pursuant to this prospectus supplement and the accompanying prospectus.

(2) The offering expenses of this offering are estimated to be approximately $550,000.

(3) The expenses of administering our DRIP are included in operating expenses. The DRIP does not allow shareholders to sell shares through the DRIP. If a shareholder wishes to sell shares they would be required to select a broker of their choice and pay any fees or other costs associated with the sale.

(4) Operating expenses in this table represent the estimated annual operating expenses of CSWC and its consolidated subsidiaries based on annualized operating expenses for the quarter ended December 31, 2018. We do not have an investment adviser and are internally managed by our executive officers under the supervision of our board of directors. As a result, we do not pay investment advisory fees, but instead we pay the operating costs associated with employing investment management professionals including, without limitation, compensation expenses related to salaries, discretionary bonuses and restricted stock grants.

(5) Interest payments on borrowed funds represents our estimated annual interest payments based on actual interest rate terms under our Credit Facility and the 5.95% December 2022 Notes. As of December 31, 2018, we had $122.0 million outstanding under the Credit Facility and approximately $75.0 million in aggregate principal amount of the December 2022 Notes outstanding.

(6) Income tax expense relates to the accrual of (a) deferred and current tax provision (benefit) for U.S. federal income taxes and (b) excise, state and other taxes. Deferred taxes are non-cash in nature and may vary significantly from period to period. We are required to include deferred taxes in calculating our annual expenses even though deferred taxes are not currently payable or receivable. Income tax expense represents the estimated annual income tax expense of CSWC and its consolidated subsidiaries based on annualized income tax expense for the quarter

ended December 31, 2018.

(7) Acquired fund fees and expenses represent the estimated indirect expense incurred due to our investment in the I-45 Senior Loan Fund based upon the actual amount incurred for the fiscal year ended March 31, 2018.

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Example

The following example demonstrates the projected dollar amount of total cumulative expenses that would be incurred over various periods with respect to a hypothetical investment in our common stock. In calculating the following expense amounts, we have assumed we would have no additional leverage and that our annual operating expenses would remain at the levels set forth in the table above.

	1 Year	3 Years	5 Years	10 Years
You would pay the following expenses on a $1,000 investment, assuming a 5.0% annual return	$ 112	$ 316	$ 496	$ 855

The example and the expenses in the table above should not be considered a representation of our future expenses, and actual expenses may be greater or less than those shown. While the example assumes, as required by the SEC, a 5.0% annual return, our performance will vary and may result in a return greater or less than 5.0%. In addition, while the example assumes reinvestment of all dividends at NAV, participants in our DRIP will receive a number of shares of our common stock, determined by dividing the total dollar amount of the dividend payable to a participant by the average purchase price of all shares of common stock purchased by the administrator of the DRIP in the event that shares are purchased in the open market to satisfy the share requirements of the DRIP, which may be at, above or below NAV. See Dividend Reinvestment Plan in the accompanying prospectus for additional information regarding our DRIP.

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

- our future operating results;
- market conditions and our ability to access debt and equity capital and our ability to manage our capital resources effectively;
- the timing of cash flows, if any, from the operations of our portfolio companies;
- our business prospects and the prospects of our prospective portfolio companies;
- the financial condition and ability of our existing and prospective portfolio companies to achieve their objectives;
- the adequacy of our cash resources and working capital;
- our ability to recover unrealized losses;
- our expected financings and investments;
- our contractual arrangements and other relationships with third parties;
- the impact of fluctuations in interest rates on our business;

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

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

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

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

the return or impact of current and future investments;

our transition to a debt focused investment strategy;

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

our regulatory structure and tax treatment;

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

the timing, form and amount of any dividend distributions.

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USE OF PROCEEDS

Sales of our common stock, if any, under this prospectus supplement and the accompanying prospectus may be made in negotiated transactions or transactions that are deemed to be part of an at the market offering as defined in Rule 415 under the Securities Act, including sales made directly on the NASDAQ Global Select Market or sales made to or through a market maker other than on an exchange, at market prices prevailing at the time of sale, at prices related to prevailing market prices or at other negotiated prices. There is no guarantee that there will be any sales of our common stock pursuant to this prospectus supplement and the accompanying prospectus. Actual sales, if any, of our common stock under this prospectus supplement and the accompanying prospectus may be less than as set forth in this paragraph depending on, among other things, the market price of our common stock at the time of any such sale. As a result, the actual net proceeds we receive may be more or less than the amount of net proceeds estimated in this prospectus supplement. Assuming the sale of all $50.0 million of common stock offered under this prospectus supplement and the accompanying prospectus, we anticipate that the net proceeds of this offering will be approximately $48.5 million after deducting the sales commission payable to the Sales Agents and our estimated offering expenses.

We intend to use the net proceeds from this offering to repay outstanding indebtedness under our Credit Facility. Pending such use, we will invest a portion of the net proceeds of this offering in short-term investments, such as cash and cash equivalents. Over time, through re-borrowings under our Credit Facility, we intend to make investments in LMM and UMM portfolio companies in accordance with our investment objective and strategies and for other general corporate purposes, including payment of operating expenses. We intend to seek to invest the net proceeds received in this offering as promptly as practicable after receipt thereof consistent with our investment objective. We anticipate that substantially all of the net proceeds from any offering of our securities will be used as described above within three to six months, depending on market conditions. As of March 1, 2019, we had $122.0 million of indebtedness outstanding under our Credit Facility. Our Credit Facility matures on December 21, 2023, and borrowings under the Credit Facility currently bear interest on a per annum basis equal to LIBOR plus 2.50%.

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PRICE RANGE OF COMMON STOCK AND DISTRIBUTIONS

Market Information

Our common stock is traded on the Nasdaq Global Select Market under the symbol CSWC.

The following table set forth, for each fiscal quarter within the two most recent fiscal years and each full fiscal quarter since the beginning of the current fiscal year, the range of high and low selling prices of our common stock as reported on Nasdaq Global Select Market, as applicable, and the sales price as a percentage of the NAV per share of our common stock.

		Price Range		Premium (Discount) of High Sales Price to NAV(2)	Premium (Discount) of Low Sales Price to NAV(2)
	NAV(1)	High	Low		
Year ending March 31, 2019					
Fourth Quarter (through March 1, 2019)	*	$ 22.60	$ 19.06	*	*
Third Quarter	$ 18.43	24.18	17.22	31.20%	(6.57)%
Second Quarter	18.84	19.80	18.00	5.10	(4.46)
First Quarter	18.87	19.38	16.53	2.70	(12.40)
Year ending March 31, 2018					
Fourth Quarter	$ 19.08	$ 18.00	$ 14.85	(5.66)%	(22.17)%
Third Quarter	18.44	17.76	16.15	(3.69)	(12.42)
Second Quarter	18.26	17.50	16.00	(4.16)	(12.38)
First Quarter	17.96	17.34	15.20	(3.45)	(15.37)
Year ended March 31, 2017					
Fourth Quarter	$ 17.80	$ 16.91	$ 15.04	(5.00)%	(15.51)%
Third Quarter	17.88	16.86	13.81	(5.70)	(22.76)
Second Quarter	17.74	15.05	13.75	(15.16)	(22.49)
First Quarter	17.39	14.37	13.49	(17.37)	(22.43)

(1) NAV per share, is determined as of the last day in the relevant quarter and therefore may not reflect the NAV per share on the date of the high and low sales prices. The NAVs shown are based on outstanding shares at the end of each period.
(2) Calculated as the respective high or low share price divided by NAV and subtracting 1.
* NAV has not yet been determined.

On March 1, 2019, we had 421 stockholders of record. On March 1, 2019, the last sale price of our common stock on Nasdaq was $21.51 per share.

Shares of BDCs may trade at a market price that is less than the value of the net assets attributable to those shares. The possibility that our shares of common stock will trade at a discount from NAV per share or at premiums that are unsustainable over the long term are separate and distinct from the risk that our NAV per share will decrease. It is not possible to predict whether our common stock will trade at, above, or below NAV per share. As we continue to make investments and grow our balance sheet through the use of leverage, we believe we will achieve a market dividend yield which should allow us to trade at or above NAV.

DISTRIBUTIONS

We intend to make distributions on a quarterly basis to our shareholders of substantially all of our taxable income. In lieu of cash, we may make deemed distributions of certain net capital gains to our shareholders.

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The payment dates and amounts of cash dividends per share on a post-split basis for the past five years are as follows:

Payment Date	Cash Dividend
March 28, 2013	$ 0.69
May 31, 2013	0.10
November 29, 2013	0.10
May 30, 2014	0.10
November 28, 2014	0.10
June 10, 2015	0.10
April 1, 2016	0.04
July 1, 2016	0.06
October 1, 2016	0.11
January 3, 2017	0.17
April 3, 2017(1)	0.45
July 3, 2017	0.21
October 2, 2017	0.24
January 2, 2018	0.26
April 2, 2018	0.28
July 2, 2018(2)	0.89
September 28, 2018(3)	0.44
December 31, 2018(4)	0.46
March 29, 2019(5)	0.48

(1) On April 3, 2017, CSWC paid a quarterly dividend of $0.19 per share and a supplemental dividend of $0.26 per share.
(2) On July 2, 2018, CSWC paid a quarterly dividend of $0.29 per share and a supplemental dividend of $0.60 per share.
(3) On September 28, 2018, CSWC paid a quarterly dividend of $0.34 per share and a supplemental dividend of $0.10 per share.
(4) On December 31, 2018, CSWC paid a quarterly dividend of $0.36 per share and a supplemental dividend of $0.10 per share.
(5) On March 29, 2019, CSWC will pay a quarterly dividend of $0.38 per share and a supplemental dividend of $0.10 per share.

The amounts and timing of cash dividend payments have generally been dictated by requirements of the Code regarding the distribution of taxable net investment income (ordinary income) of regulated investment companies.

On March 1, 2016, we established a share repurchase plan (the Share Repurchase Plan) in compliance with the requirements of Rules 10b5-1(c)(1)(i)(B) and 10b-18 under the Securities Exchange Act of 1934, as amended (the Exchange Act). The Share Repurchase Plan was established pursuant to a $10 million share repurchase program that the board approved on January 20, 2016. The Share Repurchase Plan became effective immediately and shall terminate on the earliest of: (1) the date on which a total of $10 million worth of common shares have been purchased under the plan; (2) the date on which the terms set forth in the purchase instructions have been met; or (3) the date that is one trading day after the date on which insider notifies broker in writing that this agreement shall terminate. During the nine months ended December 31, 2018, the Company repurchased 10,452 shares at an average price of $17.72, including commissions paid, under the Share Repurchase Plan. During the nine months ended December 31, 2017, the

Company did not repurchase any shares of the Company s common stock under the Share Repurchase Plan. As of December 31, 2018, the Company has approximately $9.2 million available for additional repurchases under the Share Repurchase Plan.

Distribution Policy

We generally intend to make distributions on a quarterly basis to our shareholders of substantially all of our taxable income. In order to avoid certain excise taxes imposed on RICs, we must distribute during each calendar year an amount at least equal to the sum of (1) 98.0% of our ordinary income for the calendar year, (2) 98.2% of our capital gains in excess of capital losses for the one year period ended each October 31, and (3) any ordinary income

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and net capital gains for the preceding year that were not distributed during that year. We will not be subject to excise taxes on amounts on which we are required to pay corporate income tax (such as retained net capital gains). In order to obtain the tax benefits applicable to RICs, we will be required to distribute to our shareholders with respect to each taxable year at least 90.0% of our ordinary income and realized net short-term capital gains in excess of realized net long-term capital losses. We may retain for investment realized net long-term capital gains in excess of realized net short-term capital losses. We may make deemed distributions to our shareholders of any retained net capital gains. If this happens, our shareholders will be treated as if they received an actual distribution of the capital gains we retain and then reinvested the net after-tax proceeds in our common stock. Our shareholders also may be eligible to claim a tax credit (or, in certain circumstances, a tax refund) equal to their allocable share of the tax we paid on the capital gains deemed distributed to them. We may, in the future, make actual distributions to our shareholders of some or all realized net long-term capital gains in excess of realized net short-term capital losses. We can offer no assurance that we will achieve results that will permit the payment of any cash distributions and, if we issue senior securities, we will be prohibited from making distributions if doing so causes us to fail to maintain the asset coverage ratios stipulated by the 1940 Act or if distributions are limited by the terms of any of our borrowings.

We have adopted a DRIP which provides for reinvestment of our distributions on behalf of our common shareholders if opted into by a common shareholder.

Shareholders who receive dividends in the form of stock generally are subject to the same U.S. federal, state and local tax consequences as are shareholders who elect to receive their dividends in cash. A shareholder s basis for determining gain or loss upon the sale of stock received in a dividend from us will be equal to the total dollar amount of the dividend payable to the shareholder. Any stock received in a dividend will have a holding period for tax purposes commencing on the day following the day on which the shares are credited to the U.S. shareholder s account.

Our ability to make distributions will be limited by the asset coverage requirements under the 1940 Act.

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CAPITALIZATION

The equity distribution agreements provide that we may offer and sell shares of our common stock having an aggregate offering price of up to $50,000,000 from time to time through the Sales Agents. The table below assumes that we will sell all of the $50,000,000 of our common stock at a price of $18.43 per share (the net asset value of our common stock at December 31, 2018) but there is no guarantee that there will be any sales of our common stock pursuant to this prospectus supplement and the accompanying prospectus. Actual sales, if any, of our common stock under this prospectus supplement and the accompanying prospectus may be less than as set forth in the table below. In addition, the price per share of any such sale may be greater or less than $18.43, depending on the net asset value and market price of our common stock at the time of any such sale. The following table sets forth our capitalization as of December 31, 2018:

on an actual basis; and

on an as adjusted basis giving effect to the transactions noted above and the assumed sale of an aggregate amount of $50,000,000 of our common stock at a price of $18.43 per share (the net asset value of our common stock at December 31, 2018) less commissions and expenses.

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

	As of December 31, 2018	
	Actual	As Adjusted for this Offering
	(in thousands, except share and per share numbers)	
Cash and cash equivalents	$ 10,774	$ 10,774
Borrowings:		
Credit Facility[(1)]	122,000	73,550
Notes (net of deferred issuance costs)	74,960	74,960
Total borrowings	$ 196,996	$ 148,510
Net Assets:		
Common stock, par value $0.25 per share, 25,000,000 common shares authorized, and 19,572,934 and 22,285,902 (as adjusted) shares issued and outstanding, respectively	$ 4,893	$ 5,571
Additional paid-in capital	276,899	324,671
Total distributable earnings	59,821	59,821
Treasury stock at cost, 2,339,512 shares	(23,937)	(23,937)
Total net assets	$ 317,676	$ 366,126

Total liabilities and net assets	$ 523,781	$ 523,781

(1) The above table reflects the carrying value of indebtedness outstanding as of December 31, 2018. As of March 1, 2019, outstanding indebtedness under our Credit Facility was $122,000,000. The net proceeds from the sale of the common stock in this offering are expected to be used to pay down outstanding indebtedness under our Credit Facility. On an as adjusted for this offering basis and reflecting the use of proceeds from this offering, the line item Credit Facility would be $73,550,000 as of March 1, 2019. See Use of Proceeds in this prospectus supplement for more information.

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SELECTED FINANCIAL DATA

The selected financial and other data below reflects the historical financial condition and the results of operations of Capital Southwest Corporation as of and for the nine months ended December 31, 2018 and each of the years ended March 31, 2018, 2017, 2016, 2015 and 2014. The selected financial data as of and for the year ended March 31, 2018 has been derived from consolidated financial statements that have been audited by RSM US LLP, an independent registered public accounting firm. The selected financial data as of and for the years ended March 31, 2017, 2016, 2015, and 2014 has been derived from consolidated financial statements that have been audited by Grant Thornton LLP, an independent registered public accounting firm. The selected financial data for the nine months ended December 31, 2018 is derived from the unaudited consolidated financial statements. In the opinion of management, the selected financial data for the nine months ended December 31, 2018 reflects all adjustments (consisting only of normal recurring adjustments) that are necessary to present fairly the results for such interim period. The selected financial data for the nine months ended December 31, 2018 may not be indicative of the results that may be expected for the year ending March 31, 2019 or for any other period. You should read this selected financial data in conjunction with our Management s Discussion and Analysis of Financial Condition and Results of Operations, Senior Securities and the financial statements and related notes in this prospectus supplement and the accompanying prospectus.

Selected Consolidated Financial Data

(In thousands except per share data)

	Nine Months Ended December 31, 2018 (Unaudited)	Year ended March 31, 2018	2017	2016	2015	2014
Income statement data:						
Investment income:						
Interest and dividends:	$ 36,529	$ 34,233	$ 22,324	$ 8,033	$ 9,231	$ 11,915
Interest income from cash and cash equivalents	21	21	166	386	122	67
Fees and other income	1,022	872	984	741	595	625
Total investment income	37,572	35,126	23,474	9,160	9,948	12,607
Operating expenses:						
Compensation-related expenses	7,444	9,238	8,217	9,515	6,440	5,489
Interest expense	8,829	4,875	989			
General, administrative and other	3,726	4,585	4,601	11,610	5,683	2,963
Total operating expenses	19,999	18,698	13,807	21,125	12,123	8,452
Income (loss) before income taxes	17,573	16,428	9,667	(11,965)	(2,175)	4,155
Income tax expense (benefit)	736	195	1,779	(1,278)	270	(739)
Net investment income (loss)	16,837	16,233	7,888	(10,687)	(2,445)	4,894

Net realized gains (losses):						
Non-control/Non-affiliate investments	2,066	1,492	3,992	(9,575)	8,226	14,084
Affiliate investments	77	90	3,876	(1,458)	157,213	
Control investments	18,653		28	231	(1,175)	
Net realized gains (losses) on investments before tax	20,796	1,582	7,896	(10,802)	164,264	14,084
Net unrealized appreciation (depreciation) on investments, net of tax	(15,073)	21,492	7,690	16,089	(108,377)	93,032
Net realized and unrealized gains (losses) on investments	5,723	23,074	15,586	5,287	55,887	107,116
Net increase (decrease) in net assets resulting from operations	$ 22,560	$ 39,307	$ 23,474	$ (5,400)	$ 53,442	$ 112,010

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	Nine Months Ended December 31, 2018 (Unaudited)	Year ended March 31, 2018	2017	2016	2015	2014
Net investment income (loss) per share basic and diluted	$ 1.02	$ 1.01	$ 0.50	$ (0.68)	$ (0.16)	$ 0.32
Net realized earnings per share basic and diluted(1)	$ 2.27	$ 1.11	$ 1.00	$ (1.37)	$ 10.45	$ 1.24
Net increase (decrease) in net assets from operations basic and diluted	$ 1.36	$ 2.45	$ 1.48	$ (0.35)	$ 3.44	$ 7.32
Net asset value per common share	$ 18.43	$ 19.08	$ 17.80	$ 17.34	$ 49.30	$ 49.98
Total dividends/distributions declared per common share	$ 1.79	$ 0.99	$ 0.79	$ 0.14	$ 0.20	$ 0.20
Weighted average number of shares outstanding basic	16,541	16,074	15,825	15,636	15,492	15,278
Weighted average number of shares outstanding diluted	16,544	16,139	15,877	15,724	15,531	15,298

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

	Nine Months Ended December 31, 2018 (Unaudited)	Year ended March 31, 2018	2017	2016	2015	2014
Balance sheet data:						
Assets:						
Investments at fair value	$ 496,740	$393,095	$ 286,880	$ 178,436	$ 535,536	$ 677,920
Cash and cash equivalents	10,774	7,907	22,386	95,969	225,797	88,163
Interest, escrow and other receivables	8,991	5,894	4,308	6,405	4,418	1,371
Net pension assets					10,294	10,962
Deferred tax asset	2,294	2,050	2,017	2,342		
Debt issuance costs	3,533	2,575				
Other assets	1,449	5,969	10,161	1,341	827	278
Total assets	$ 523,781	$ 417,490	$ 325,752	$ 284,493	$ 776,872	$ 778,694
Liabilities:						
Notes	$ 74,960	$ 55,305	$	$	$	$
Credit facility	122,000	40,000	25,000			
Other liabilities	6,280	6,245	5,996	9,028	4,923	3,263
Dividends payable		4,525	7,191	625		
Accrued restoration plan liability	2,865	2,937	2,170	2,205	3,119	3,103

Deferred income taxes		190	323		1,412	1,940
Total liabilities	206,105	109,202	40,680	11,858	9,454	8,306
Net assets	317,676	308,288	285,072	272,635	767,418	770,388
Total liabilities and net assets	$ 523,781	$ 417,490	$ 325,752	$ 284,493	$ 776,872	$ 778,694
Other data:						
Number of portfolio companies	36	30	28	23	22	27
Weighted average yield on debt investments at end of period	11.56%	11.46%	10.28%	10.67%	3.14%	NM
Weighted average yield on total investments at end of period	11.08%	10.48%	10.49%	9.46%	0.46%	NM
Expense ratios (as percentage of average net assets):						
Total expenses, excluding interest expense	3.60%	4.70%	4.59%	4.48%	1.59%	1.18%

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Selected Quarterly Financial Data (Unaudited)

(in thousands, except per share data)

The following tables set forth certain quarterly financial information for the quarters ended June 30, 2018, September 30, 2018 and December 31, 2018 and each of the quarters for the fiscal years ended March 31, 2018 and 2017. Results for any quarter are not necessarily indicative of results for the past fiscal year or for any future quarter.

2019	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total
Net investment income	$ 4,617	$ 5,546	$ 6,675	$	$ 16,838
Net realized gain on investments	18,819	94	1,883		20,796
Net change in unrealized (depreciation) appreciation on investments, net of tax	(11,783)	948	(4,238)		(15,073)
Net increase in net assets from operations	11,653	6,588	4,320		22,561
Net investment income per share	0.29	0.34	0.39		1.02
Net increase in net assets from operations per share	0.72	0.40	0.25		1.37

2018	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total
Net investment income	$ 3,436	$ 3,937	$ 4,663	$ 4,197	$ 16,233
Net realized gain on investments	624	210	617	131	1,582
Net change in unrealized appreciation on investments, net of tax	1,384	4,496	4,963	10,649	21,492
Net increase in net assets from operations	5,444	8,643	10,243	14,977	39,307
Net investment income per share	0.21	0.25	0.29	0.26	1.01
Net increase in net assets from operations per share	0.34	0.54	0.64	0.93	2.45

2017	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total
Net investment income	$ 371	$ 1,365	$ 2,873	$ 3,279	$ 7,888
Net realized gain on investments	199	3,527	72	4,098	7,896
Net change in unrealized appreciation on investments, net of tax	2,127	2,026	4,940	(1,403)	7,690
Net increase in net assets from operations	2,697	6,918	7,885	5,974	23,474
Net investment income per share	0.02	0.09	0.18	0.21	0.50
Net increase in net assets from operations per share	0.17	0.44	0.50	0.37	1.48

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

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 which are externally managed, and our internally managed structure allows us the opportunity to leverage our non-interest operating expenses as we grow our investment portfolio. For the nine months ended December 31, 2018 and 2017, the ratio of our annualized third quarter operating expenses, excluding interest expense, as a percentage of our quarterly average total assets was 2.88% and 3.57%, respectively.

CRITICAL ACCOUNTING POLICIES AND USE OF ESTIMATES

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

Valuation of Investments

The most significant determination inherent in the preparation of our consolidated financial statements is the valuation of our investment portfolio and the related amounts of unrealized appreciation and depreciation. As of December 31, 2018 and March 31, 2018, our investment portfolio at fair value represented approximately 94.8% and 94.2%, respectively, of our total assets. We are required to report our investments at fair value. We follow the provisions of Accounting Standards Codification, or ASC 820, *Fair Value Measurements and Disclosures* (ASC 820). ASC 820 defines fair value, establishes a framework for measuring fair value, establishes a fair value hierarchy based on the quality of inputs used to measure fair value, and enhances disclosure requirements for fair value measurements. ASC 820 requires us to assume that the portfolio investment is to be sold in the principal market to independent market participants, which may be a hypothetical market. See Note 4 Fair Value Measurements in the notes to consolidated financial statements for a detailed discussion of our investment portfolio valuation process and procedures.

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

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

Revenue Recognition

Interest and Dividend Income

Interest and dividend income is recorded on an accrual basis to the extent amounts are expected to be collected. Dividend income is recognized on the date dividends are declared by the portfolio company or at the point an obligation exists for the portfolio company to make a distribution. Discounts/premiums received to par on loans purchased are capitalized and accreted or amortized into income over the life of the loan using the effective interest method. In accordance 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, 2018, we had one investment on non-accrual status and past due on its contractual payment obligation.

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Recently Issued Accounting Standards

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

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

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

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

In August 2018, the SEC issued the Final Rule Release No. 33-10532, *Disclosure Update and Simplification*, amending certain disclosure requirements that were redundant, duplicative, overlapping, outdated

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or superseded. The amendments are intended to facilitate the disclosure of information to investors and simplify compliance. The final rule was effective on November 5, 2018. The Company adopted these disclosure updates in the quarter ended December 31, 2018. The disclosure updates impacted the presentation of the consolidated financial statements by requiring the presentation of the total, rather than the components of the distributable earnings on the Consolidated Balance Sheet. Additionally, the Company updated the Consolidated Statement of Changes in Net Assets for the new interim reporting requirement to disclose the current and comparative year-to-date periods, including subtotals for each interim periods. Management does not consider the impact of these disclosure updates to be material to the 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 $496.7 million as of December 31, 2018, as compared to $393.1 million as of March 31, 2018. As of December 31, 2018, we had investments in 36 portfolio companies with an aggregate cost of $454.6 million. As of March 31, 2018, we had investments in 30 portfolio companies with an aggregate cost of $335.4 million.

As of December 31, 2018 and March 31, 2018, approximately $333.4 million, or 95.1%, and $220.3 million, or 92.1%, respectively, of our debt investment portfolio (at fair value) bore interest at floating rates, of which 87.7% and 94.2%, respectively, were subject to contractual minimum interest rates. As of December 31, 2018 and March 31, 2018, approximately $17.3 million, or 4.9%, and $18.8 million, or 7.9%, respectively, of our debt investment portfolio (at fair value) bore interest at fixed rates.

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

	As of December 31, 2018	
	LMM[(a)]	UMM
	(dollars in thousands)	
Number of portfolio companies	25	10
Fair value	$ 352,198	$ 81,425
Cost	$ 306,920	$ 82,929
% of portfolio at cost - debt	87.4%	100.0%

% of portfolio at cost - equity	12.6%	0.0%
% of debt investments at cost secured by first lien	75.8%	82.2%
Weighted average annual effective yield(b)(c)	11.9%	10.4%
Weighted average EBITDA(c)	$ 9,283	$ 71,064
Weighted average leverage through CSWC security(c)(d)	3.2x	3.8x

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(a) At December 31, 2018, we had equity ownership in approximately 72.0% 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, 2018, including accretion of original issue discount but excluding fees payable upon repayment of the debt instruments. As of December 31, 2018, 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 metrics are calculated using investment cost basis weighting.
(d) Includes CSWC debt investments only. Calculated as the amount of each portfolio company s debt (including CSWC s position and debt senior or pari passu to CSWC s position, but excluding debt subordinated to CSWC s position) in the capital structure divided by each portfolio company s adjusted EBITDA. Management uses this metric as a guide to evaluate relative risk of its position in each portfolio debt investment.

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

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

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

	Fair Value	Cost

		Percentage of Total Portfolio		Percentage of Total Portfolio
December 31, 2018:				
First lien loans[1]	$ 300,305	60.5%	$ 300,797	66.2%
Second lien loans[2]	36,120	7.3	35,953	7.9
Subordinated debt	14,260	2.9	14,435	3.2
Preferred equity	16,585	3.3	7,834	1.7
Common equity & warrants	66,353	13.3	30,830	6.8
I-45 SLF LLC[2]	63,117	12.7	64,800	14.2
	$ 496,740	100.0%	$ 454,649	100.0%

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	Fair Value	Percentage of Total Portfolio	Cost	Percentage of Total Portfolio
March 31, 2018:				
First lien loans	$ 197,110	50.1%	$ 194,820	58.1%
Second lien loans	23,229	5.9	23,092	6.9
Subordinated debt	18,783	4.8	18,885	5.6
Preferred equity	36,545	9.3	16,666	5.0
Common equity & warrants	50,315	12.8	17,134	5.1
I-45 SLF LLC[3]	67,113	17.1	64,800	19.3
	$ 393,095	100.0%	$ 335,397	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, 2018 and March 31, 2018, the fair value of the first lien last out loans are $22.7 million and $26.9 million, respectively.

2 Included in 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, 2018 and March 31, 2018, the fair value of the split lien term loans are $18.3 million and $0, respectively.

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

Portfolio Asset Quality

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

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

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

Investment Rating 3 involves an investment performing below underwriting expectations and the trends and risk factors are generally neutral to negative. The portfolio company or investment may be out of compliance with 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.

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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, 2018 and March 31, 2018:

	As of December 31, 2018	
Investment Rating	**Debt Investments at Fair Value**	**Percentage of Debt Portfolio**
	(dollars in thousands)	
1	$ 39,307	11.2%
2	296,006	84.4
3	15,372	4.4
4		
Total	$ 350,685	100.0%

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

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

As of December 31, 2018, we had one debt investment on non-accrual status, which comprised of approximately 1.7% of our total investment portfolio s fair value and approximately 2.0% of its cost. As of March 31, 2018, we did not have any investments on non-accrual status.

Investment Activity

During the nine months ended December 31, 2018, we made new debt investments in 11 portfolio companies totaling $148.4 million, follow-on debt investments in seven portfolio companies totaling $29.8 million, and equity investments in three existing and six new portfolio company totaling $18.9 million. We received contractual principal repayments totaling approximately $7.5 million and full prepayments of approximately $29.1 million from seven portfolio companies. In addition, we received proceeds from sales of investments totaling $63.3 million and recognized realized gains on those sales totaling $20.4 million.

During the nine months ended December 31, 2017, we made new debt investments in 12 portfolio companies totaling $127.4 million, follow-on debt investments in two portfolio company totaling $6.2 million, and equity investments in one existing and five new portfolio companies totaling $6.6 million. We also funded $4.0 million on our existing equity commitment to I-45 SLF LLC. We received contractual principal repayments totaling approximately $9.3 million and full prepayments of approximately $67.6 million from 12 portfolio companies.

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Total portfolio investment activity for the nine months ended December 31, 2018 and 2017 was as follows (dollars in thousands):

Nine months ended December 31, 2018	First Lien Loans	Second Lien Loans	Subordinated Debt	Preferred & Common Equity	I-45 SLF, LLC	Total
Fair value, beginning of period	$ 197,110	$ 23,229	$ 18,783	$ 86,860	$ 67,113	$ 393,095
New investments	157,076	21,159		18,853		197,088
Proceeds from sales of investments	(28,805)			(34,490)		(63,295)
Principal repayments received	(23,545)	(8,500)	(4,600)			(36,645)
PIK interest earned		50	35	170		255
Accretion of loan discounts	929	79	46			1,054
Realized gain	323	73	69	20,331		20,796
Unrealized gain (loss)	(2,783)	30	(73)	(8,786)	(3,996)	(15,608)
Fair value, end of period	$ 300,305	$ 36,120	$ 14,260	$ 82,938	$ 63,117	$ 496,740
Weighted average yield on debt investments at end of period						11.56%
Weighted average yield on total investments at end of period						11.08%

Nine months ended December 31, 2017	First Lien Loans	Second Lien Loans	Subordinated Debt	Preferred & Common Equity	I-45 SLF, LLC	Total
Fair value, beginning of period	$ 107,817	$ 47,176	$ 12,453	$ 56,039	$ 63,395	$ 286,880
New investments	109,442	9,765	14,405	6,630	4,000	144,242
Proceeds from sales of investments				(104)		(104)
Principal repayments received	(39,587)	(29,179)	(8,100)			(76,866)
PIK interest earned				215		215
Accretion of loan discounts	478	75	39			592
Realized gain	796	437	114	104		1,451
Unrealized gain (loss)	269	87	(46)	10,638	(238)	10,710
Fair value, end of period	$ 179,215	$ 28,361	$ 18,865	$ 73,522	$ 67,157	$ 367,120
Weighted average yield on debt investments at end of period						10.95%
Weighted average yield on total investments at end of period						10.55%

RESULTS OF OPERATIONS

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

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Comparison of three months ended December 31, 2018 and December 31, 2017

	Three Months Ended December 31, 2018	Three Months Ended December 31, 2017	Net Change Amount	Net Change %
	(in thousands)			
Total investment income	$ 13,871	$ 9,019	$ 4,852	53.8%
Interest expense	(3,347)	(1,275)	(2,072)	162.5%
Other operating expenses	(3,748)	(3,443)	(305)	8.9%
Income before taxes	6,776	4,301	2,475	57.5%
Income tax expense	101	(362)	463	(127.9)%
Net investment income	6,675	4,663	2,012	43.1%
Net realized gain on investments before income tax	1,883	617	1,266	205.2%
Net unrealized (depreciation) appreciation on investments, net of tax	(4,238)	4,963	(9,201)	(185.4)%
Net increase in net assets from operations	$ 4,320	$ 10,243	$ (5,923)	(57.8)%

Investment Income

Total investment income consisted of interest income, management fees, dividend income and other income for each applicable period. For the three months ended December 31, 2018, Capital Southwest reported investment income of $13.9 million, a $4.9 million, or 53.8%, increase as compared to the three months ended December 31, 2017. The increase was primarily due to a $4.5 million, or 81.1%, increase in interest income from our debt investments due to a 56.3% increase in the cost basis of our debt investments from $224.8 million to $351.2 million year over year in addition to an increase in the weighted average yield on debt investments from 10.95% to 11.56% 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, 2018, our total interest expense was $3.3 million, an increase of $2.1 million as compared to the total interest expense of $1.3 million for the three months ended December 31, 2017. The increase was primarily attributable to an increase of $55.4 million in average borrowings on our Credit Facility during the three months ended December 31, 2018 as compared to the three months ended December 31, 2017, as well as an increase of $19.6 million in December 2022 Notes outstanding.

Salaries, General and Administrative Expenses

For the three months ended December 31, 2018, our total employee compensation expense (including both cash and share-based compensation) was $2.6 million, an increase of $0.1 million, or 3.1%, as compared to the total employee compensation expense of $2.5 million for the three months ended December 31, 2017. The increase was primarily due to an increase in headcount, offset by a decrease due to the vesting of the Spin-Off Compensation Plan. For the three months ended December 31, 2018, our total general and administrative expense was $1.1 million, an increase of $0.2 million, or 25.0%, as compared to the total general and administrative expense of $0.9 million for the three months ended December 31, 2017. The increase was primarily due to an increase in board-related expenses due to the addition of a new board member.

Net Investment Income

For the three months ended December 31, 2018, income before taxes increased by $2.5 million, or 57.5%. Net investment income increased from the prior year period by $2.0 million, or 43.1%, to $6.7 million as a result of a $4.9 million increase in total investment income, offset by a $0.5 million increase in income tax expense and a $2.1 million increase in interest expense.

Increase in Net Assets from Operations

During the three months ended December 31, 2018, we recognized realized gains totaling $1.9 million, which consisted of gains on the full repayments of one control and two non-control/non-affiliate investments and the sale of one non-control/non-affiliate equity investment.

In addition, during the three months ended December 31, 2018, we recorded net unrealized depreciation on investments totaling $4.2 million, consisting primarily of net unrealized depreciation on our current portfolio of $2.4 million, the reversal of $2.0 million of net unrealized appreciation recognized in prior periods due to realized gains noted above, and net unrealized appreciation related to deferred tax associated with the Taxable Subsidiary of $0.2 million. Net unrealized depreciation on our current portfolio included unrealized losses on I-45 SLF LLC of $3.2 million, American Nuts Operations LLC of $1.3 million and Zenfolio Inc. of $1.2 million, offset by unrealized gains on Media Recovery, Inc. of $4.3 million and Dynamic Communities, LLC of $0.9 million. These unrealized gains and losses were due to changes in fair value based on the overall EBITDA performance and cash flows of each investment.

During the three months ended December 31, 2017, we recognized realized gains totaling $0.6 million, which consisted of gains on the partial repayments of three non-control/non-affiliate investments and full repayments of four non-control/non-affiliate investments.

In addition, during the three months ended December 31, 2017, we recorded net unrealized appreciation on investments totaling $5.0 million, consisting of net unrealized appreciation on our current portfolio of $5.4 million, the reversal of $0.3 million of net unrealized appreciation recognized in prior periods due to realized gains noted above, and net unrealized depreciation related to deferred tax associated with the Taxable Subsidiary of $0.1 million. Net unrealized appreciation on our current portfolio included unrealized gains on TitanLiner, Inc. of $4.5 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.

Comparison of nine months ended December 31, 2018 and December 31, 2017

	Nine Months Ended December 31,		Net Change	
	2018	2017	Amount	%
	(in thousands)			
Total investment income	$ 37,572	$ 25,252	$ 12,320	48.8%
Interest expense	(8,829)	(2,924)	(5,905)	201.9%
Other operating expenses	(11,170)	(10,376)	(794)	7.7%
Income before taxes	17,573	11,952	5,621	47.0%

Income tax (benefit) expense	736	(84)	820	(976.2)%
Net investment income	16,837	12,036	4,801	39.9%
Net realized gain on investments before income tax	20,796	1,451	19,345	1,333.2%
Net unrealized (depreciation) appreciation on investments, net of tax	(15,073)	10,843	(25,916)	(239.0)%
Net increase in net assets from operations	$ 22,560	$ 24,330	$ (1,770)	(7.3)%

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, 2018, Capital Southwest reported investment income of $37.6 million, a $12.3 million, or 48.8%, increase as compared to the nine months ended December 31, 2017. The increase was primarily due to an $11.7 million, or 76.3%, increase in interest income from our debt investments due to a 56.3% increase in the cost basis of our debt investments from $224.8 million to $351.2 million year over year in addition to an increase in the weighted average yield on debt investments from 10.95% to 11.56% 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 nine months ended December 31, 2018, our total interest expense was $8.8 million, an increase of $5.9 million as compared to the total interest expense of $2.9 million for the nine months ended December 31, 2017. The increase was primarily attributable to an increase of $47.4 million in average borrowings on our Credit Facility during the nine months ended December 31, 2018 as compared to the nine months ended December 31, 2017, as well as an increase of $19.6 million in December 2022 Notes outstanding.

Salaries, General and Administrative Expenses

For the nine months ended December 31, 2018, our total employee compensation expense (including both cash and share-based compensation) was $7.4 million, an increase of $0.5 million, or 8.2%, as compared to the total employee compensation expense of $6.9 million for the nine months ended December 31, 2017. The increase was primarily due to an increase in headcount. For the nine months ended December 31, 2018, our total general and administrative expense was $3.7 million, an increase of $0.2 million as compared to the total general and administrative expense of $3.5 million for the nine months ended December 31, 2017. The increase was primarily due to an increase in board-related expenses due to the addition of a new board member and an increase in insurance costs. These increases were offset by a decrease in employee recruitment expenses.

Net Investment Income

For the nine months ended December 31, 2018, income before taxes increased by $5.6 million, or 47.0%. Net investment income increased from the prior year period by $4.8 million, or 39.9%, to $16.8 million as a result of a $12.3 million increase in total investment income, offset by a $0.8 million increase in income tax expense and a $5.9 million increase in interest expense.

Increase in Net Assets from Operations

During the nine months ended December 31, 2018, we recognized realized gains totaling $20.8 million, which consisted of gains on the partial repayments of four non-control/non-affiliate investments, full repayments of six non-control/non-affiliate investments and the sale of one control, one affiliate and one non-control/non-affiliate investment.

In addition, during the nine months ended December 31, 2018, we recorded net unrealized depreciation on investments totaling $15.1 million, consisting of net unrealized depreciation on our current portfolio of $1.4 million, the reversal of $14.2 million of net unrealized appreciation recognized in prior periods due to

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realized gains noted above, and net unrealized appreciation related to deferred tax associated with the Taxable Subsidiary of $0.5 million. Net unrealized depreciation on our current portfolio included unrealized losses on I-45 SLF LLC of $4.0 million, American Nuts Operations LLC of $1.6 million and Zenfolio Inc. of $1.6 million, offset by unrealized gains on Media Recovery, Inc. of $6.0 million and Dynamic Communities, LLC of $0.9 million. These unrealized gains and losses were due to changes in fair value based on the overall EBITDA performance and cash flows of each investment.

During the nine months ended December 31, 2017, we recognized realized gains totaling $1.5 million, which consisted of gains on the partial repayments of five non-control/non-affiliate investments, full repayment on 12 non-control/non-affiliate investment, and the sale of one non-control/non-affiliate equity investment.

In addition, during the nine months ended December 31, 2017, we recorded net unrealized appreciation on investments totaling $10.8 million, consisting of net unrealized appreciation on our current portfolio of $11.2 million, the reversal of $0.6 million of net unrealized appreciation recognized in prior periods due to realized gains noted above, and net unrealized appreciation related to deferred tax associated with the Taxable Subsidiary of $0.2 million. Net unrealized appreciation on our current portfolio included unrealized gains on TitanLiner, Inc. of $12.9 million, Media Recovery, Inc. of $2.3 million and Vistar Media Inc. of $1.6 million, partially offset by unrealized losses on Deepwater Corrosion Services of $5.3 million. These unrealized gains and losses were due to changes in fair value based on the overall EBITDA performance and cash flows of each investments.

FINANCIAL LIQUIDITY AND CAPITAL RESOURCES

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

Cash Flows

For the nine months ended December 31, 2018, we experienced a net increase in cash and cash equivalents in the amount of $2.9 million. During that period, our operating activities used $77.6 million in cash, consisting primarily of new portfolio investments of $197.1 million, partially offset by $65.0 million from sales and repayments received from debt investments in portfolio companies and $33.9 million from sales and return of capital of equity investments in portfolio companies. In addition, our financing activities increased cash by $80.4 million, consisting primarily of proceeds from net borrowings under the Credit Facility of $82.0 million and proceeds from the December 2022 Notes of $19.5 million, partially offset by cash dividends paid in the amount of $34.2 million. At December 31, 2018, the Company had cash and cash equivalents of approximately $10.8 million.

For the nine months ended December 31, 2017, we experienced a net decrease in cash and cash equivalents in the amount of $1.9 million. During that period, our operating activities used $51.5 million in cash, consisting primarily of new portfolio investments of $144.2 million, partially offset by $75.5 million of sales and repayments received from debt investments in portfolio companies. In addition, our financing activities increased cash by $49.6 million, consisting primarily of proceeds from net borrowings under the Credit Facility of $10.0 million and proceeds from the December 2022 Notes of $55.8 million, partially offset by cash dividends paid in the amount of $14.4 million. At December 31, 2017, the Company had cash and cash equivalents of approximately $20.5 million.

Financing Transactions

In accordance with the 1940 Act, with certain limitations, the Company is only allowed to borrow amounts such that its asset coverage (i.e., the ratio of assets less liabilities not represented by senior securities to senior securities such as borrowings), calculated pursuant to the 1940 Act, is at least 200% (or, pursuant to the

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1940 Act, 150% if certain requirements are met as described in our Annual Report on Form 10-K in the Business Section under Regulation as a Business Development Company-Senior Securities) after such borrowing. On April 25, 2018, the Board of Directors unanimously approved the application of the recently modified asset coverage requirements set forth in Section 61(a)(2) of the 1940 Act. As a result, the minimum asset coverage ratio applicable to the Company will be decreased from 200% to 150%, effective April 25, 2019. The Board of Directors also approved a resolution which limits the Company s issuance of senior securities such that the asset coverage ratio, taking into account any such issuance, would not be less than 166%, effective April 25, 2019. As of December 31, 2018, the Company s asset coverage was 260%.

Credit Facility

In August 2016, CSWC entered into the Credit Facility to provide additional liquidity to support its investment and operational activities, which included total commitments of $100 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 Amended and Restated Agreement), and a related Amended and Restated Guarantee, Pledge and Security Agreement, to amend and restate its Credit Facility. The Amended and Restated 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 Amended and Restated 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 Amended and Restated 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.

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, 2018, substantially all of the Company s assets were pledged as collateral for the Credit Facility.

At December 31, 2018, CSWC had $122.0 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 $2.0 million and $5.2 million, respectively, for the three and nine months ended December 31, 2018. For the three and nine months ended December 31, 2017, CSWC recognized interest expense of $1.1 million and $2.7 million, respectively. The weighted average interest rate on the Credit Facility was 5.59% and 5.41%, respectively, for the three and nine months ended December 31, 2018. For the three and nine months ended December 31, 2017, the weighted average interest rate on the Credit Facility was 4.75% and 4.67%, respectively. Average borrowings for the three and nine months ended December 31, 2018 were $114.0 million and $91.9 million, respectively. For the three and nine months ended December 31, 2017, average borrowings were $58.6 million and $44.5 million, respectively. As of December 31, 2018, CSWC was in compliance with all financial covenants under the Credit Facility.

Notes

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

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

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

During the nine months ended December 31, 2018, the Company sold 785,447 December 2022 Notes for an aggregate principal amount of approximately $19.6 million at a weighted average effective yield of 5.86%. At this time, the Company does not intend to issue additional December 2022 Notes under this ATM debt distribution agreement.

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

As of December 31, 2018, the carrying amount of the December 2022 Notes was $75.0 million on an aggregate principal amount of $77.1 million at a weighted average effective yield of 5.93%. As of December 31, 2018, the fair value of the December 2022 Notes was $76.7 million. The fair value is based on the closing price of the security on The Nasdaq Global Select Market, which is a Level 1 input under ASC 820. The Company recognized interest expense related to the December 2022 Notes, including amortization of deferred issuance costs of $1.3 million and $3.5 million, respectively, for the three and nine months ended December 31, 2018. For both the three and nine months ended December 31, 2017, the Company recognized interest expense related to the December 2022 Notes of $0.2 million. Average borrowings for the three and nine months ended December 31, 2018 were $77.0 million and $67.8 million, respectively. Average borrowings for both the three and nine months ended December 31, 2017 were $57.5 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 61 of the 1940 Act or any successor provisions thereto, after giving effect to any exemptive relief granted to the Company by the SEC, (ii) a requirement, subject to limited exception, that the Company will not declare any cash dividend, or declare any other cash distribution, upon a class of its capital stock, or purchase any such capital stock, unless, in every such case, at the time of the declaration of any such dividend or distribution, or at the time of any such purchase, the Company has the minimum asset coverage required pursuant to Section 61 of the 1940 Act, or any successor provision thereto, after deducting the amount of such dividend, distribution or purchase price, as the case may be, giving effect to any exemptive relief granted to the Company by the SEC and (iii) a requirement to provide financial information to the holders of the December 2022 Notes and the trustee under the indenture if the Company should no longer be subject to the reporting requirements under the Exchange Act. The indenture and supplement relating to the December 2022 Notes also provides for customary events of default. As of December 31, 2018, the Company was in compliance with all covenants of the December 2022 Notes.

Equity Capital Activities

In January 2016, our board of directors approved the Share Repurchase Plan authorizing us to repurchase up to $10 million in the aggregate of our outstanding common stock in the open market at certain thresholds below our net asset value per share, in accordance with Rules 10b-18 under the Exchange Act. During the nine months ended December 31, 2018, the Company repurchased 10,452 shares at an average price of $17.72, including commissions paid. Cumulative to date, we have repurchased a total of 46,363 shares of our common stock in the open market under the stock repurchase program, at an average price of $16.67, including commissions paid, leaving approximately $9.2 million available for additional repurchases under the program.

During the nine months ended December 31, 2018, the Company completed an offering of 700,000 shares of the Company s common stock at a net price of $18.90 per share. The Company issued 100,000 shares of its

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common stock to certain institutional investors in a direct registered offering and 600,000 shares of its common stock in a best efforts underwritten offering. The total net proceeds of the offerings, before expenses, was approximately $13.2 million.

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

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

CONTRACTUAL OBLIGATIONS

As shown below, we had the following contractual obligations as of December 31, 2018.

		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	$ 835	$ 255	$ 580	$	$
Credit Facility(1)	156,366	6,911	13,841	135,614	
December 2022 Notes(2)	95,557	4,653	9,319	81,585	
	$ 252,758	$ 11,819	$ 23,740	$ 217,199	$

(1) Amounts include interest payments calculated at an average rate of 5.59% of outstanding credit facility borrowings, which were $122.0 million as of December 31, 2018.

(2) Includes interest payments.

OFF-BALANCE SHEET ARRANGEMENTS

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

At December 31, 2018 and March 31, 2018, we had a total of approximately $21.2 million and $11.6 million, respectively, in currently unfunded commitments (as discussed in Note 11 to the Consolidated Financial Statements). Included within the total unfunded commitments as of December 31, 2018 were commitments to issue letters of credit through a financial intermediary on behalf of certain portfolio companies. As of December 31, 2018, we had $3.4 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, $3.4 million expire in May

2019. As of December 31, 2018, none of the letters of credit issued and outstanding were recorded as a liability on the Company s balance sheet as such letters of credit are considered in the valuation of the investments in the portfolio company.

The Company believes its assets will provide adequate coverage to satisfy these commitments. As of December 31, 2018, the Company had cash and cash equivalents of $10.8 million and $144.6 million in available borrowings under the Credit Facility.

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SENIOR SECURITIES

Information about our senior securities is shown in the following table as of December 31, 2018 (unaudited) and for the years ended March 31, 2018 and 2017. The Company did not have any senior securities outstanding prior to the year ended March 31, 2017. The report of RSM US LLP, our independent registered public accountants for the year ended March 31, 2018, on the senior securities table as of March 31, 2018, is attached as an exhibit to the registration statement of which this prospectus supplement is a part. The report of Grant Thornton LLP, our independent registered public accountants for the year ended March 31, 2017, on the senior securities table as of March 31, 2017, is incorporated by reference as an exhibit to the registration statement of which this prospectus supplement is a part.

Class and Year	Total Amount Outstanding Exclusive of Treasury Securities(1) (dollars in thousands)	Asset Coverage per Unit(2)	Involuntary Liquidating Preference per Unit(3)	Average Market Value per Unit(4)
Credit Facility				
2019 (as of December 31, 2018) (unaudited)	$ 122,000	$ 2.60		N/A
2018	40,000	4.16		N/A
2017	25,000	12.40		N/A
December 2022 Notes				
2019 (as of December 31, 2018) (unaudited)	$ 77,136	$ 2.60		$ 24,85
2018	57,500	4.16		25.40
2017				

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

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

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

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

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PLAN OF DISTRIBUTION

We have entered into separate equity distribution agreements, each dated March 4, 2019, with Jefferies and Raymond James, under which each will act as our Sales Agent in connection with the offer and sale of shares of our common stock up to an aggregate offering price of $50.0 million pursuant to this prospectus supplement and the accompanying prospectus. Upon instructions from us, a Sales Agent will use its commercially reasonable efforts consistent with its normal sales and trading practices to sell, as our Sales Agent, our common stock under the terms and subject to the conditions set forth in the respective equity distribution agreement. We will instruct each Sales Agent as to the amount of common stock to be sold by it. We may instruct the Sales Agent not to sell common stock if the sales cannot be effected at or above the price designated by us in any instruction. The sales price per share of our common stock offered by this prospectus supplement and the accompanying prospectus, less the Sales Agents commission, may not be less than the net asset value per share of our common stock at the time of such sale. We or the Sales Agents may suspend the offering of shares of common stock upon proper notice and subject to other conditions.

Sales of our common stock, if any, under this prospectus supplement and the accompanying prospectus may be made in negotiated transactions or transactions that are deemed to be at the market, as defined in Rule 415 under the Securities Act, including sales made directly on the NASDAQ Global Select Market or similar securities exchanges or sales made to or through a market maker other than on an exchange at prices related to the prevailing market prices or at negotiated prices.

The Sales Agents will provide written confirmation of a sale to us as soon as practicable following the close of trading on the NASDAQ Global Select Market each day in which shares of our common stock are sold under the respective equity distribution agreement. Each confirmation will include the number of shares of common stock sold on such day, the net proceeds to us and the aggregate compensation payable by us to the Sales Agent in connection with the sales.

We will pay the Sales Agents a commission of 2.0% of the gross sales price of shares of our common stock sold through them pursuant to this prospectus supplement. The estimated offering expenses payable by us, in addition to such commission and reimbursement of expenses, are approximately $550,000, which includes legal, accounting and printing costs and various other fees associated with registering the shares of common stock and the filing fees incident to the review by the Financial Industry Regulatory Authority, Inc. (FINRA) of the terms of the sale of our common stock in this offering, as well as up to $90,000 in reimbursement of reasonable fees and expenses of counsel to the Sales Agents incurred in connection with the initial launch of this offering (including legal fees and expenses relating to the review by FINRA of the terms of the sale of our common stock in this offering), and up to $7,500 per calendar quarter during the term of the equity distribution agreements for fees and expenses of counsel to the Sales Agents incurred in connection with quarterly updates for this offering. The remaining sales proceeds, after deducting any other transaction fees, will equal our net proceeds from the sale of such shares.

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

Under the terms of the equity distribution agreements, we also may sell shares of our common stock to the Sales Agents as principal for their own accounts at a price agreed upon at the time of sale. The Sales Agents may offer the common stock sold to them as principals from time to time through public or private transactions at market prices prevailing at the time of sale, at fixed prices, at negotiated prices, at various prices determined at the time of sale or at prices related to prevailing market prices. If we sell shares to a Sales Agent as principal, we will enter into a separate terms agreement with the applicable Sales Agent, setting forth the terms of such transaction, and we will describe the agreement in a separate prospectus supplement.

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We will report at least quarterly the number of shares of our common stock sold through the Sales Agents under the equity distribution agreements and the net proceeds to us.

In connection with the sale of the common stock on our behalf, the Sales Agents may be deemed to be underwriters within the meaning of the Securities Act, and the compensation of the Sales Agent may be deemed to be underwriting commissions or discounts. We have agreed to provide indemnification and contribution to the Sales Agents with respect to certain civil liabilities, including liabilities under the Securities Act.

The offering of our shares of common stock pursuant to the equity distribution agreement will terminate upon the earlier of (i) the sale of all common stock subject to the equity distribution agreement or (ii) the termination of the equity distribution agreements as permitted therein.

The Sales Agents and their respective affiliates from time to time provide and may in the future provide various investment banking, commercial banking, financial advisory and other services to us and our affiliates, for which they have received and may receive fees, commissions and other customary compensation. In the course of their business, the Sales Agents and their respective affiliates may actively trade our securities for their own accounts or for the accounts of their customers, and, accordingly, the Sales Agents and their respective affiliates may at any time hold long or short positions in such securities.

An affiliate of Raymond James, one of the Sales Agents, is a lender to I-45 SLF LLC under I-45 SLF LLC s senior secured credit facility, which matures in July 2022. I-45 SLF LLC is a joint venture between CSWC and Main Street Capital. We own 80.0% of I-45 SLF LLC and have a profits interest of 75.6%, while Main Street Capital owns 20.0% and has a profits interest of 24.4%.

An affiliate of Jefferies is acting as plan administrator of the Share Repurchase Plan, under which it will repurchase up to $9.4 million in the aggregate of our common stock during the period ending on the earliest of: (1) the date on which a total of $10 million worth of common shares have been purchased under the Share Repurchase Plan; (2) the date on which the terms set forth in the purchase instructions have been met; or (3) the date that is one trading day after the date on which insider notifies broker in writing that the Share Repurchase Plan shall terminate.

The principal business address of Jefferies is 520 Madison Avenue, New York, New York 10022. The principal business address of Raymond James is 880 Carillon Parkway, St. Petersburg, Florida 33716.

LEGAL MATTERS

Certain legal matters regarding this offering will be passed upon for us by Eversheds Sutherland (US) LLP, Washington, DC 20001. Certain legal matters in connection with this offering will be passed upon for the Sales Agents by Dechert LLP, Washington, DC 20006.

INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The consolidated financial statements, the related consolidated financial statement schedule, and senior securities table of Capital Southwest Corporation and its subsidiaries as of and for the year ended March 31, 2018 and the effectiveness of internal control over financial reporting as of March 31, 2018 included in this prospectus supplement and elsewhere in the registration statement have been audited by RSM US LLP, an independent registered public accounting firm, as stated in their reports thereon (which report expresses an unqualified opinion), and included in this prospectus supplement in reliance upon such reports and upon the authority of such firm as experts in accounting and auditing. RSM US LLP s principal business address is 1 South Wacker, Chicago, Illinois 60606.

The audited consolidated financial statements of Media Recovery, Inc. included in this prospectus supplement and elsewhere in the registration statement have been so included in reliance upon the report of Whitley Penn LLP, independent registered public accountants, as stated in their report appearing herein. Whitley Penn LLP s principal business address is 8343 Douglas Avenue, Suite 400, Dallas, Texas 75225.

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AVAILABLE INFORMATION

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

We file with or submit to the SEC annual, quarterly and current reports, proxy statements, code of ethics and other information meeting the informational requirements of the Exchange Act. This information is available free of charge by calling us at (214) 238-5700 or on our website at www.capitalsouthwest.com. Information contained on our website is not incorporated into this prospectus supplement and you should not consider such information to be part of this document. The SEC maintains an Internet site that contains reports, proxy and information statements and other information filed electronically by us with the SEC, which are available on the SEC s website at www.sec.gov. Copies of these reports, proxy and information statements and other information may be obtained, after paying a duplicating fee, by electronic request at the following e-mail address: publicinfo@sec.gov.

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INDEX TO OTHER FINANCIAL STATEMENTS AND FINANCIAL STATEMENT SCHEDULES

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CAPITAL SOUTHWEST CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF ASSETS AND LIABILITIES

(In thousands, except shares and per share data)

	December 31, 2018 (Unaudited)	March 31, 2018
Assets		
Investments at fair value:		
Non-control/Non-affiliate investments (Cost: $285,698 and $200,981, respectively)	$ 287,246	$ 199,949
Affiliate investments (Cost: $78,980 and $51,648, respectively)	77,866	53,198
Control investments (Cost: $89,971 and $82,768, respectively)	131,628	139,948
Total investments (Cost: $454,649 and $335,397, respectively)	496,740	393,095
Cash and cash equivalents	10,774	7,907
Receivables:		
Dividends and interest	7,773	5,219
Escrow	370	119
Other	681	447
Income tax receivable	167	109
Deferred tax asset	2,294	2,050
Debt issuance costs (net of accumulated amortization of $1,634 and $1,041, respectively)	3,533	2,575
Other assets	1,449	5,969
Total assets	$ 523,781	$ 417,490
Liabilities		
Notes (Par value: $77,136 and $57,500, respectively)	$ 74,960	$ 55,305
Credit facility	122,000	40,000
Other liabilities	6,280	6,245
Dividends payable		4,525
Accrued restoration plan liability	2,865	2,937
Deferred income taxes		190
Total liabilities	206,105	109,202
Commitments and contingencies (Note 11)		
Net Assets		
Common stock, $0.25 par value: authorized, 25,000,000 shares; issued, 19,572,934 shares at December 31, 2018 and 18,501,298 shares at March 31, 2018	4,893	4,625
Additional paid-in capital	276,899	260,713
Total distributable earnings	59,821	66,887

Treasury stock - at cost, 2,339,512 shares		(23,937)		(23,937)
Total net assets		317,676		308,288
Total liabilities and net assets	$	523,781	$	417,490
Net asset value per share (17,233,422 shares outstanding at December 31, 2018 and 16,161,786 shares outstanding at March 31, 2018)	$	18.43	$	19.08

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

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CAPITAL SOUTHWEST CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

(In thousands, except shares and per share data)

	Three Months Ended December 31, 2018	Three Months Ended December 31, 2017	Nine Months Ended December 31, 2018	Nine Months Ended December 31, 2017
Investment income:				
Interest income:				
Non-control/Non-affiliate investments	$ 7,744	$ 5,420	$ 20,825	$ 14,858
Affiliate investments	1,886	142	5,136	423
Control investments	440		983	
Dividend income:				
Non-control/Non-affiliate investments	95	31	120	91
Affiliate investments			82	
Control investments	3,257	3,118	9,383	9,221
Interest income from cash and cash equivalents	12	4	21	16
Fees and other income	437	304	1,022	643
Total investment income	13,871	9,019	37,572	25,252
Operating expenses:				
Compensation	2,007	1,885	5,880	5,129
Spin-off compensation plan		172		517
Share-based compensation	607	479	1,564	1,231
Interest	3,347	1,275	8,829	2,924
Professional fees	390	245	1,285	1,205
Net pension expense	40	42	119	123
General and administrative	704	620	2,322	2,171
Total operating expenses	7,095	4,718	19,999	13,300
Income before taxes	6,776	4,301	17,573	11,952
Income tax (benefit) expense	101	(362)	736	(84)
Net investment income	$ 6,675	$ 4,663	$ 16,837	$ 12,036
Realized gain				
Non-control/Non-affiliate investments	$ 1,849	$ 527	$ 2,066	$ 1,361
Affiliate investments		90	77	90
Control investments	34		18,653	

Total net realized gain on investments before income tax	1,883	617	20,796	1,451
Net unrealized (depreciation) appreciation on investments				
Non-control/Non-affiliate investments	(4,860)	708	1,549	(3,458)
Affiliate investments	(95)	(173)	(1,634)	(827)
Control investments	564	4,500	(15,523)	14,995
Income tax (provision) benefit	153	(72)	535	133
Total net unrealized (depreciation) appreciation on investments, net of tax	(4,238)	4,963	(15,073)	10,843
Net realized and unrealized (losses) gains on investments	$ (2,355)	$ 5,580	$ 5,723	$ 12,294
Net increase in net assets from operations	$ 4,320	$ 10,243	$ 22,560	$ 24,330
Pre-tax net investment income per share basic and diluted	$ 0.40	$ 0.27	$ 1.06	$ 0.74
Net investment income per share basic and diluted	$ 0.39	$ 0.29	$ 1.02	$ 0.75
Net increase in net assets from operations basic and diluted	$ 0.25	$ 0.64	$ 1.36	$ 1.52
Weighted average shares outstanding basic	17,120,357	16,104,806	16,541,102	16,041,696
Weighted average shares outstanding diluted	17,122,925	16,176,436	16,543,524	16,109,122

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

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CAPITAL SOUTHWEST CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

(Unaudited)

(In thousands)

	2018	2017
Net assets, March 31	$ 308,288	$ 285,072
Operations:		
Net investment income	4,617	3,436
Net realized gain on investments	18,819	624
Net unrealized (depreciation) appreciation on investments, net of tax	(11,783)	1,384
Net increase in net assets from operations	11,653	5,444
Dividends to shareholders ($0.89 and $0.21 per share, respectively)	(14,503)	(3,355)
Spin-Off Compensation Plan, net of tax benefit of $- and $59, respectively		(114)
Capital share transactions:		
Change in pension plan funded status	11	12
Exercise of employee stock options	1,457	
Share-based compensation expense	475	368
Common stock withheld for payroll taxes upon vesting of restricted stock		
(Decrease) increase in net assets	(907)	2,355
Net assets, June 30	$ 307,381	$ 287,427
Operations:		
Net investment income	5,546	3,937
Net realized gain on investments	94	210
Net unrealized appreciation on investments, net of tax	948	4,496
Net increase in net assets from operations	6,588	8,643
Dividends to shareholders ($0.44 and $0.24 per share, respectively)	(7,191)	(3,838)
Spin-Off Compensation Plan, net of tax benefit of $- and $58, respectively		(113)
Capital share transactions:		
Change in pension plan funded status	12	11
Exercise of employee stock options	576	
Share-based compensation expense	482	384
Common stock withheld for payroll taxes upon vesting of restricted stock		
Increase in net assets	467	5,087
Net assets, September 30	$ 307,848	$ 292,514

Operations:		
Net investment income	6,675	4,663
Net realized gain on investments	1,883	617
Net unrealized (depreciation) appreciation on investments, net of tax	(4,238)	4,963
Net increase in net assets from operations	4,320	10,243
Dividends to shareholders ($0.46 and $0.26 per share, respectively)	(7,932)	(4,202)
Spin-Off Compensation Plan, net of tax expense of $- and $258, respectively		(432)
Capital share transactions:		
Change in pension plan funded status	11	13
Issuance of common stock	13,124	
Exercise of employee stock options	69	
Share-based compensation expense	607	479
Common stock withheld for payroll taxes upon vesting of restricted stock	(186)	(85)
Repurchase of common stock	(185)	
Increase in net assets	9,828	6,016
Net assets, December 31	$ 317,676	$ 298,530

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

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CAPITAL SOUTHWEST CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(In thousands)

	Nine Months Ended December 31, 2018	2017
Cash flows from operating activities		
Net increase in net assets from operations	$ 22,560	$ 24,330
Adjustments to reconcile net increase in net assets from operations to net cash used in operating activities:		
Purchases and originations of investments	(197,088)	(144,242)
Proceeds from sales and repayments of debt investments in portfolio companies	64,986	75,520
Proceeds from sales and return of capital of equity investments in portfolio companies	33,928	104
Payment of accreted original issue discounts	465	1,346
Depreciation and amortization	1,052	604
Net pension benefit	(38)	(35)
Realized gain on investments before income tax	(20,796)	(1,451)
Net unrealized depreciation (appreciation) on investments	15,608	(10,710)
Accretion of discounts on investments	(1,054)	(592)
Payment-in-kind interest and dividends	(383)	(215)
Stock option and restricted awards expense	1,564	1,231
Deferred income taxes	(434)	(508)
Changes in other assets and liabilities:		
Increase in dividend and interest receivable	(2,426)	(973)
Decrease in escrow receivables	310	426
Increase in tax receivable	(58)	
(Increase) decrease in other receivables	(233)	159
Decrease in other assets	4,442	2,280
Increase in taxes payable	683	
(Decrease) increase in other liabilities	(648)	1,253
Net cash used in operating activities	(77,560)	(51,473)
Cash flows from financing activities		
Proceeds from common stock offering	13,230	
Equity offering costs paid	(92)	
Borrowings under credit facility	127,000	66,000
Repayments of credit facility	(45,000)	(56,000)
Debt issuance costs paid	(1,816)	(1,691)
Proceeds from notes	19,524	55,775

Dividends to shareholders	(34,151)	(14,384)
Proceeds from exercise of employee stock options	2,103	
Repurchase of common stock	(185)	
Common stock withheld for payroll taxes upon vesting of restricted stock	(186)	(86)
Net cash provided by financing activities	80,427	49,614
Net increase in cash and cash equivalents	2,867	(1,859)
Cash and cash equivalents at beginning of period	7,907	22,386
Cash and cash equivalents at end of period	$ 10,774	$ 20,527
Supplemental cash flow disclosures:		
Cash paid for income taxes	$ 11	$ 290
Cash paid for interest	7,647	2,232
Supplemental disclosure of noncash financing activities:		
Dividend declared, not yet paid	$	$ 4,201
Spin-off Compensation Plan distribution accrued, not yet paid		517

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

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CAPITAL SOUTHWEST CORPORATION AND SUBSIDIARIES

CONSOLIDATED SCHEDULE OF INVESTMENTS

(Unaudited)

December 31, 2018

tfolio Company[1]	Type of Investment[2, 15]	Industry	Current Interest Rate[3]	Maturity	Principal	Cost	Fair Value[4]
n-control/Non-affiliate estments[5]							
C HOLDINGS, INC.	First Lien	Healthcare services	L+6.75% (Floor 1.00%)/Q, Current Coupon 9.28%	6/30/2023	$ 9,143,750	$ 8,961,902	$ 9,120,8
E GATHERING, INC.	Second Lien[17]	Energy services (midstream)	L+8.50% (Floor 2.00%)/Q, Current Coupon 11.30%	12/13/2023	10,000,000	9,801,711	9,801,7
AMS PUBLISHING OUP, LLC	First Lien	Media, marketing & entertainment	L+7.50% (Floor 1.00%)/Q, Current Coupon 9.93%	7/2/2023	14,250,000	13,983,051	13,979,2
	Delayed Draw Term Loan[10]		L+7.50% (Floor 1.00%)	7/2/2023		(31,146)	
						13,951,905	13,979,2
KINGS HOLDINGS C,[8,18]	First Lien	Food, agriculture & beverage	L+10.02% (Floor 1.00%)/M, Current Coupon 12.69%	8/8/2021	9,307,692	9,197,504	8,618,9
LIANCE SPORTS OUP, L.P.	Senior subordinated debt	Consumer products & retail	11.00%	2/1/2023	10,100,000	9,938,559	9,898,0
	3.88% membership interest					2,500,000	2,500,0
						12,438,559	12,398,0
ERICAN NUTS ERATIONS LLC[13]	First Lien	Food, agriculture and beverage	L+8.50% (Floor 1.00%)/Q,	4/10/2023	17,412,500	17,103,748	16,872,7

			Current Coupon 10.90%				
	First Lien - Term Loan C[10]		L+8.50% (Floor 1.00%)/Q, Current Coupon 11.31%	4/10/2023	1,750,000	1,721,676	1,695,7
	3,000,000 units of Class A common stock[9]					3,000,000	1,683,0
						21,825,424	20,251,4
ERICAN LECONFERENCING RVICES, LTD.	First Lien	Telecommunications	L+6.50% (Floor 1.00%)/Q, Current Coupon 9.09%	12/8/2021	6,111,675	6,001,141	5,103,2
	Second Lien		L+9.50% (Floor 1.00%)/Q, Current Coupon 11.92%	6/6/2022	2,005,714	1,950,526	1,649,7
						7,951,667	6,752,9

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

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Portfolio Company[1]	Type of Investment[2, 15]	Industry	Current Interest Rate[3]	Maturity	Principal	Cost	Fair Value[4]
AMWARE FULFILLMENT LLC	First Lien	Distribution	L+9.50% (Floor 1.00%)/M, Current Coupon 12.31%	12/31/2020	$ 12,934,167	$ 12,837,161	$ 12,572,010
ASC ORTHO MANAGEMENT COMPANY, LLC[13]	First Lien	Healthcare services	L+7.50% (Floor 1.00%)/Q, Current Coupon 9.90%	8/31/2023	9,319,688	9,143,892	9,189,212
	Second Lien		13.25% PIK	12/1/2023	3,142,008	3,067,835	3,067,835
	Revolving Loan[10]		L+7.50% (Floor 1.00%)	8/31/2023		(27,979)	
	2,042 Common Units[9]					750,000	750,000
						12,933,748	13,007,047
BINSWANGER HOLDING CORP.	First Lien	Distribution	L+8.00% (Floor 1.00%)/M, Current Coupon 10.81%	3/9/2022	12,232,704	12,062,760	12,098,144
	900,000 shares of common stock					900,000	1,013,000
						12,962,760	13,111,144
BLASCHAK COAL CORP.	Second Lien[17]	Commodities & mining	L+10.00%/Q, 1.00% PIK, Current Coupon 13.40%	7/30/2023	8,514,875	8,355,229	8,489,330
CALIFORNIA PIZZA KITCHEN, INC.	First Lien	Restaurants	L+6.00% (Floor 1.00%)/M, Current Coupon 8.53%	8/23/2022	4,887,500	4,854,935	4,753,094
CAPITAL PAWN HOLDINGS, LLC	First Lien	Consumer products & retail	L+9.50%/Q, Current Coupon 11.90%	7/8/2020	11,447,755	11,291,676	11,264,591
CLICKBOOTH.COM, LLC	First Lien	Media, marketing & entertainment	L+8.50% (Floor 1.00%)/Q, Current Coupon 10.90%	12/5/2022	17,062,500	16,777,633	17,181,938

	Revolving Loan[10]		L+8.50% (Floor 1.00%)	12/5/2022		(15,706)	
						16,761,927	17,181,938
DANFORTH ADVISORS, LLC[13]	First Lien	Business services	L+7.25% (Floor 2.00%)/Q, Current Coupon 9.63%	9/28/2023	7,250,000	7,110,870	7,134,000
	Revolving Loan[10]		L+7.25% (Floor 2.00%)	9/28/2023		(18,959)	
	875 Class A equity units[9]					875,000	875,000
						7,966,911	8,009,000
DELPHI INTERMEDIATE HEALTHCO, LLC	First Lien	Healthcare services	L+7.50% (Floor 1.00%)/Q, Current Coupon 10.04%	10/3/2022	7,265,625	7,206,971	7,120,313

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

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Portfolio Company[1]	Type of Investment[2, 15]	Industry	Current Interest Rate[3]	Maturity	Principal	Cost	Fair Value[4]
	First Lien		L+7.50 (Floor 1.00%)/Q, Current Coupon 10.19%	10/3/2022	$ 4,906,250	$ 4,863,293	$ 4,808,125
						12,070,264	11,928,438
DIGITAL RIVER, INC.	First Lien	Software & IT services	L+6.00% (Floor 1.00%)/Q, Current Coupon 8.78%	2/12/2021	6,285,444	6,276,051	6,222,589
DUNN PAPER, INC.	Second Lien	Paper & forest products	L+8.75% (Floor 1.00%)/M, Current Coupon 11.27%	8/26/2023	3,000,000	2,955,080	2,874,000
ELITE SEM, INC.[8]	First Lien	Media, marketing & entertainment	L+8.53% (Floor 1.00%)/M, Current Coupon 11.27%	2/1/2022	14,000,000	13,702,052	14,070,000
	1,443 Preferred units; 1,443 Class A Common units		12% PIK			2,008,121	3,462,000
						15,710,173	17,532,000
ENVIRONMENTAL PEST SERVICE MANAGEMENT COMPANY, LLC	First Lien	Consumer services	L+7.25%/Q, Current Coupon 9.65%	6/22/2023	16,209,375	15,949,541	16,176,956
	Delayed Draw Term Loan[10]		L+7.25%/Q, Current Coupon 9.94%	6/22/2023	5,150,579	5,049,191	5,140,278
						20,998,732	21,317,234
FAST SANDWICH, LLC	First Lien	Restaurants	L+9.00% (Floor 1.00%)/Q, Current Coupon 11.40%	5/23/2023	3,258,750	3,209,380	3,203,351
	Revolving Loan[10]		L+9.00% (Floor 1.00%)			(60,671)	
						3,148,709	3,203,351
	First Lien			11/15/2022	9,900,000	9,738,800	9,900,000

LGM PHARMA, LLC[13]		Healthcare products	L+8.50% (Floor 1.00%)/M, Current Coupon 10.85%				
	Delayed Draw Term Loan[10]		L+8.50% (Floor 1.00%)/M, Current Coupon 10.85%	11/15/2022	1,789,000	1,772,948	1,789,000
	110,000 units of Class A common stock[9]					1,100,000	821,000
						12,611,748	12,510,000
LIGHTING RETROFIT INTERNATIONAL, LLC	First Lien	Environmental services	L+9.25% (Floor 1.00%)/Q, Current Coupon 12.05%	6/30/2022	13,875,000	13,760,096	13,583,625
	396,825 shares of Series B preferred stock; 25,603 shares of Series C preferred stock					525,603	511,000
						14,285,699	14,094,625

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

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rtfolio Company[1]	Type of Investment[2, 15]	Industry	Current Interest Rate[3]	Maturity	Principal	Cost	Fair Value[4]
ESEARCH NOW ROUP, INC.	Second Lien	Business services	L+9.50% (Floor 1.00%)/M, Current Coupon 12.02%	12/20/2025	$ 10,500,000	$ 9,822,454	$ 10,237,50
VMC HOLDINGS ORP. [14]	First Lien	Financial services	L+8.02% (Floor 1.00%)/M, Current Coupon 10.54%	5/5/2022	6,937,500	6,887,417	6,937,50
AX ADVISORS ROUP, LLC[13]	143.3 Class A units[9]	Financial services				541,176	645,00
STAR MEDIA INC.	First Lien	Media, marketing & entertainment	L+10.00% (Floor 1.00%)/M, Current Coupon 12.74%	2/16/2022	7,975,000	7,411,290	8,054,75
	Warrants (Expiration - February 17, 2027)					886,000	2,378,00
						8,297,290	10,432,75
otal on-control/Non-affiliate vestments						$ 285,697,812	$ 287,246,32
filiate Investments[6]							
HANDLER SIGNS, LC[13]	Senior subordinated debt	Business services	12.00% / 1.00% PIK	7/4/2021	4,545,837	$ 4,496,603	$ 4,361,73
	1,500,000 units of Class A-1 common stock[9]					1,500,000	1,274,00
						5,996,603	5,635,73
YNAMIC OMMUNITIES, LLC[13]	First Lien	Business services	L+8.00% (Floor 1.00%)/M, Current Coupon 10.80%	7/17/2023	11,130,000	10,923,695	10,996,44
				7/17/2023		(4,540)	

	Revolving Loan[10]		L+8.00% (Floor 1.00%)				
	2,000,000 Preferred Units[9]					2,000,000	2,849,00
						12,919,155	13,845,44
A HOLDINGS ROUP, LLC[13]	First Lien	Transportation & logistics	L+9.00% (Floor 1.00%)/Q, Current Coupon 11.40%	2/14/2023	9,321,875	9,160,434	9,060,86
	First Lien - Term Loan B		L+9.00% (Floor 1.00%)/Q, Current Coupon 11.40%	2/14/2023	1,975,000	1,939,146	1,919,70
	Revolving Loan[10.]		L+9.00% (Floor 1.00%)/Q, Current Coupon 11.26%	2/14/2023	2,550,000	2,507,117	2,478,60
	Delayed Draw Term Loan		L+9.00% (Floor 1.00%)/Q, Current Coupon 11.40%	2/14/2023	1,481,250	1,453,900	1,439,77
	9.25% Class A Membership Interest[9]					1,500,000	1,279,00
						16,560,597	16,177,93

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

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Portfolio Company[1]	Type of Investment[2, 15]	Industry	Current Interest Rate[3]	Maturity	Principal	Cost	Fair Value[4]
ROSELAND MANAGEMENT, LLC	First Lien	Healthcare services	L+7.00% (Floor 2.00%)/Q, Current Coupon 9.59%	11/9/2023	$ 10,500,000	$ 10,320,533	$ 10,320,533
	Revolving Loan[10]		L+7.00% (Floor 2.00%)	11/9/2023		(33,984)	
	10,000 Class A Units					1,000,000	1,000,000
						11,286,549	11,320,533
SIMR, LLC	First Lien	Healthcare services	L+9.00% (Floor 2.00%)/M, Current Coupon 11.74%	9/7/2023	11,688,000	11,467,592	11,547,744
	5,724,000 Class B Common Units					5,724,000	5,724,000
						17,191,592	17,271,744
ZENFOLIO INC.[16]	First Lien	Business services	L+11.00% (Floor 1.00%)/Q, Current Coupon 13.40%	7/17/2022	13,331,250	13,139,556	12,638,025
	Revolving Loan[10]		L+11.00% (Floor 1.00%)	7/17/2022		(14,162)	
	190 shares of common stock					1,900,000	976,000
						15,025,394	13,614,025
Total Affiliate Investments						$ 78,979,890	$ 77,865,412
Control Investments[7]							
I-45 SLF LLC[9, 10, 11]	80% LLC equity interest	Multi-sector holdings				$ 64,800,000	$ 63,116,838
MEDIA RECOVERY, INC.	800,000 shares of	Industrial products				800,000	7,263,232

DBA SPOTSEE HOLDINGS[11]	Series A convertible preferred stock						
	4,000,002 shares of common stock					4,615,000	41,899,768
						5,415,000	49,163,000
PRISM SPECTRUM HOLDINGS, LLC[13]	First Lien	Environmental services	L+9.50% (Floor 2.25%)/M, Current Coupon 12.24%	2/6/2023	13,461,480	13,217,483	13,313,404
	96,498.32 Class A units[9]					6,538,522	6,035,000
						19,756,005	19,348,404
Total Control Investments						$ 89,971,005	$ 131,628,242
TOTAL INVESTMENTS[12]						$ 454,648,707	$ 496,739,982

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

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

3 The majority of investments bear interest at a rate that may be determined by reference to London Interbank Offered Rate (LIBOR or L) or Prime (P) and reset daily (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, 2018. Certain investments are subject to a LIBOR or Prime interest rate floor. Certain investments, as noted, accrue payment-in-kind (PIK) interest.

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

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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 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 (the 1940 Act) as investments that are neither control investments nor affiliate investments. At December 31, 2018, approximately 57.8% of the Company s investment assets were non-control/non-affiliate investments. The fair value of these investments as a percent of net assets is 90.4%.

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, 2018, approximately 15.7% of the Company s investment assets were affiliate investments. The fair value of these investments as a percent of net assets is 24.5%.

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, 2018, approximately 26.5% of the Company s investment assets were control investments. The fair value of these investments as a percent of net assets is 41.4%.

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 December 31, 2018, approximately 16.0% of the Company s investment assets are non-qualifying assets.

10 The investment has an unfunded commitment as of December 31, 2018. Refer to Note 11 Commitments and Contingencies for further discussion.

11 Income producing through dividends or distributions.

12 As of December 31, 2018, the cumulative gross unrealized appreciation for federal income tax purposes is approximately $50.9 million; cumulative gross unrealized depreciation for federal income tax purposes is $9.0 million. Cumulative net unrealized appreciation is $41.9 million, based on a tax cost of $454.9 million.

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

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

15 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.

16 As of December 31, 2018, the investment is paying default interest at a rate of 2.0% per annum.

17 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.

18 Investment was on non-accrual status as of December 31, 2018, meaning the Company has ceased to recognize interest income on the investment.

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

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CAPITAL SOUTHWEST CORPORATION AND SUBSIDIARIES

CONSOLIDATED SCHEDULE OF INVESTMENTS

March 31, 2018

ortfolio Company[1]	Type of Investment[2]	Industry	Current Interest Rate[3]	Maturity	Principal	Cost	Fair Value[4]
on-control/Non-affiliate ivestments[5]							
AC HOLDINGS, INC.	First Lien	Healthcare services	L+6.75% (Floor 1.00%), Current Coupon 8.52%	6/30/2023	$ 9,321,875	$ 9,110,902	$ 9,485,00
G KINGS HOLDINGS NC.[8]	First Lien	Food, agriculture & beverage	L+9.40% (Floor 1.00%), Current Coupon 11.21%	8/8/2021	9,650,000	9,507,562	9,437,70
LLIANCE SPORTS ROUP, L.P.	Senior subordinated debt	Consumer products & retail	11.00%	2/1/2023	10,100,000	9,916,216	9,807,10
	2.65% membership interest					2,500,000	1,996,00
						12,416,216	11,803,10
MERICAN ELECONFERENCING ERVICES, LTD.	First Lien	Telecommunications	L+6.50% (Floor 1.00%), Current Coupon 8.29%	12/8/2021	6,378,173	6,238,734	6,376,57
	Second Lien		L+9.50% (Floor 1.00%), Current Coupon 11.20%	6/6/2022	2,005,714	1,941,047	1,918,80
						8,179,781	8,295,38
MWARE ULFILLMENT LLC[17]	First Lien	Distribution	L+12.00% (Floor 1.00%), Current Coupon 14.02%	5/21/2019	13,478,333	13,284,488	12,939,20
INSWANGER OLDING CORP.	First Lien	Distribution	L+8.00% (Floor 1.00%),	3/9/2022	13,036,418	12,817,614	12,899,53

	Current Coupon 10.02%		
900,000 shares of common stock		900,000	874,00