CAPITAL SOUTHWEST CORP
Form 10-Q
November 08, 2016
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2016

OR

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

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

Commission File Number: 814-00061

CAPITAL SOUTHWEST CORPORATION

(Exact name of registrant as specified in its charter)

Texas	75-1072796
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

5400 Lyndon B Johnson Freeway, Suite 1300, Dallas, Texas	75240
(Address of principal executive offices)	(Zip Code)

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

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

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

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

Large accelerated filer ___ Accelerated filer X Non-accelerated filer ___ Smaller reporting company ___

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

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

15,812,607 shares of Common Stock, $0.25 value per share, as of November 4, 2016.

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PART I – FINANCIAL INFORMATION

Item 1.Consolidated Financial Statements

CAPITAL SOUTHWEST CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF ASSETS AND LIABILITIES

(In thousands, except shares and per share data)

	September 30, 2016 (Unaudited)	March 31, 2016
Assets		
Investments at fair value:		
Non-control/Non-affiliate investments (Cost: September 30, 2016 - $145,184, March 31, 2016 - $101,538)	$ 144,720	$ 99,279
Affiliate investments (Cost: September 30, 2016 - $5,919, March 31, 2016 - $6,356)	7,454	10,618
Control investments (Cost: September 30, 2016 - $54,215, March 31, 2016 - $42,215)	86,145	68,539
Total investments (Cost: September 30, 2016 - $205,318, March 31, 2016 - $150,110)	238,319	178,436
Cash and cash equivalents	57,840	95,969
Receivables:		
Dividends and interest	1,738	1,752
Escrow	1,758	3,424
Other	104	219
Income tax receivable	696	1,010
Deferred tax asset	1,940	2,342
Debt issuance costs (net of accumulated amortization of $52 and $ - as of September 30, 2016 and March 31, 2016, respectively)	2,443	-
Other assets	2,437	1,341
Total assets	$ 307,275	$ 284,493
Liabilities		
Other liabilities	$ 6,087	$ 5,713
Payable for unsettled transactions	19,361	3,940
Income tax payable	211	-
Accrued restoration plan liability	2,165	2,205

Deferred income taxes		522		-
Total liabilities		28,346		11,858
Net Assets				
Common stock, $0.25 par value: authorized, 25,000,000 shares; issued, 18,066,138 shares at September 30, 2016 and 18,065,518 shares at March 31, 2016		4,517		4,516
Additional capital		261,880		262,539
Accumulated net investment loss		(1,234)		(307)
Accumulated net realized gain		5,224		1,498
Unrealized appreciation of investments, net of income taxes		32,479		28,326
Treasury stock - at cost, 2,339,512 shares		(23,937)		(23,937)
Total net assets		278,929		272,635
Total liabilities and net assets	$	307,275	$	284,493
Net asset value per share (15,726,626 shares outstanding at September 30, 2016 and 15,726,006 shares outstanding at March 31, 2016)	$	17.74	$	17.34

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 September 30,		Six Months Ended September 30,	
	2016	2015	2016	2015
Investment income:				
Interest and dividends				
Non-control/Non-affiliate investments	$ 2,433	$ 842	$ 4,515	$ 1,245
Affiliate investments	141	-	280	-
Control investments	1,995	-	3,765	300
Interest income from cash and cash equivalents	56	103	126	159
Fees and other income	101	133	197	338
Total investment income	4,726	1,078	8,883	2,042
Operating expenses:				
Compensation	1,404	3,411	2,889	4,623
Spin-off compensation plan	172	-	345	-
Share-based compensation	255	370	494	729
Interest	103	-	103	-
Net pension expense (benefit)	43	(105)	86	(175)
Spin-off professional fees	-	5,474	-	6,712
General and administrative	972	1,175	2,271	2,200
Total operating expenses	2,949	10,325	6,188	14,089
Income (loss) before income taxes	1,777	(9,247)	2,695	(12,047)
Income tax expense	412	88	958	118
Net investment income (loss)	$ 1,365	$ (9,335)	$ 1,737	$ (12,165)
Realized gain (loss)				
Non-control/Non-affiliate investments	$ (459)	$ (3,396)	$ (260)	$ (3,332)
Affiliate investments	3,986	-	3,986	684
Control investments	-	-	-	-
Total net realized gain (loss) on investments before income tax	3,527	(3,396)	3,726	(2,648)
Unrealized appreciation of investments				
Portfolio company investments	2,026	3,783	4,675	8,028
Income tax provision	-	-	(522)	-
Total net increase (decrease) in unrealized appreciation of investments	2,026	3,783	4,153	8,028

Net realized and unrealized gain on investments	$ 5,553	$ 387	$ 7,879	$ 5,380
Net increase (decrease) in net assets from operations	$ 6,918	$ (8,948)	$ 9,616	$ (6,785)
Pre-tax net investment income (loss) per share - basic and diluted	$ 0.11	$ (0.59)	$ 0.17	$ (0.77)
Net investment income (loss) per share – basic and diluted	$ 0.09	$ (0.60)	$ 0.11	$ (0.78)
Net increase (decrease) in net assets from operations – basic and diluted	$ 0.44	$ (0.57)	$ 0.61	$ (0.43)
Weighted average shares outstanding – basic	15,726,419	15,583,332	15,728,476	15,578,339
Weighted average shares outstanding – diluted	15,805,577	15,671,664	15,801,535	15,678,379

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)

	Six Months Ended September 30, 2016	Six Months Ended September 30, 2015
Operations:		
Net investment income (loss)	$ 1,737	$ (12,165)
Net realized gain (loss) on investments	3,726	(2,648)
Net increase (decrease) in unrealized appreciation of investments	4,153	8,028
Net increase (decrease) in net assets from operations	9,616	(6,785)
Distributions from:		
Undistributed net investment income	(2,664)	(1,542)
Distributions of CSW Industrials, Inc.		
Decrease in unrealized appreciation related to spin-off investments	-	(458,338)
Distribution from additional capital	-	(26,278)
Spin-Off Compensation Plan distribution, net of tax of $346 and $ - for the six months ended September 30, 2016 and 2015, respectively	(1,175)	-
Capital share transactions:		
Change in pension plan funded status	23	-
Exercise of employee stock options	-	387
Share-based compensation expense	494	729
Increase (decrease) in net assets	6,294	(491,827)
Net assets, beginning of period	272,635	767,418
Net assets, end of period	$ 278,929	$ 275,591

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)

	Six Months Ended September 30, 2016	2015
Cash flows from operating activities		
Net increase (decrease) in net assets from operations	$ 9,616	$ (6,785)
Adjustments to reconcile net increase (decrease) in net assets from operations to net cash used in operating activities:		
Purchases and originations of investments	(67,520)	(34,114)
Net proceeds from disposition of and return of capital on investments	4,442	16,395
Principal repayments on debt investments	12,045	-
Payment of accreted original issue discounts	220	-
Depreciation and amortization	98	36
Net pension benefit	(16)	(284)
Realized (gain) loss on investments before income tax	(3,726)	2,648
Net increase in unrealized appreciation of investments	(4,675)	(8,028)
Accretion of discounts on investments	(176)	(22)
Stock option and restricted awards expense	494	729
Deferred income tax expense	1,480	-
Changes in other assets and liabilities:		
Decrease (increase) in dividend and interest receivable	14	(219)
Decrease in escrow receivables	1,173	183
Decrease (increase) in other receivables	115	(1,263)
Decrease (increase) in tax receivable	314	(212)
(Increase) decrease in other assets	(1,141)	167
(Decrease) increase in other liabilities	(1,523)	2,907
Increase in payable for unsettled transaction	15,421	-
Increase in deferred income taxes	-	331
Net cash used in operating activities	(33,345)	(27,531)
Cash flows from financing activities		
Distributions from undistributed net investment income	(940)	(1,542)
Proceeds from exercise of employee stock options	-	387
Debt issuance costs paid	(2,495)	-
Spin-off Compensation Plan distribution	(1,349)	(13,000)
Net cash used in financing activities	(4,784)	(14,155)
Net decrease in cash and cash equivalents	(38,129)	(41,686)
Cash and cash equivalents at beginning of period	95,969	225,797

Cash and cash equivalents at end of period	$ 57,840	$ 184,111
Supplemental disclosure of noncash financing activities:		
Dividend declared, not yet paid	$ 1,724	$ -
Noncash adjustment to realized gain for escrow receivable	493	-
Cost of Investments spun-off1	-	6,981
Decrease in unrealized appreciation due to spin-off of CSWI1	-	458,338
Net pension assets1	-	9,687
Change in deferred tax liabilities1	-	3,391
Spin-off Compensation Plan distribution accrued, not yet paid	172	-

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

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

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CAPITAL SOUTHWEST CORPORATION AND SUBSIDIARIES

CONSOLIDATED SCHEDULE OF INVESTMENTS

(Unaudited)

September 30, 2016

Portfolio Company1	Type of Investment13	Industry	Current Interest Rate2	Maturity	Principal	Cost
Non-control/Non-affiliate Investments4						
360 HOLDINGS III CORP.	Senior secured debt	Consumer products & retail	L+9.00% (Floor 1.00%)	10/1/2021	$ 6,930,000	$ 6,680
AG KINGS HOLDINGS10	Senior secured debt	Food, agriculture & beverage	L+9.00% (Floor 1.00%)	8/8/2021	10,000,000	9,802
AMERICAN TELECONFERENCING	Senior secured debt	Telecommunications	L+6.50% (Floor 1.00%)	12/8/2021	6,911,168	6,721
AMWARE FULFILLMENT	Senior secured debt	Distribution	L+9.50% (Floor 1.00%)	5/21/2019	13,400,000	13,14
ARGON MEDICAL DEVICES	Senior secured debt	Healthcare products	L+9.50% (Floor 1.00%)	6/23/2022	5,000,000	4,863
CALIFORNIA PIZZA KITCHEN	Senior secured debt	Restaurants	L+6.00% (Floor 1.00%)	8/23/2022	5,000,000	4,950
CAST AND CREW PAYROLL, LLC	Senior secured debt	Media, marketing & entertainment	L+7.75% (Floor 1.00%)	8/12/2023	5,000,000	4,971
DEEPWATER CORROSION SERVICES, INC.	127,004 shares of Series A convertible preferred stock	Energy services (upstream)	-	-	-	8,000
DIGITAL RIVER, INC.	Senior secured debt	Software & IT services	L+6.50% (Floor 1.00%)	2/12/2021	7,032,285	6,998
DUNN PAPER, INC.	Senior secured debt	Paper & forest products	L+8.75% (Floor 1.00%)	8/26/2023	3,000,000	2,940

HYGEA HOLDINGS	Senior secured debt Warrants	Healthcare services	L+9.25% -	2/22/2019 -	7,875,000 -	7,199 546,0 7,745
IMAGINE! PRINT SOLUTIONS, INC.	Senior secured debt	Media, marketing & entertainment	L+6.00% (Floor 1.00%)	3/30/2022	4,877,744	4,820
INFOGROUP INC.	Senior secured debt	Software & IT services	L+5.50% (Floor 1.50%)	5/26/2018	4,921,044	4,819
LTI HOLDINGS, INC.	Senior secured debt	Industrial products	L+9.25% (Floor 1.00%)	4/17/2023	7,000,000	6,845
PREPAID LEGAL SERVICES, INC.	Senior secured debt	Consumer services	L+9.00% (Floor 1.25%)	7/1/2020	5,000,000	4,949
REDBOX AUTOMATED RETAIL	Senior secured debt	Gaming & leisure	L+7.50% (Floor 1.00%)	9/27/2021	10,000,000	9,700
RESEARCH NOW GROUP, INC.	Senior secured debt	Business services	L+8.75% (Floor 1.00%)	3/18/2022	7,000,000	6,911
ROYAL HOLDINGS, INC.	Senior secured debt	Specialty chemicals	L+7.50% (Floor 1.00%)	6/19/2023	1,000,000	993,3
TAXACT, INC.7	Senior secured debt	Financial services	L+6.00% (Floor 1.00%)	12/31/2022	3,687,500	3,614

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Portfolio Company 1	Type of Investment 13	Industry	Current Interest Rate 2	Maturity	Principal	Cost
TITANLINER, INC.11	Senior subordinated debt	Energy services (upstream)	8.50%	6/30/2017	2,667,223	2,6
	339,277 shares of Series A convertible preferred stock		-	-	-	3,2
						5,8
TRAX DATA REFINERY, INC.	Common stock	Software & IT services	-	-	-	81
VIVID SEATS	Senior secured debt	Media, marketing & entertainment	L+6.00% (Floor 1.00%)	3/1/2022	6,912,500	6,4
WATER PIK, INC.	Senior secured debt	Consumer products & retail	L+8.75% (Floor 1.00%)	1/8/2021	4,692,982	4,5
WINZER CORPORATION	Senior subordinated debt	Distribution	11.00%	5/31/2021	8,100,000	7,9
Total Non-control/Non-affiliate Investments						$ 14
Affiliate Investments5						
CHANDLER SIGNS, LP	Senior subordinated debt	Business services	12.00%	7/4/2021	$ 4,500,000	$ 4,4
	1,500,000 units of Class A-1 common stock		-	-	-	1,5
						5,9
Total Affiliate Investments						$ 5,9
Control Investments6						
I-45 SLF LLC7, 8, 9	80% LLC equity interest	Multi-sector holdings	-	-	-	$ 48
MEDIA RECOVERY, INC.9	800,000 shares of Series A convertible preferred stock	Industrial products	-	-	-	80
	4,000,002 shares of common stock		-	-	-	4,6
						5,4
Total Control Investments						$ 54
TOTAL INVESTMENTS12						$ 20

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

[2] The majority of investments bear interest at a rate that may be determined by reference to London Interbank Offered Rate (“LIBOR” or “L”) or Prime (“P”) and reset daily, monthly, quarterly, or semiannually. For each the Company has provided the spread over LIBOR or Prime and the current contractual interest rate in effect at September 30, 2016. Certain investments are subject to a LIBOR or Prime interest rate floor.

[3] Investments are carried at fair value in accordance with the Investment Company Act of 1940 (the “1940 Act”) and Financial Accounting Standards Board (“FASB”) Accounting Standard Codification (“ASC”) 820, Fair Value Measurements and Disclosures. We determine in good faith the fair value of our Investment portfolio pursuant to a valuation policy in accordance with ASC 820 and a valuation process approved by our Board of Directors. See Note 4 to the consolidated financial statements.

[4] Non-Control/Non-Affiliate investments are generally defined by the 1940 Act as investments that are neither Control investments nor Affiliate investments. At September 30, 2016, approximately 60.7% of the Company’s investment assets are non-control investments.

[5] Affiliate investments are generally defined by the 1940 Act as investments in which between 5% and 25% of the voting securities are owned and the investments are not classified as control investments. At September 30, 2016, approximately 3.1% of the Company’s investment assets are affiliate investments.

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[6] Control investments are generally defined by the 1940 Act as investments in which more than 25% of the voting securities are owned or where greater than 50% of the board representation is maintained. At September 30, 2016, approximately 36.2% of the Company's investment assets are control investments.

[7] 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.

[8] The investment has approximately $19.2 million unfunded commitment as of September 30, 2016.

[9] Income producing through dividends on distributions.

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

[11] Investment was on non-accrual status as of September 30, 2016, meaning the Company has ceased to recognize interest income on the investment.

[12] As of September 30, 2016, the cumulative gross unrealized appreciation for federal income tax purposes is approximately $37.9 million; cumulative gross unrealized depreciation for federal income tax purposes is $4.2 million. Cumulative net unrealized appreciation is $33.7 million, based on a tax cost of $205.2 million.

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

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CAPITAL SOUTHWEST CORPORATION AND SUBSIDIARIES

CONSOLIDATED SCHEDULE OF INVESTMENTS

March 31, 2016

Portfolio Company1	Type of Investment	Industry	Current Interest Rate2	Maturity	Principal	Co
Non-control/Non-affiliate Investments4						
360 HOLDINGS III CORP.	Senior secured debt	Consumer products & retail	L+9.00% (Floor 1.00%)	10/1/2021	$ 6,965,000	$ 6
ARGON MEDICAL DEVICES	Senior secured debt	Healthcare products	L+9.50% (Floor 1.00%)	6/23/2022	5,000,000	4
BDF ACQUISITION CORP.	Senior secured debt	Consumer products & retail	L+8.00% (Floor 1.00%)	2/12/2022	5,000,000	4
CAST AND CREW PAYROLL, LLC	Senior secured debt	Media, marketing & entertainment	L+7.75% (Floor 1.00%)	8/12/2023	5,000,000	4
DEEPWATER CORROSION SERVICES, INC.	127,004 shares of Series A convertible preferred stock	Energy services (upstream)	-	-	-	8
DIGITAL RIVER, INC.	Senior secured debt	Software & IT services	L+6.50% (Floor 1.00%)	2/12/2021	4,632,285	4
FREEDOM TRUCK FINANCE, LLC5,6	Senior secured debt	Financial services	Prime plus 9.75% (Floor 3.25%)	4/15/2016	5,839,504	5
HYGEA HOLDINGS	Senior secured debt	Healthcare services	L+9.25%	2/22/2019	8,000,000	7
	Warrants		-	-	-	5 7
IMAGINE! PRINT SOLUTIONS, INC.	Senior secured debt	Media, marketing & entertainment	L+6.00% (Floor 1.00%)	3/30/2022	4,000,000	3
LTI HOLDINGS, INC.	Senior secured debt	Industrial products	L+9.25% (Floor 1.00%)	4/17/2023	7,000,000	6

PREPAID LEGAL SERVICES, INC.	Senior secured debt	Consumer services	L+9.00% (Floor 1.25%)	7/1/2020	5,000,000	4
RESEARCH NOW GROUP, INC.	Senior secured debt	Business services	L+8.75% (Floor 1.00%)	3/18/2022	7,000,000	6
ROYAL HOLDINGS, INC.	Senior secured debt	Specialty chemicals	L+7.50% (Floor 1.00%)	6/19/2023	1,000,000	9
TAXACT, INC.7	Senior secured debt	Financial services	L+6.00% (Floor 1.00%)	12/31/2022	4,500,000	4
TITANLINER, INC.	Senior subordinated debt		8.50%	6/30/2017	2,747,000	2
	339,277 shares of Series A convertible preferred stock	Energy services (upstream)	-	-	-	3 5
TRAX DATA REFINERY, INC.	Common stock	Software & IT services	-	-	-	8
VIVID SEATS	Senior secured debt	Media, marketing & entertainment	L+6.00% (Floor 1.00%)	3/1/2022	7,000,000	6

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Portfolio Company 1	Type of Investment	Industry	Current Interest Rate 2	Maturity	Principal	Cost
WATER PIK, INC.	Senior secured debt	Consumer products & retail	L+8.75% (Floor 1.00%)	1/8/2021	4,780,702	4,667,815
WINZER CORPORATION	Senior subordinated debt	Distribution	11.00%	5/31/2021	8,100,000	7,954,440
Total Non-control/Non-affiliate Investments						$ 101,538,409
Affiliate Investments7						
CHANDLER SIGNS, LP	Senior subordinated debt	Business services	12.00%	7/4/2021	$ 4,500,000	$ 4,412,800
	1,500,000 units of Class A-1 common stock		-	-	-	1,500,000
						5,912,800
kSEP HOLDINGS, INC.	861,591 shares of common stock	Healthcare products	-	-	-	443,518
Total Affiliate Investments						$ 6,356,318
Control Investments8						
I-45 SLF LLC6, 9, 10	80% LLC equity interest	Multi-sector holdings	-	-	-	$ 36,800,000
MEDIA RECOVERY, INC.10	800,000 shares of Series A convertible preferred stock	Industrial products	-	-	-	800,000
	4,000,002 shares of common stock	Specialty chemicals	-	-	-	4,615,000
						5,415,000
Total Control Investments						$ 42,215,000
						$ 150,109,727

TOTAL INVESTMENTS[11]

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

[2] The majority of investments bear interest at a rate that may be determined by reference to London Interbank Offered Rate ("LIBOR" or "L") or Prime ("P") and reset daily, monthly, quarterly, or semiannually. For each the Company has provided the spread over LIBOR or Prime and the current contractual interest rate in effect at March 31, 2016. Certain investments are subject to a LIBOR or Prime interest rate floor.

[3] Investments are carried at fair value in accordance with the Investment Company Act of 1940 (the "1940 Act") and Financial Accounting Standards Board ("FASB") Accounting Standard Codification ("ASC") 820, Fair Value Measurements and Disclosures. We determine in good faith the fair value of our Investment portfolio pursuant to a valuation policy in accordance with ASC 820 and a valuation process approved by our Board of Directors. See Note 4 to the consolidated financial statements.

[4] Non-Control/Non-Affiliate investments are generally defined by the 1940 Act as investments that are neither Control investments nor Affiliate investments. At March 31, 2016, approximately 55.6% of the Company's investment assets are non-control investments.

[5] The investment has $1.7 million unfunded commitment.

[6] Indicates assets that the Company believes do not represent "qualifying assets" under section 55(a) of the 1940 Act. Qualifying assets must represent at least 70% of total assets at the time of acquisition of any additional non-qualifying assets.

[7] Affiliate investments are generally defined by the 1940 Act as investments in which between 5% and 25% of the voting securities are owned and the investments are not classified as control investments. At March 31, 2016, approximately 6.0% of the Company's investment assets are affiliate investments.

[8] Control investments are generally defined by the 1940 Act as investments in which more than 25% of the voting securities are owned or maintains greater than 50% of the board representation. At March 31, 2016, approximately 38.4% of the Company's investment assets are control investments.

[9] The investment has approximately $31.2 million unfunded commitment as of March 31, 2016.

[10] Income producing through dividends on distributions.

[11] As of March 31, 2016, the cumulative gross unrealized appreciation for federal income tax purposes is approximately $28.4 million; cumulative gross unrealized depreciation for federal income tax purposes is $4.3 million. Cumulative net unrealized appreciation is $32.7 million, based on a tax cost of $150.1 million.

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Notes to Consolidated Financial Statements

1.ORGANIZATION AND BASIS OF PRESENTATION

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

Organization

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

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

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

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

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

We focus on investing in companies with track records of generating revenues and positive cash flow, established market positions and proven management teams with strong operating discipline. We target senior and subordinated investments in the lower middle market and private loan transactions (club deals), as well as first and second lien syndicated loans in larger middle market companies. Our target lower middle market companies typically have annual earnings before interest, taxes, depreciation and amortization (“EBITDA”) between $3 million and $15 million. Our target club deal companies typically have annual EBITDA between $15 million and $50 million. Our target companies for syndicated first and second lien loan investments are in large middle market companies that typically have annual EBITDA that is greater than $50 million. We make available significant managerial assistance to the companies in which we invest as we believe that providing managerial assistance to an investee company is critical to its business development activities.

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

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Following the spin-off, we have maintained operations as an internally managed BDC and pursue a credit-focused investing strategy. We continue to provide capital to middle-market companies. We invest primarily in debt securities, including senior secured debt and subordinated debt, and may also invest in preferred stock and common stock alongside our debt investments or through warrants. We also invest in broadly syndicated first and second lien loans in large middle-market companies.

Basis of Presentation

The consolidated financial statements have been prepared in accordance with Generally Accepted Accounting Principles in the United States of America ("U.S. GAAP"). We meet the definition of an investment company and follow the accounting and reporting guidance in the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 946 – Financial Services – Investment Companies ("ASC Topic 946"). Under rules and regulations applicable to investment companies, we are generally precluded from consolidating any entity other than another investment company subject to certain exceptions. One of the exceptions to this general principle occurs if the investment company has an investment in an operating company that provides services to the investment company. Accordingly, the consolidated financial statements include CSMC, our management company, and the Taxable Subsidiary.

The consolidated financial statements are presented in conformity with U.S. GAAP for interim financial information and pursuant to the requirements for reporting on Form 10-Q and Article 10 of Regulation S-X. Accordingly, certain disclosures accompanying annual financial statements prepared in accordance with U.S. GAAP are omitted. In the opinion of our management, the unaudited consolidated financial results included herein contain all adjustments, consisting solely of normal recurring accruals, considered necessary for the fair presentation of financial statements for the interim periods included herein. The results of operations for the three and six months ended September 30, 2016 and 2015 are not necessarily indicative of the operating results to be expected for the full fiscal year. Also, the unaudited financial statements and notes should be read in conjunction with the audited financial statements and notes thereto for the fiscal years ended March 31, 2016 and 2015. Financial statements prepared on a U.S. GAAP basis require management to make estimates and assumptions that affect the amounts and disclosures reported in the financial statements and accompanying notes. Such estimates and assumptions could change in the future as more information becomes known, which could impact the amounts reported and disclosed herein.

In the fourth quarter of 2016, the Company discovered and corrected an immaterial error relating to the unrealized gain (loss) associated with the investments spun off to CSWI for the six months ended September 30, 2015. The three months ended September 30, 2015 were correct. Previously, on the Consolidated Statements of Operations for the six months ended September 30, 2015, the net increase in unrealized appreciation of investments was $5.9 million and on the Consolidated Statements of Changes in Net Assets, the decrease in unrealized appreciation related to spin-off investments was $456.2 million. The correct net increase in unrealized appreciation of investments is $8.0 million and the correct decrease in unrealized appreciation related to spin-off investments was $458.3 million. This reclassification had no effect on assets, net asset value per share, or net investment income. Accordingly, the Company has corrected its Consolidated Statements of Operations and Changes in Net Assets for the six months ended September 30, 2015.

Portfolio Investment Classification

We classify our investments in accordance with the requirements of the 1940 Act. Under the 1940 Act, “Control Investments” are generally defined as investments in which we own more than 25% of the voting securities or have rights to maintain greater than 50% of the board representation; “Affiliated Investments” are generally defined as investments in which we own between 5% and 25% of the voting securities; and “Non-Control/Non-Affiliated Investments” are generally defined as investments that are neither “Control Investments” nor “Affiliated Investments.”

Under the 1940 Act, a BDC must meet certain requirements, including investing at least 70% of our assets in qualifying assets. The principal categories of qualifying assets relevant to our business are any of the following:

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

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

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

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

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

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

2.SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Fair Value Measurements We account for substantially all of our financial instruments at fair value in accordance with ASC Topic 820 – Fair Value Measurements and Disclosures (“ASC Topic 820”). ASC Topic 820 defines fair value, establishes a framework used to measure fair value, and requires disclosures for fair value measurements, including the categorization of financial instruments into a three-level hierarchy based on the transparency of valuation inputs. See Note 4 to the consolidated financial statements for further discussion regarding the fair value measurements and hierarchy.

ASC Topic 820 requires disclosure of the fair value of financial instruments for which it is practical to estimate such value. We believe that the carrying amounts of our financial instruments such as cash, receivables and payables approximate the fair value of these items due to the short maturity of these instruments.

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

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

Cash and Cash Equivalents Cash and cash equivalents, which consist of cash and highly liquid investments with an original maturity of three months or less at the date of purchase, are carried at cost, which approximates fair value. Cash and cash equivalents includes deposits at financial institutions. We deposit our cash balances in financial institutions and, at times, such balances may be in excess of the Federal Deposit Insurance Corporation (“FDIC”) insurance limits. At September 30, 2016 and March 31, 2016, cash balances totaling $55.1 million and $93.7 million, respectively, exceeded FDIC insurance limits, subjecting us to risk related to the uninsured balance. All of our cash deposits are held at large established high credit quality financial institutions and management believes that the risk of loss associated with any uninsured balances is remote.

Segment Information We operate and manage our business in a singular segment. As an investment company, we invest in portfolio companies in various industries and geographic areas as discussed in Note 3.

Consolidation As permitted under Regulation S-X and ASC Topic 946, we generally do not consolidate our investment in a portfolio company other than an investment company subsidiary or a controlled operating company whose business consists of providing services to CSWC. Accordingly, we consolidated the results of CSWC’s wholly-owned subsidiaries, CSVC, the Taxable Subsidiary and CSWC's wholly-owned management company, CSMC. All intercompany balances have been eliminated upon consolidation.

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

Interest and Dividend Income Interest and dividend income is recorded on an accrual basis to the extent amounts are expected to be collected. Dividend income is recognized on the record date. Discounts/premiums received to par on loans purchased are capitalized and accreted or amortized into income over the life of the loan using the effective interest method. Any remaining discount/premium is accreted or amortized into income upon prepayment of the loan. In accordance with our valuation policy, accrued interest and dividend income is evaluated periodically for collectability. When we do not expect the debtor to be able to service all of its debt or other obligations, we will generally establish a reserve against interest income receivable, thereby placing the loan or debt security on non-accrual status, and cease to recognize interest income on that loan or debt security until the borrower has demonstrated the ability and intent to pay contractual amounts due. If a loan or debt security's status significantly improves regarding ability to service debt or other obligations, it will be restored to accrual basis. As of September 30, 2016, we had one investment on non-accrual status. As of March 31, 2016, we did not have any investments on non-accrual status.

To maintain RIC tax treatment, these non-cash sources of income such as accretion of interest income may need to be paid out to shareholders in the form of distributions, even though CSWC may not have collected the interest income. For the three and six months ended September 30, 2016, approximately 2.1% and 2.0%, respectively, of CSWC's total investment income was attributable to interest income for the accretion of discounts associated with debt investments, net of any premium reduction. For the three and six months ended September 30, 2015, approximately 1.4% and 1.0%, respectively, of CSWC's total investment income was attributable to interest income for the accretion of discounts associated with debt investments, net of any premium reduction.

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

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

In addition to the requirement that we must annually distribute at least 90% of our investment company taxable income, we may either distribute or retain our realized net capital gains from investments, but any net capital gains not distributed may be subject to corporate level tax. When we retain the capital gains, they are classified as a “deemed distribution” to our shareholders and are subject to our corporate tax rate of 35%. As an investment company that qualifies as a RIC, federal income taxes payable on security gains that we elect to retain are accrued only on the last day of our tax year, December 31. Any capital gains actually distributed to shareholders are generally taxable to the shareholders as long-term capital gains. See Note 6 for further discussion.

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

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Management evaluates tax positions taken or expected to be taken in the course of preparing the Company's financial statements to determine whether the tax positions are "more-likely-than-not" of being sustained by the applicable tax authority. Tax positions with respect to tax at the Company level not deemed to meet the "more-likely-than-not" threshold would be recorded as an expense in the current year. Management's conclusions regarding tax positions will be subject to review and may be adjusted at a later date based on factors including, but not limited to, on-going analyses of tax laws, regulations and interpretations thereof. The Company has concluded that it does not have any uncertain tax positions that meet the recognition of measurement criteria of ASC 740 for the current period. Also, we account for interest and, if applicable, penalties for any uncertain tax positions as a component of income tax expense. No interest or penalties expense was recorded during the three and six months ended September 30, 2016 and 2015.

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

Stock-Based Compensation We account for our stock-based compensation using the fair value method, as prescribed by ASC Topic 718, Compensation – Stock Compensation. Accordingly, we recognize stock-based compensation cost on a straight-line basis for all share-based payments and awards granted to employees. The fair value of stock options are determined on the date of grant using the Black-Scholes pricing model and are expensed over the requisite service period of the related stock options. For restricted stock awards, we measured the grant date fair value based upon the market price of our common stock on the date of the grant. For restricted stock awards, we will amortize this fair value to share-based compensation expense over the vesting term. The unvested shares of restricted stock awarded pursuant to CSWC's equity compensation plans are participating securities and are included in the basic and diluted earnings per share calculation. At the three and six months ended September 30, 2016, weighted-average basic shares were adjusted for the diluted effect of stock-based awards of 79,157 and 73,060, respectively. At the three and six months ended September 30, 2015, weighted-average basic shares were adjusted for the diluted effect of stock-based awards of 88,332 and 100,040, respectively. For individual cash incentive awards, the option value of the individual cash incentive awards is calculated based on the changes in net asset value of our Company. In connection with the spin-off of CSWI, we entered into an Employee Matters Agreement with CSWI. Under this agreement, the value of individual cash incentive awards was determined based upon the net asset value of CSWC as of June 30, 2015. See Note 9 for further discussion.

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

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

Recently Issued or Adopted Accounting Standards In February 2015, the FASB issued ASU 2015-02, Consolidation (ASC Topic 810): Amendments to the Consolidation Analysis. ASU 2015-02 significantly changes the consolidation analysis required under U.S. GAAP and ends the deferral of the amendments to the VIE guidance in ASU 2009-17 (FAS 166) for investments in certain investment companies. Now all legal entities that are VIEs are evaluated for consolidation under the same criteria. Under this update, limited partnerships (or similar entities) that provide the limited partners with substantive kick-out or participating rights will be considered voting interest entities. For such entities, the investor that holds the majority of the substantive kick-out or participating rights will consolidate the VIE. This has the effect of reducing the likelihood that a general partner will consolidate a limited partnership or similar entity. ASU 2015-02 is effective for interim and annual reporting periods in fiscal years that begin after December 15, 2015 and early adoption is permitted. In accordance with this new guidance, we did not consolidate I-45 SLF, LLC based on the voting model as we only control 50% of the voting rights of this entity and, accordingly, share power over the entity equally in all respects with our joint venture partner. We adopted this guidance during the quarter ended December 31, 2015.

In April 2015, the FASB issued ASU 2015-03, Interest-Imputation of Interest (Subtopic 835-30), Simplifying the Presentation of Debt Issuance Costs. ASU 2015-03 requires that debt issuance costs related to a recognized liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. It is effective for annual reporting periods beginning after December 15, 2015. Subsequently, in August 2015, the FASB issued ASU 2015-15, Interest-Imputation of Interest (Subtopic 835-30), Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements. ASU 2015-15 allows debt issuance costs for lines of credit to be presented as an asset and subsequently amortized ratably over the term of the line-of-credit

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arrangement, regardless of whether there are outstanding borrowings on the line-of-credit arrangement. We adopted this guidance during the quarter ended September 30, 2016.

In May 2015, the FASB issued ASU 2015-07, Fair Value Measurements – Disclosures for Certain Entities that Calculate Net Asset Value per Share. This amendment updates guidance intended to eliminate the diversity in practice surrounding how investments measured at net asset value under the practical expedient with future redemption dates have been categorized in the fair value hierarchy. Under the updated guidance, investments for which fair value is measured at net asset value per share using the practical expedient should no longer be categorized in the fair value hierarchy, while investments for which fair value is measured at net asset value per share but the practical expedient is not applied should continue to be categorized in the fair value hierarchy. The updated guidance requires retrospective adoption for all periods presented and is effective for interim and annual reporting periods beginning after December 15, 2015, with early adoption permitted. We elected to adopt this guidance during the quarter ended December 31, 2015. As a result, investments measured at net asset value per share using the practical expedient are no longer categorized in the fair value hierarchy.

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

In March 2016, the FASB issued ASU 2016-09, Compensation – Stock Compensation: Improvements to Employee Share-Based Payment Accounting, which is intended to simplify several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. The new guidance is effective for annual periods beginning after December 15, 2016, and interim periods therein. Early application is permitted. CSWC is currently evaluating the impact of the adoption of this new accounting standard will have on its financial statements.

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606). ASU 2014-09 supersedes the revenue recognition requirements under SAC Topic 605, Revenue Recognition, and most industry-specific guidance throughout the Industry Topics of the ASC. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which an entity expects to be entitled in exchange for those goods or services. Under the new guidance, an entity is required to perform the following five steps: (1) identify the contract(s) with a customer; (2) identify the performance obligations in the contract; (3) determine the transaction price; (4) allocate the transaction price to the performance obligations in the contract, and (5) recognize revenue when (or as) the entity satisfies a performance obligation. The new guidance will significantly enhance comparability of revenue recognition practices across entities, industries, jurisdictions and capital markets. Additionally, the guidance requires improved disclosures as to the nature, amount, timing and uncertainty of revenue that is recognized. In May 2016, the FASB issued ASU No. 2016-12, Revenue from Contracts with Customers (Topic 606)—Narrow-Scope Improvements and Practical Expedients. This ASU clarified guidance on assessing collectability, presenting sales tax, measuring noncash consideration, and certain transition matters. The FASB tentatively decided to defer the effective date of the new revenue standard for public entities under U.S. GAAP for one year. The new guidance will be effective for the annual reporting period beginning after December 15, 2017, including interim periods within that reporting period. Early adoption would be permitted for annual reporting periods beginning after December 15, 2016. CSWC is currently evaluating the impact the adoption of this new accounting standard will have on its financial statements.

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3.INVESTMENTS

The following table shows the composition of the investment portfolio, at cost and fair value (with corresponding percentage of total portfolio investments) as of September 30, 2016 and March 31, 2016:

	Cost	Percentage of Total Portfolio		Fair Value	Percentage of Total Portfolio	
	(dollars in millions)					
September 30, 2016:						
1st lien loans[1]	$ 84.9	41.4	%	$ 86.3	36.2	%
2nd lien loans	37.0	18.1		36.5	15.3	
Subordinated debt	15.1	7.2		14.8	6.2	
Preferred equity, common equity & warrants	19.5	9.5		50.2	21.1	
I-45 SLF, LLC[2]	48.8	23.8		50.5	21.2	
	$ 205.3	100.0	%	$ 238.3	100.0	%
March 31, 2016:						
1st lien loans	$ 39.3	26.2	%	$ 39.5	22.1	%
2nd lien loans	39.0	26.0		38.2	21.4	
Subordinated debt	15.1	10.1		15.1	8.5	
Preferred equity, common equity & warrants	19.9	13.2		49.3	27.6	
I-45 SLF, LLC[2]	36.8	24.5		36.3	20.4	
	$ 150.1	100.0	%	$ 178.4	100.0	%

[1] Included in 1st lien loans are loans structured as first lien last out loans. These loans may in certain cases be subordinated in payment priority to other senior secured lenders.

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

The following table shows the composition of the investment portfolio by industry, at cost and fair value (with corresponding percentage of total portfolio investments) as of September 30, 2016 and March 31, 2016:

	Cost	Percentage of Total Portfolio		Fair Value	Percentage of Total Portfolio	
	(dollars in millions)					
September 30, 2016:						
I-45 SLF, LLC[1]	$ 48.8	23.8	%	$ 50.5	21.2	%
Distribution	21.1	10.3		21.1	8.9	

Media, Marketing, & Entertainment		16.3	7.9		16.6	6.9	
Energy Services (Upstream)		13.9	6.8		11.8	5.0	
Business Services		12.8	6.2		14.2	6.0	
Software & IT Services		12.6	6.1		13.0	5.5	
Industrial Products		12.3	6.0		42.0	17.6	
Consumer Products & Retail		11.3	5.5		11.4	4.8	
Food, Agriculture & Beverage		9.8	4.8		9.8	4.1	
Gaming & Leisure		9.7	4.7		9.8	4.1	
Healthcare Services		7.7	3.8		8.8	3.7	
Telecommunications		6.7	3.3		6.7	2.8	
Restaurants		5.0	2.4		5.0	2.1	
Healthcare Products		4.9	2.4		5.0	2.1	
Consumer Services		4.9	2.4		5.0	2.1	
Financial Services		3.6	1.7		3.7	1.5	
Paper & Forest Products		2.9	1.4		2.9	1.2	
Specialty Chemicals		1.0	0.5		1.0	0.4	
	$	205.3	100.0	% $	238.3	100.0	%

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	Cost	Percentage of Total Portfolio		Fair Value	Percentage of Total Portfolio	
	(dollars in millions)					
March 31, 2016:						
I-45 SLF, LLC1	$ 36.8	24.5	%	$ 36.3	20.4	%
Consumer Products & Retail	16.2	10.8		16.3	9.1	
Media, Marketing, & Entertainment	15.4	10.3		15.3	8.6	
Energy Services (Upstream)	14.0	9.3		11.1	6.2	
Business Services	12.8	8.5		13.7	7.7	
Industrial Products	12.3	8.2		38.5	21.5	
Financial Services	10.2	6.8		10.3	5.8	
Distribution	8.0	5.3		8.0	4.5	
Healthcare Services	7.8	5.2		7.8	4.4	
Software & IT Services	5.4	3.6		6.5	3.7	
Healthcare Products	5.3	3.5		8.6	4.8	
Consumer Services	4.9	3.3		5.0	2.8	
Specialty Chemicals	1.0	0.7		1.0	0.5	
	$ 150.1	100.0	%	$ 178.4	100.0	%

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

The following tables summarize the composition of the investment portfolio by geographic region of the United States, at cost and fair value (with corresponding percentage of total portfolio investments), as of September 30, 2016 and March 31, 2016:

	Cost	Percentage of Total Portfolio		Fair Value	Percentage of Total Portfolio	
	(dollars in millions)					
September 30, 2016:						
Southwest	$ 49.9	24.3	%	$ 79.6	33.4	%
I-45 SLF, LLC1	48.8	23.8		50.5	21.2	
West	37.4	18.2		38.2	16.0	
Midwest	30.5	14.9		31.6	13.3	
South	28.9	14.0		28.6	12.0	
Northeast	9.8	4.8		9.8	4.1	
	$ 205.3	100.0	%	$ 238.3	100.0	%
March 31, 2016:						
Southwest	$ 55.8	37.2	%	$ 80.8	45.3	%
I-45 SLF, LLC1	36.8	24.5		36.3	20.4	
West	24.0	16.0		24.4	13.7	
Midwest	20.4	13.6		20.6	11.4	

South		8.3	5.5			11.5	6.5	
Northeast		4.8	3.2			4.8	2.7	
	$	150.1	100.0	%	$	178.4	100.0	%

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

4.FAIR VALUE MEASUREMENTS

Investment Valuation Process

The valuation process is led by the finance department in conjunction with the investment team. The process includes a monthly review of each investment by our executive officers and investment teams. Valuations of each

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

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

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

Fair Value Hierarchy

CSWC has established and documented processes for determining the fair values of portfolio company investments on a recurring basis in accordance with the 1940 Act and ASC Topic 820. As required by ASC Topic 820, when the inputs used to measure fair value fall within different levels of the hierarchy, the level within which the fair value measurement is categorized is based on the lowest level input that is significant to the fair value measurement in its entirety. For example, a Level 3 fair value measurement may include inputs that are observable (Levels 1 and 2) and unobservable (Level 3). Therefore, unrealized appreciation and depreciation related to such investments categorized within the Level 3 tables below may include changes in fair value that are attributable to both observable inputs (Levels 1 and 2) and unobservable inputs (Level 3). CSWC conducts reviews of fair value hierarchy classifications on a quarterly basis. We also use judgment and consider factors specific to the investment in determining the significance of an input to a fair value measurement.

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

- Level 1: Investments whose values are based on unadjusted quoted prices in active markets for identical assets or liabilities.

- Level 2: Investments whose values are based on quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.

- Level 3: Investments whose values are based on unobservable inputs that are significant to the overall fair value measurement.

As of September 30, 2016 and March 31, 2016, 100% of the CSWC investment portfolio consisted of debt and equity instruments of privately held companies for which inputs falling within the categories of Level 1 and Level 2 are generally not available. Therefore, CSWC determines the fair value of its investments (excluding investments for which fair value is measured at net asset value) in good faith using Level 3 inputs, pursuant to a valuation policy and process that is established by the management of CSWC, with assistance from multiple third-party valuation advisors, which is subsequently approved by our Board of Directors.

Investment Valuation Inputs

ASC Topic 820 defines fair value in terms of the price that would be received upon the sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date excluding transaction costs. Under ASC Topic 820, the fair value measurement also assumes that the transaction to sell an asset occurs in the

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principal market for the asset or, in the absence of a principal market, the most advantageous market for the asset. The principal market is the market in which the reporting entity would sell or transfer the asset with the greatest volume and level of activity for the asset. In determining the principal market for an asset or liability under ASC Topic 820, it is assumed that the reporting entity has access to the market as of the measurement date.

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

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

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

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

Market Approach

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

Income Approach

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

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Yield is different from the stated rate on the investment, we discount the contractual cash flows on the debt instrument using the Required Market Yield in order to estimate the fair value of the debt security.

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

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

Enterprise Value Waterfall Approach

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

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

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

NAV Valuation Method

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

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The table below presents the Valuation Techniques and Significant Level 3 Inputs (ranges and weighted averages) used in the valuation of CSWC's debt and equity securities at September 30, 2016 and March 31, 2016. The table is not intended to be all inclusive, but instead captures the significant unobservable inputs relevant to our determination of fair value.

Type	Valuation Technique	Fair Value at 9/30/2016 (in millions)	Significant Unobservable Inputs	Range	Weighted Average
Equity Investments	Enterprise Value Waterfall Approach	$ 50.2	EBITDA Multiple	4.10x - 7.60x	6.80x
			Revenue Multiple	2.30x	2.30x
			Discount Rate	14.6% - 27.2%	15.4%
Debt Investments	Income Approach	134.7	Discount Rate	7.75% - 15.5%	10.7%
			Third Party Broker Quote	90.75 - 101.75	
	Market Approach	2.9	Cost		
		137.6			
Total Level 3 Investments		$ 187.8			

Type	Valuation Technique	Fair Value at 3/31/2016 (in millions)	Significant Unobservable Inputs	Range	Weighted Average
Equity Investments	Enterprise Value Waterfall Approach	$ 49.3	EBITDA Multiple	3.5x - 7.60x	6.78x
			Revenue Multiple	3.70x	3.70x
			Discount Rate	12.9% - 18.62%	14.0%
Debt Investments	Income Approach	68.6	Discount Rate	6.00% - 11.5%	9.7%
			Third Party Broker Quote	86.00 - 99.88	
		24.2	Cost		

	Market Approach		92.8
Total Level 3 Investments		$	142.1

The following fair value hierarchy tables set forth our investment portfolio by level as of September 30, 2016 and March 31, 2016 (in millions):

		Fair Value Measurements at September 30, 2016 Using		
Asset Category	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
1st lien loans	$ 86.3	$ –	$ –	$ 86.3
2nd lien loans	36.5	–	–	36.5
Subordinated debt	14.8	–	–	14.8
Preferred equity, common equity & warrants	50.2	–	–	50.2
Investments measured at net asset value1	50.5	–	–	–
Total Investments	$ 238.3	$ –	$ –	$ 187.8

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	Fair Value Measurements at March 31, 2016 Using			
Asset Category	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
1st lien loans	$ 39.5	$ –	$ –	$ 39.5
2nd lien loans	38.2	–	–	38.2
Subordinated debt	15.1	–	–	15.1
Preferred equity, common equity & warrants	49.3	–	–	49.3
Investments measured at net asset value1	36.3	–	–	–
Total Investments	$ 178.4	$ –	$ –	$ 142.1

[1] Certain investments that are measured at fair value using the net asset value per share (or its equivalent) practical expedient have not been categorized in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in Consolidated Statements of Assets and Liabilities.

Changes in Fair Value Levels

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

The following tables provide a summary of changes in the fair value of investments measured using Level 3 inputs during the six months ended September 30, 2016 and 2015 (in millions):

	Fair Value 3/31/2016	Realized & Unrealized Gains (Losses)	Purchases of Investments1	Repayments	Divestitures	Fair Value at 9/30/2016
1st lien loans	$ 39.5	$ 1.2	$ 52.7	$ (7.1)	$ –	$ 86.3
2nd lien loans	38.2	0.4	3.0	(5.1)	–	36.5
Subordinated debt	15.1	(0.2)	–	(0.1)	–	14.8

Preferred equity, common equity & warrants	49.3	1.3	–	–	(0.4)	50.2	
Total Investments	$ 142.1	$ 2.7	$ 55.7	$ (12.3)	$ (0.4)	$ 187.8	

	Fair Value 3/31/2015	Realized & Unrealized Gains (Losses)	Unrealized Depreciation due to Spin-off of CSWI	Purchases of Investments1	Repayments	Divestitures	Fair Value at 9/30/2015
1st lien loans	$ –	$ –	$ –	$ 5.4	$ –	$ –	$ 5.4
2nd lien loans	6.9	–	–	20.8	–	–	27.7
Subordinated debt	2.9	–	–	8.0	–	–	10.9
Preferred equity, common equity & warrants	517.3	6.9	(458.3)	–	–	(16.6) 2	49.3
Total Investments	$ 527.1	$ 6.9	$ (458.3)	$ 34.2	$ –	$ (16.6)	$ 93.3

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

[2] Includes the cost basis of The Rectorseal Corporation, Whitmore Manufacturing Company, Balco, Inc. and CapStar Holdings Company, which were spun off to CSW Industrials, Inc. at September 30, 2015.

The total unrealized gains included in earnings that related to assets still held at the report date for the six months ended September 30, 2016 and 2015 were $5,769,708 and $6,408,000, respectively.

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5.CREDIT FACILITY

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

Borrowings under the Credit Facility bear interest on a per annum basis at a rate equal to the applicable LIBOR rate (0.85% as of September 30, 2016) plus 3.25% with no LIBOR floor. For the first six months following the close of the Credit Facility, CSWC pays unused commitment fees of 0.50% per annum on the unused lender commitments under the Credit Facility. Subsequent to that period, the unused commitment fee is 0.50% to 1.50% based on utilization. The Credit Facility is secured by a first lien on the assets of CSWC and its subsidiaries.

The Credit Facility contains certain affirmative and negative covenants, including but not limited to: (1) certain reporting requirements, (2) maintaining RIC and BDC status, (3) maintaining a minimum consolidated net worth, (4) maintaining a regulatory asset coverage of not less than 200%, and (5) maintaining a consolidated interest coverage ratio of at least 2.5 to 1.0.

The Credit Facility also contains customer 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.

As of September 30, 2016, all of the Company's assets were pledged as collateral for the Credit Facility.

At September 30, 2016, CSWC had no borrowings outstanding under the Credit Facility. CSWC recognized interest expense related to the Credit Facility, including unused commitment fees and amortization of deferred loan costs of $0.1 million for the three and six months ended September 30, 2016. As of September 30, 2016, CSWC was in compliance with all financial covenants under the Credit Facility.

6.INCOME TAXES

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

We have distributed or intend to distribute sufficient dividends to eliminate taxable income for our completed tax years. If we fail to satisfy the 90% distribution requirement or otherwise fail to qualify as a RIC in any tax year, we would be subject to tax in that year on all of our taxable income, regardless of whether we made any distributions to our shareholders. During the current tax year, we have declared ordinary dividends of $3,289,591. These dividends were paid on April 1, 2016, July 1, 2016, and October 1, 2016. For the tax year ended December 31, 2015, we did not pay any ordinary dividends.

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

During our tax year ended December 31, 2015, we had long-term capital gains of $9,966,530 for tax purposes, of which $1,543,833 was distributed to shareholders as a capital gain dividend. The total undistributed capital gain totaled $8,422,697, which we elected to retain and treat as deemed distributions to our shareholders.

In order to make the election to retain capital gains, we incurred federal taxes on behalf of our shareholders in the amount of $2,947,944 for the tax year ended December 31, 2015.

For the quarter ended September 30, 2016, CSWC qualified to be taxed as a RIC. We intend to meet the applicable qualifications to be taxed as a RIC in future periods. However, the company's ability to meet certain portfolio diversification requirements for RICs in future years may not be controllable by the company.

CSMC, a wholly-owned subsidiary of CSWC, is not a RIC and is required to pay taxes at the current corporate rate. For tax purposes, CSMC has elected to be treated as a taxable entity, and therefore is not consolidated for tax purposes and is taxed at normal corporate tax rates based on its taxable income and, as a result of its activities, may generate income tax expense or benefit. The taxable income, or loss, of CSMC may differ from its book income, or loss, due to temporary book and tax timing differences and permanent differences. This income tax expense, or benefit, if any, and the related tax assets and liabilities, are reflected in our consolidated financial statements. CSMC records individual cash incentive award and bonus accruals on a quarterly basis. Deferred taxes related to the changes in the qualified defined pension plan, Restoration Plan, individual cash incentive award and bonus accruals are also recorded on a quarterly basis. A valuation allowance is provided against deferred tax assets when it is more likely than not that some portion or all of the deferred tax asset will not be realized. Establishing a valuation allowance of a deferred tax asset requires management to make estimates related to expectations of future taxable income. Estimates of future taxable income are based on forecasted cash flows from the management company's operations. As of September 30, 2016, CSMC had a deferred tax asset of approximately $3.1 million, our valuation allowance was $1.2 million and our net deferred tax asset was $1.9 million. We believe that it is more likely than not that we will be able to utilize $1.9 million of our deferred tax assets as of September 30, 2016. We will continue to assess our ability to realize our existing deferred tax assets. As of March 31, 2016, CSMC had a deferred tax asset of $2.3 million.

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

The income tax expense, or benefit, and the related tax assets and liabilities, generated by the Taxable Subsidiary and CSMC, if any, are reflected in CSWC’s consolidated financial statements. For the three and six months ended September 30, 2016, we recognized a net income tax provision of $0.4 and $1.0 million, respectively, principally consisting of a deferred tax provision, which is primarily the result of the net activity relating to the portfolio investment held in the Taxable Subsidiary, an accrual for excise tax on our estimated undistributed taxable income, and a provision for current U.S. federal income taxes.

7.ACCUMULATED Net Realized Gains on Investments

Distributions made by RICs often differ from aggregate U.S GAAP-basis undistributed net investment income and accumulated net realized gains (total U.S. GAAP-basis net realized gains). The principal cause is that required minimum fund distributions are based on income and gain amounts determined in accordance with federal income tax regulations, rather than U.S. GAAP. The differences created can be temporary, meaning that they will reverse in the future, or they can be permanent. In subsequent periods, when all or a portion of a temporary difference becomes a permanent difference, the amount of the permanent difference will be reclassified to “additional capital.”

We incur federal taxes on behalf of our shareholders as a result of our election to retain long-term capital gains. We had $5,224,270 and $1,498,184 of U.S. GAAP accumulated long term capital gains as of September 30, 2016 and March 31, 2016, respectively. In accordance with the RIC rules, we elected to retain our long-term capital gains for the tax year ended December 31, 2015, incur the applicable taxes of $2,947,944 and designate the after-tax gain as “deemed distributions” to the shareholders. “Deemed distributions” are reclassified from accumulated net realized gains into additional capital at the end of December.

8.SPIN-OFF COMPENSATION PLAN

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

On September 8, 2015, the Board designated the share distribution of CSWI as a transformative transaction for purposes of the spin-off compensation plan and amended the award agreements granted under the plan to provide for accelerated vesting of the awards held by a participant in the event of a termination of that participant’s service effected by the participant for good reason, by the employer without cause, or as a result of the disability or death of the participant. On September 30, 2015, we completed the tax-free spin-off of CSWI through a pro-rata share distribution of CSWI's common stock to CSWC shareholders of record on September 18, 2015.

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

The total value accretion was six percent of the aggregate appreciation in the Company's share price from $36.16 to the combined volume-weighted average prices of both CSWC and CSWI stock as of December 29, 2015. The cash component of the spin-off compensation plan was the difference between the total value accretion and the aggregate value of the awardee's restricted common stock and non-qualified option awards under the plan. The total cash liabilities for three participants under the plan totaled $6,115,093, of which $2,051,698 was fully vested as of December 29, 2015 and was subsequently paid out in January 2016. The remaining two payments will be fully vested on December 29, 2016 and December 29, 2017, subject to accelerated vesting as described above.

During the three and six months ended September 30, 2016, we recognized the cash component of spin-off compensation expense of $172,421 and $344,842, respectively, which represented the cash component of spin-off compensation for our current employee. During the three and six months ended September 30, 2016, we also recorded $172,423 and $1,521,408, respectively, directly to additional capital for the cash component of the spin-off compensation related to the two employees who transferred to CSWI, of which $1.3 million was paid to Kelly Tacke upon her separation from CSWI.

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9.Employee Stock based Compensation plans

Stock Options

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

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

We previously granted stock options under our 1999 Stock Option Plan (the “1999 Plan”), as approved by shareholders on July 19, 1999. The 1999 Plan expired on April 19, 2009. Options previously granted under our 1999 Plan and outstanding on July 20, 1999 continue in effect and are governed by the provisions of the 1999 Plan. All options granted under the 1999 Plan were granted at market price on the date of grant, generally expire up to 10 years from the date of grant and are generally exercisable on or after the first anniversary of the date of grant in five to ten annual installments. At September 30, 2016, there are no options to acquire shares of common stock outstanding under the 1999 Plan.

At September 30, 2015, in connection with the spin-off of CSWI, we entered into an Employee Matters Agreement with CSWI, which provided that each CSWC option that was outstanding immediately prior to September 30, 2015, would be converted into both a Post-Separation CSWC Option and a CSWI Option and would be subject to substantially the same terms and conditions (including with respect to vesting and expiration) after the September 30, 2015. Certain adjustments, using volumetric weighted-average prices for the 10-day period immediately prior to and immediately following the distribution, were made to the exercise price and number of shares of CSWC subject to such awards, with the intention of preserving the economic value of the awards immediately prior to the distribution for all CSWC employees. We compared the fair market value of our stock options on the day of the spin-off with the combined fair value of our stock options and CSWI stock options the day after the completion of the spin-off transaction. The distribution-related adjustments did not have an impact on compensation expense for the three and six months ended September 30, 2016.

At September 30, 2016, there are options to acquire 337,616 shares of common stock outstanding. The Compensation Committee does not intend to grant additional options under the 2009 Stock Incentive Plan or request shareholders' approval of additional stock options to be added under the 2009 Stock Incentive Plan.

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The following table summarizes activity in the 2009 Plan and the 1999 Plan as of September 30, 2016, including adjustments in connection with the spin-off of CSWI:

	Number of Shares		Weighted Average Exercise Price
2009 Plan			
Balance at March 31, 2015	372,000		35.24
Granted	–		–
Exercised	(8,000)		23.37
Canceled/Forfeited	–		–
Spin-off adjustments	(1,487)	*	NA
Balance at March 31, 2016	362,513		11.21*
Granted	–		–
Exercised	–		–
Canceled/Forfeited	(24,897)		10.56
Balance at September 30, 2016	337,616		$ 11.26
1999 Plan			
Balance at March 31, 2015	16,000		23.37
Granted	–		–
Exercised	(15,974)		17.38
Canceled/Forfeited	–		–
Spin-off adjustments	(26)	*	NA
Balance at March 31, 2016	–		–
Granted	–		–
Exercised	–		–
Canceled/Forfeited	–		–
Balance at September 30, 2016	–		$ –
Combined Balance at September 30, 2016	337,616		$ 11.26*

September 30, 2016	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding	7.3 years	$ 1,161,467
Exercisable	7.0 years	$ 695,395

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

We recognize compensation cost using the straight-line method for all share-based payments. The fair value of stock options are determined on the date of grant using the Black-Scholes pricing model and are expensed over the requisite service period of the related stock options. Accordingly, for the three months ended September 30, 2016 and 2015, we recognized stock option compensation expense of $48,021 and $138,356, respectively, related to the stock options held by our employees and officers. For the six months ended September 30, 2016 and 2015, we recognized stock option compensation expense of $101,907 and $295,854, respectively, related to the stock options held by our employees and officers.

As of September 30, 2016, the total remaining unrecognized compensation cost related to non-vested stock options was $289,383, which will be amortized over the weighted-average vesting period of approximately 1.5 years. During the quarter ended June 30, 2016, we recognized stock-based compensation expense for awards that are held by our employees.

At September 30, 2016, the range of exercise prices was $7.55 to $11.66 and the weighted-average remaining contractual life of outstanding options was 7.3 years. The total number of shares of common stock exercisable under both the 2009 Plan and the 1999 Plan at September 30, 2016 was 193,097 shares with a weighted-average exercise price of

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$11.10. During the quarter ended September 30, 2016, 5,975 options became exercisable and no options were exercised. During the quarter ended September 30, 2015, no options were exercised.

Stock Awards

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

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

On September 30, 2015, we completed the spin-off of CSWI. CSWI is now an independent publicly traded company. CSWI's common stock trades on the Nasdaq Global Select Market under the symbol "CSWI." The spin-off was effected through a tax-free, pro-rata distribution of 100% of CSWI's common stock to shareholders of our Company. Each holder of an outstanding Capital Southwest Restricted Stock Award immediately prior to the spin-off of CSWI received, as of the effective date of the spin-off, a CSWI Restricted Stock Award for the number of CSWI Shares as if the outstanding Capital Southwest Restricted Stock Award comprised fully vested Capital Southwest Shares as of the Distribution Date.

Restricted stock awards previously granted under the Spin-Off Compensation Plan vest and become exercisable as follows: (1) 1/3 on December 29, 2015; (2) 1/3 on December 29, 2016; and (3) 1/3 on December 29, 2017, subject to accelerated vesting as described above.

The following table summarizes the restricted stock available for issuance for the six months ended September 30, 2016:

Restricted stock available for issuance as of March 31, 2016	344,540
Additional restricted stock approved under the plan	–
Restricted stock granted during the six months ended September 30, 2016	(8,500)
Restricted stock forfeited during the six months ended September 30, 2016	7,880
Restricted stock available for issuance as of September 30, 2016	343,920

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

For the three months ended September 30, 2016 and 2015, we recognized total share based compensation expense of $206,611 and $231,621, respectively, related to the restricted stock issued to our employees and officers. For the six months ended September 30, 2016 and 2015, we recognized total share based compensation expense of $392,158 and $432,655, respectively, related to the restricted stock issued to our employees and officers.

As of September 30, 2016, the total remaining unrecognized compensation expense related to non-vested restricted stock awards was $2,015,696, which will be amortized over the weighted-average vesting period of approximately 2.8 years. Subsequent to the spin-off of CSWI, the compensation expense related to non-vested awards held by employees who are now employed by CSWI is recorded by CSWI.

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The following table summarizes the restricted stock outstanding as of September 30, 2016:

Restricted Stock Awards	Number of Shares	Weighted Average Fair Value Per Share at grant date	Weighted Average Remaining Vesting Term (in Years)
Unvested at March 31, 2016	233,207	$ 15.79	3.0
Granted	8,500	13.94	3.6
Vested	(29,667)	15.90	–
Forfeited	(7,880)	22.44	–
Unvested at September 30, 2016	204,160	$ 15.52	2.8

Individual Incentive Awards

On January 16, 2012, our Board of Directors approved the issuance of 104,000 individual cash incentive awards with a baseline for measuring increases in net asset value per share of $36.74 (Net Asset Value at December 31, 2011) to provide deferred compensation to certain key employees. On January 22, 2013, the Board of Directors granted 16,200 individual cash incentive awards with a baseline net asset value per share of $41.34 (Net Asset Value at December 31, 2012) to officers of the Company. On July 15, 2013, the Board of Directors granted 24,000 shares of individual cash incentive awards with a baseline net asset value per share of $43.80 (Net Asset Value at June 30, 2013) to a key officer of the Company. Additionally, the Board of Directors granted 38,000 individual cash incentive awards with a baseline net asset value per share of $50.25 (Net Asset Value at December 31, 2013) to several key employees of the Company in January 2014 and March 2014. Under the individual cash incentive award agreements, awards vest on the fifth anniversary of the award date. Upon exercise of an individual cash incentive award, the Company pays the recipient a cash payment in an amount equal to the net asset value per share minus the baseline net asset value per share, adjusted for capital gain dividends declared.

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

There are currently 62,000 individual cash incentive awards outstanding as of September 30, 2016 and the estimated liability for individual cash incentive awards was $587,520 at September 30, 2016. As of September 30, 2016, there is no remaining unrecognized compensation expense related to individual cash incentive awards.

There were no individual cash incentive awards vested or granted during the six months ended September 30, 2016.

Individual Cash Incentive Awards	Number of Shares	Weighted Average Grant Price Per Share	Weighted Average Remaining Vesting Term (in Years)
Unvested at March 31, 2016	74,000	$ 45.60	2.3
Granted	–	–	–
Vested	–	–	–
Forfeited or expired	(12,000)	50.25	–
Unvested at September 30, 2016	62,000	$ 44.70	1.7

10.OTHER EMPLOYEE COMPENSATION

We established a 401(k) plan (“401K Plan”) effective October 1, 2015. All full-time employees are eligible to participate in the 401K Plan. The 401K Plan permits employees to defer a portion of their total annual compensation up to the Internal Revenue Service annual maximum based on age and eligibility. During the quarter ended September 30, 2016, we made contributions to the 401K Plan of up to 4.5% of the Internal Revenue Service’s annual maximum eligible compensation, all of which is fully vested immediately. During the six months ended September 30, 2016, we made matching contributions of approximately $68,000.

11.Commitments AND CONTINGENCIES

On September 9, 2015, we entered into an agreement to co-manage I-45 SLF LLC (the “Joint Venture” or “I-45 SLF”) with Main Street Capital Corporation (“Main Street”). Both companies have equal voting rights on the Joint Venture’s Board of Managers. We have committed to provide $68,000,000 of equity to the Joint Venture, with Main Street providing $17,000,000. The Joint Venture invests primarily in syndicated senior secured loans in the upper middle market. To date we have contributed $48,800,000 and currently have commitments outstanding of $19,200,000 as of September 30, 2016.

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

12.RELATED PARTY TRANSACTIONS

As a BDC, we are obligated under the 1940 Act to make available to our portfolio companies significant managerial assistance. “Making available significant managerial assistance” refers to any arrangement whereby we provide significant guidance and counsel concerning the management, operations, or business objectives and policies of a portfolio company. We are also deemed to be providing managerial assistance to all portfolio companies that we control, either by ourselves or in conjunction with others. The nature and extent of significant managerial assistance provided by us will vary according to the particular needs of each portfolio company. During the six months ended September 30, 2016 and 2015, we received management and other fees from certain of our portfolio companies totaling $0.2 million and $0.3 million, respectively, which were recognized as fees and other income on the Consolidated Statements of Operations.

13.SUBSEQUENT EVENTS

In October 2016, we received a full prepayment on our investment in Vivid Seats in the amount of $6.9 million. Additionally, we originated one new 1st lien senior secured debt investment in Lighting Retrofit International in the amount of $8.0 million.

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14.SUMMARY OF PER SHARE INFORMATION

The following presents a summary of per share data for the three and six months ended September 30, 2016 and 2015 (share amounts presented in thousands).

	Three Months Ended September 30,		Six Months Ended September 30,	
Per Share Data:	2016	2015	2016	2015
Investment income	$ 0.30	$ 0.07	$ 0.56	$ 0.13
Operating expenses	(0.18)	(0.66)	(0.39)	(0.90)
Income taxes	(0.03)	(0.01)	(0.06)	(0.01)
Net investment income (loss)	0.09	(0.60)	0.11	(0.78)
Distributions from undistributed net investment income	(0.11)	–	(0.17)	(0.10)
Net realized gain (loss)	0.22	(0.22)	0.24	(0.17)
Net increase (decrease) in unrealized appreciation of investments	0.13	0.25	0.27	0.51
Spin-off Compensation Plan distribution	0.01	(1.69)	(0.08)	(1.69)
Decrease in unrealized appreciation due to distributions to CSWI	—	(29.41)	—	(29.41)
Exercise of employee stock options1	—	—	—	(0.03)
Share based compensation expense	0.01	0.02	0.03	0.05
Increase (decrease) in net asset value	0.35	(31.65)	0.40	(31.62)
Net asset value				
Beginning of period	17.39	49.33	17.34	49.30
End of period	$ 17.74	$ 17.68	$ 17.74	$ 17.68
Ratios and Supplemental Data				
Ratio of operating expenses to average net assets2	1.08 %	1.62 %	2.26 %	2.21 %
Ratio of net investment income to average net assets2	0.50 %	(1.47) %	0.63 %	(1.91) %
Total investment return2,3	8.34 %	(4.87) %	7.23 %	(3.66) %
Total return based on change in NAV2,4	2.65 %	(1.80) %	3.29 %	(1.54) %
Weighted-average fully diluted shares outstanding	15,806	15,672	15,802	15,678
Common shares outstanding at end of period	15,726	15,583	15,726	15,583

[1] Net decrease is due to the exercise of employee stock options at prices less than beginning of period net asset value.

[2] Not annualized.

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

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

15.SIGNIFICANT SUBSIDIARIES

Media Recovery, Inc.

Media Recovery, Inc. (MRI), through its subsidiary, ShockWatch, provides solutions that currently enable over 3,000 customers and some 200 partners in 62 countries to detect mishandling that causes product damage and spoilage during transport and storage. The ShockWatch product portfolio includes impact, tilt, temperature, vibration, and humidity detection systems and is widely used in the energy, transportation, aerospace, defense, food, pharmaceutical, medical device, consumer goods and manufacturing sectors. MRI completed the divestiture of DataSpan, Inc., a leading data storage, products, and management provider, to DataSpan Holdings in September 2014, and continued to provide post-closing services to DataSpan Holdings under a transition services agreement (“TSA”) through June 27, 2015. Our valuation is based primarily on adjusted EBITDA, which reflects certain adjustments to the reported EBITDA, including nonrecurring expenses associated with fulfilling the obligations under the TSA, write off of obsolete inventory, executive severance and recruiting costs.

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At September 30, 2016, the value of Media Recovery, Inc. represented 11.6% of our total assets. Below is certain selected key financial data from its Balance Sheet at September 30, 2016 and three and six months ended September 30, 2016 and 2015.

	September 30, 2016	March 31, 2016
Current Assets	$ 11,190,714	$ 11,242,247
Non-Current Assets	23,523,207	23,643,815
Current Liabilities	1,810,109	1,996,523
Non-Current Liabilities	$ 2,298,682	$ 2,239,678

	Three months ended		Six months ended	
	9/30/2016	9/30/2015	9/30/2016	9/30/2015
Revenue	$ 4,591,136	$ 4,861,437	9,825,344	$ 10,166,482
Income (loss) from continuing operations	464,148	(256,834)	1,273,069	(494,620)
Net income	464,148	(376,144)	1,273,069	(613,930)

I-45 SLF LLC

In September 2015, we entered into an LLC agreement with Main Street to form I-45 SLF LLC. I-45 SLF began investing in syndicated senior secured loans in the upper middle market during the quarter ended December 31, 2015. The initial equity capital commitment to I-45 SLF totaled $85 million, consisting of $68 million from us and $17 million from Main Street. Approximately $61.0 million was funded as of September 30, 2016, relating to these commitments, of which $48.8 million was from CSWC. We own 80.0% of I-45 SLF and have a profits interest of 75.6%, while Main Street owns 20.0% and has a profits interest of 24.4%. I-45 SLF's Board of Managers makes all investment and operational decisions for the fund, and consists of equal representation from CSWC and Main Street.

As of September 30, 2016, I-45 SLF had total assets of $177.5 million. I-45 SLF currently has approximately $172.5 million of credit investments at fair value as of September 30, 2016. The portfolio companies in I-45 SLF are in industries similar to those in which we may invest directly. As of September 30, 2016, approximately $24.4 million were unsettled trades. During the three months ended September 30, 2016, I-45 SLF declared a total dividend of $1.7 million of which $1.3 million was paid out to CSWC in October.

Additionally, I-45 SLF closed on a $75.0 million 5-year senior secured credit facility with Deutsche Bank AG ("Deutsche Bank facility"). This facility includes an accordion feature which will allow I-45 to achieve leverage of up to 2x debt-to-equity. Borrowings under the facility are secured by all of the assets of I-45 SLF and bear interest at a rate equal to plus 2.5% per annum. During the six months ended September 30, 2016, I-45 increased debt commitments outstanding by an additional $70.0 million by adding three additional lenders to the syndicate, bringing total debt commitments to $145.0 million. Under the Deutsche Bank facility, $88.0 million has been drawn as of June 30, 2016.

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Below is a summary of I-45 SLF's portfolio, followed by a listing of the individual loans in I-45 SLF's portfolio as of September 30, 2016 and March 31, 2016:

I-45 SLF LLC Loan Portfolio as of September 30, 2016

Portfolio Company	Industry	Investment Type	Maturity Date	Current Interest Rate1,3	Principal	Cost
Ahead, LLC	Business services	First Lien	11/2/2020	L+ 6.50%	$ 4,812,500	$ 4,693,804
American Scaffold Holdings	Aerospace & defense	First Lien	3/31/2022	L+6.50% (Floor 1.00%)	2,962,500	2,918,063
American Teleconferencing	Telecommunications	First Lien	12/8/2021	L+6.50% (Floor 1.00%)	5,861,996	5,331,020
Array Technologies	Technology products & components	First Lien	6/22/2021	L+7.25% (Floor 1.00%)	4,875,000	4,777,500
ATX Networks Corp.	Technology products & components	First Lien	6/12/2021	L+6.00% (Floor 1.00%)	4,949,875	4,896,778
Autoparts Holdings	Automotive	First Lien	7/29/2017	L+5.50% (Floor 1.50%)	5,000,000	4,619,565
Beaver-Visitec International	Healthcare products	First Lien	8/21/2023	L+5.00% (Floor 1.00%)	5,000,000	4,950,159
California Pizza Kitchen	Food, agriculture & beverage	First Lien	8/23/2022	L+6.00% (Floor 1.00%)	5,000,000	4,950,000
Compuware Corporation	Software & IT services	First Lien	12/15/2019	L+5.25% (Floor 1.00%)	2,844,156	2,755,947
CRGT	Aerospace & defense	First Lien	12/19/2020	L+6.50% (Floor 1.00%)	3,551,414	3,547,561
Digital River	Software & IT services	First Lien	2/12/2021	L+6.50% (Floor 1.00%)	7,015,452	6,984,730
Hunter Defense Technologies	Aerospace & defense	First Lien	8/5/2019	L+6.00% (Floor 1.00%)	2,822,368	2,813,839
ICSH, Inc.	Containers & packaging	First Lien	12/31/2018	L+5.75% (Floor 1.00%)	6,949,310	6,913,090
iEnergizer	Business services	First Lien	5/1/2019		5,587,642	5,118,395

				L+6.00% (Floor 1.25%)		
IG Investments Holdings	Business services	First Lien	10/31/2021	L+5.00% (Floor 1.00%)	2,493,523	2,481,116
Imagine! Print Solutions	Media, marketing & entertainment	First Lien	3/30/2022	L+6.00% (Floor 1.00%)	3,583,496	3,540,658
InfoGroup Inc.	Software & IT services	First Lien	5/28/2018	L+5.50% (Floor 1.50%)	5,945,005	5,779,122
Integro Parent Inc.	Business services	First Lien	11/2/2022	L+5.75% (Floor 1.00%)	4,963,924	4,802,574
iPayment, Inc.	Financial services	First Lien	5/8/2017	L+5.25% (Floor 1.50%)	5,000,000	4,947,733
Jet Support Services, Inc.	Aerospace & defense	First Lien	8/31/2021	L+6.50% (Floor 1.00%)	4,750,000	4,656,007

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Portfolio Company	Industry	Investment Type	Maturity Date	Current Interest Rate 1,3	Principal	Cost
Kendra Scott	Consumer products & retail	First Lien	7/17/2020	L+6.00% (Floor 1.00%)	4,774,051	4,767,470
LTI Holdings, Inc.	Industrial products	First Lien	4/17/2022	L+4.25% (Floor 1.00%)	1,984,925	1,770,664
Mood Media Corporation	Business services	First Lien	5/1/2019	L+6.00% (Floor 1.00%)	4,526,502	4,431,364
MWI Holdings	Industrial products	First Lien	6/29/2020	L+5.50% (Floor 1.00%)	4,987,500	4,937,625
New Media Holdings II LLC	Media, marketing & entertainment	First Lien	6/4/2020	L+6.25% (Floor 1.00%)	5,934,647	5,916,397
Northstar Travel	Media, marketing & entertainment	First Lien	6/7/2022	L+6.25% (Floor 1.00%)	4,196,875	4,133,922
PetValu	Consumer products & retail	First Lien	7/5/2022	L+5.50% (Floor 1.00%)	5,000,000	4,950,000
Polycom	Telecommunications	First Lien	9/27/2023	L+6.50% (Floor 1.00%)	7,000,000	6,746,250
Prepaid Legal Services, Inc.	Consumer services	First Lien	7/1/2019	L+5.25% (Floor 1.25%)	4,649,519	4,644,882
		Second Lien	7/1/2020	L+9.00% (Floor 1.25%)	405,000	394,192
Redbox Automated Retail	Gaming & leisure	First Lien	9/27/2021	L+7.50% (Floor 1.00%)	7,000,000	6,790,000
Sage Automotive	Automotive	Second Lien	10/8/2021	L+8.00% (Floor 1.00%)	1,936,000	1,912,405
SRP Companies	Consumer services	First Lien	9/8/2023	L+6.50% (Floor 1.00%)	6,000,000	5,940,000
Stardust Finance Holdings, Inc.	Buildings & infrastructure products	First Lien	3/13/2022	L+5.50% (Floor 1.00%)	5,961,354	5,900,008
TaxACT	Financial services	First Lien	12/31/2022	L+6.00% (Floor 1.00%)	3,687,500	3,588,226

US Joiner (IMECO and RAACI)	Transportation & logistics	First Lien	4/16/2020	L+6.00% (Floor 1.00%)	4,811,080	4,747,425
Vivid Seats	Media, marketing & entertainment	First Lien	3/1/2022	L+6.00% (Floor 1.00%)	4,937,500	4,624,490
Water Pik, Inc.	Consumer products & retail	First Lien	7/8/2020	L+4.75% (Floor 1.00%)	1,173,221	1,170,851
		Second Lien	1/8/2021	L+8.75% (Floor 1.00%)	1,877,193	1,838,251
Total Investments						$ 170,682,083

[1] Represents the interest rate as of September 30, 2016. All interest rates are payable in cash, unless otherwise noted.

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[2] Represents the fair value determined utilizing a similar process as the Company in accordance with ASC 820. However, the determination of such fair value is determined by the Board of Managers of the Joint Venture. It is not included in the Company's Board of Directors' valuation process described elsewhere herein.

[3] The majority of investments bear interest at a rate that may be determined by reference to London Interbank Offered Rate ("LIBOR" or "L") or Prime ("P") which reset daily, monthly, quarterly, or semiannually. For each the Company has provided the spread over LIBOR or Prime and the current contractual interest rate in effect at September 30, 2016. Certain investments are subject to a LIBOR or Prime interest rate floor.

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I-45 SLF LLC Loan Portfolio as of March 31, 2016

Portfolio Company	Industry	Investment Type	Maturity Date	Current Interest Rate1,3	Principal	Cost	Fair Va
Ahead, LLC	Business services	First Lien	11/2/2020	L+ 6.50%	$ 4,937,500	$ 4,800,794	$ 4,81
ATX Networks Corp.	Technology products & components	First Lien	6/12/2021	L+6.00% (Floor 1.00%)	4,974,937	4,915,874	4,92
BDF Acquisition Corp.	Consumer products & retail	Second Lien	2/12/2022	L+8.00% (Floor 1.00%)	3,000,000	2,859,650	2,89
Compuware Corporation	Software & IT services	First Lien	12/15/2019	L+5.25% (Floor 1.00%)	2,922,078	2,854,681	2,82
CRGT	Aerospace & defense	First Lien	12/19/2020	L+6.50% (Floor 1.00%)	3,923,567	3,918,804	3,91
Digital River	Software & IT services	First Lien	2/12/2021	L+6.50% (Floor 1.00%)	5,415,452	5,383,375	5,40
Hunter Defense Technologies	Aerospace & Defense	First Lien	8/5/2019	L+5.50% (Floor 1.00%)	2,960,526	2,950,002	2,44
ICSH, Inc.	Containers & packaging	First Lien	12/31/2018	L+5.75% (Floor 1.00%)	4,974,243	4,953,875	4,94
Imagine! Print Solutions	Media, marketing & entertainment	First Lien	3/30/2022	L+6.00% (Floor 1.00%)	3,000,000	2,947,500	3,01
Integro Parent Inc.	Business services	First Lien	11/2/2022	L+5.75% (Floor 1.00%)	4,988,287	4,821,625	4,81
iPayment, Inc.	Financial services	First Lien	5/8/2017	L+5.25% (Floor 1.00%)	5,000,000	4,904,057	4,77
Jet Support Services, Inc.	Aerospace & defense	First Lien	8/31/2021	L+6.50% (Floor 1.00%)	4,875,000	4,768,698	4,63
Kendra Scott	Consumer products & retail	First Lien	7/17/2020	L+6.00% (Floor 1.00%)	4,899,684	4,892,037	4,88
LTI Holdings, Inc.	Industrial products	First Lien	4/17/2022	L+4.25% (Floor 1.00%)	1,994,975	1,760,565	1,89
MediMedia USA	Healthcare services	First Lien	11/20/2018	L+6.75% (Floor	5,000,000	4,876,157	4,88

				1.25%)			
Milk Specialties	Food, agriculture & beverage	First Lien	11/9/2018	L+7.00% (Floor 1.25%)	3,686,288	3,681,983	3,69
Mood Media Corporation	Business services	First Lien	5/1/2019	L+6.00% (Floor 1.00%)	4,549,714	4,435,393	4,26
New Media Holdings II LLC	Media, marketing & entertainment	First Lien	6/4/2020	L+6.25% (Floor 1.00%)	4,962,311	4,951,057	4,85
Prepaid Legal Services, Inc.	Consumer services	First Lien	7/1/2019	L+5.25% (Floor 1.25%)	4,824,760	4,819,070	4,81
		Second Lien	7/1/2020	L+9.00% (Floor 1.25%)	405,000	392,850	400,
Stardust Finance Holdings, Inc.	Buildings & infrastructure products	First Lien	3/13/2022	L+5.50% (Floor 1.00%)	4,974,874	4,928,459	4,93

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Portfolio Company	Industry	Investment Type	Maturity Date	Current Interest Rate 1,3	Principal	Cost	Fair V
TaxACT	Financial services	First Lien	12/31/2022	L+6.00% (Floor 1.00%)	4,500,000	4,369,102	4,43
US Joiner (IMECO and RAACI)	Transportation & logistics	First Lien	4/16/2020	L+6.00% (Floor 1.00%)	2,992,366	2,940,000	2,94
Vivid Seats	Media, marketing & entertainment	First Lien	3/1/2022	L+6.00% (Floor 1.00%)	5,000,000	4,653,688	4,73
Water Pik, Inc.	Consumer products & retail	First Lien	7/8/2020	L+4.75% (Floor 1.00%)	1,191,287	1,188,560	1,17
		Second Lien	1/8/2021	L+8.75% (Floor 1.00%)	1,912,281	1,867,957	1,88
Total Investments						$ 99,835,813	$ 99,2

[1] Represents the interest rate as of March 31, 2016. All interest rates are payable in cash, unless otherwise noted.

[2] Represents the fair value determined utilizing a similar process as the Company in accordance with ASC 820. However, the determination of such fair value is determined by the Board of Managers of the Joint Venture. It is not included in the Company's Board of Directors' valuation process described elsewhere herein.

[3] The majority of investments bear interest at a rate that may be determined by reference to London Interbank Offered Rate ("LIBOR" or "L") or Prime ("P") which reset daily, monthly, quarterly, or semiannually. For each the Company has provided the spread over LIBOR or Prime and the current contractual interest rate in effect at March 31, 2016. Certain investments are subject to a LIBOR or Prime interest rate floor.

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Below is certain summarized financial information for I-45 SLF, LLC as of September 30, 2016 and for the three and six months ended September 30, 2016 (amounts in thousands):

	September 30, 2016	March 31, 2016
Selected Balance Sheet Information:		
Investments, at fair value (cost $170,682 and $99,836)	$ 172,519	$ 99,214
Cash and cash equivalents	2,722	2,181
Deferred financing costs	1,743	1,060
Interest receivable	541	436
Total assets	$ 177,525	$ 102,891
Senior credit facility payable	$ 88,000	$ 48,000
Payable for unsettled transactions	24,403	8,040
Other liabilities	1,859	1,494
Total liabilities	$ 114,262	$ 57,534
Members' equity	63,263	45,357
Total liabilities and net assets	$ 177,525	$ 102,891

	Three months ended September 30, 2016	Six Months Ended September 30, 2016
Selected Statement of Operations Information:		
Total revenues	$ 2,776	$ 4,933
Total expenses	(967)	(1,720)
Net investment income	1,809	3,213
Net unrealized appreciation	1,589	2,397
Net realized gains	172	360
Net increase in members' equity resulting from operations	$ 3,570	$ 5,970

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

The following discussion should be read in conjunction with our financial statements and the notes thereto included elsewhere in our Annual Report on Form 10-K for the fiscal year ended March 31, 2016 (the "Form 10-K").

The information contained herein may contain "forward-looking statements" based on our current expectations, assumptions and estimates about us and our industry. These forward-looking statements involve risks and uncertainties. Words such as "believe," "anticipate," "estimate," "expect," "intend," "plan," "will," "may," "might," "could," " other similar expressions identify forward-looking statements. In addition, any statements that refer to expectations, projections or other characterizations of future events or circumstances are forward-looking statements that are subject to risks, uncertainties and assumptions. Our actual results could differ materially from those we express in the forward-looking statements as a result of several factors more fully described in "Risk Factors" and elsewhere in our Form 10-K for the year ended March 31, 2016 and in this Form 10-Q. The forward-looking statements made in this Form 10-Q relate only to events as of the date on which the statements are made. You should read the following discussion in conjunction with the consolidated financial statements and related footnotes and other financial information included in our Form 10-K for the year ended March 31, 2016. We undertake no obligation to update publicly any forward-looking statements for any reason, whether as a result of new information, future events or otherwise, except as required by law.

OVERVIEW

Capital Southwest Corporation ("CSWC") is an investment company that specializes in providing customized financing to middle market companies in a broad range of investment segments located primarily in the United States. Our principal investment objective is to produce attractive risk-adjusted returns by generating current income from our debt investments and capital appreciation from our equity and equity related investments. Our investment strategy is to partner with business owners, management teams and financial sponsors to provide flexible financing solutions to fund growth, changes of control, or other corporate events. We invest primarily in senior and subordinated debt securities secured by security interests in portfolio company assets, coupled with equity interests.

We focus on investing in companies with histories of generating revenues and positive cash flow, established market positions and proven management teams with strong operating discipline. We target senior and subordinated investments in the lower middle market and private loan transactions (club deals), as well as first and second lien syndicated loans in larger middle market companies. Our target lower middle market companies typically have annual earnings before interest, taxes, depreciation and amortization ("EBITDA") between $3.0 million and $15.0 million. Our target club deal companies typically have annual EBITDA between $15.0 million and $50.0 million. We believe that these companies have less access to capital and that the market for such capital is underserved relative to larger companies. Companies of this size are generally privately held and are less well known to traditional capital sources such as commercial and investment banks. Our target investment in syndicated first and second lien loan investments are in large middle market companies that typically have annual EBITDA that is greater than $50 million.

We make available significant managerial assistance to the companies in which we invest as we believe that providing managerial assistance to an investee company is critical to its business development activities.

SPIN-OFF OF CSW INDUSTRIALS, INC.

On September 30, 2015, we completed the spin-off (the “Share Distribution”) of CSW Industrials, Inc. (“CSWI”). CSWI is now an independent publicly traded company. CSWI’s common stock trades on the Nasdaq Global Select Market under the symbol “CSWI.” 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.

CSWI’s assets and businesses consist of the Company’s former industrial products, coatings, sealants & adhesives and specialty chemicals businesses and include all the equity interests of The RectorSeal Corporation, The Whitmore Manufacturing Company, Balco, Inc., and CapStar Holdings Corporation.

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Effective October 1, 2015 with the completion of the Share Distribution, Bowen S. Diehl was appointed President and Chief Executive Officer of our Company, and Michael S. Sarner was appointed Chief Financial Officer, Chief Compliance Officer, Secretary and Treasurer.

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

FORMATION AND LAUNCH OF A SENIOR LOAN FUND WITH MAIN STREET CAPITAL CORPORATION

On September 9, 2015, we entered into an agreement to form and co-manage I-45 SLF LLC ("I-45"), a senior loan fund that invests primarily in syndicated senior secured loans in the upper middle market, with Main Street Capital Corporation ("Main Street"). The initial equity capital commitment to I-45 SLF totaled $85.0 million, consisting of $68.0 million from us and $17.0 million from Main Street. We own 80.0% of I-45 SLF and have a profits interest of 75.6%, while Main Street owns 20.0% and has a profits interest of 24.4%. I-45 SLF's Board of Managers makes all investment and operational decisions for the fund, and consists of equal representation from our Company and Main Street.

PORTFOLIO COMPOSITION

The total value of our investment portfolio was $238.3 million as of September 30, 2016, as compared to $178.4 million as of March 31, 2016. As of September 30, 2016, we had investments in 27 portfolio companies with an aggregate cost of $205.3 million. As of March 31, 2016, we had investments in 23 portfolio companies with an aggregate cost of $150.1 million.

As of September 30, 2016 and March 31, 2016, our investment portfolio consisted of the following investments:

	Cost	Percentage of Total Portfolio	Fair Value	Percentage of Total Portfolio
	(dollars in millions)			
September 30, 2016:				
1st lien loans1	$ 84.9	41.4 %	$ 86.3	36.2 %

2nd lien loans		37.0	18.1			36.5	15.3	
Subordinated debt		15.1	7.2			14.8	6.2	
Preferred equity, common equity & warrants		19.5	9.5			50.2	21.1	
I-45 SLF, LLC		48.8	23.8			50.5	21.2	
	$	205.3	100.0	%	$	238.3	100.0	%
March 31, 2016:								
1st lien loans	$	39.3	26.2	%	$	39.5	22.1	%
2nd lien loans		39.0	26.0			38.2	21.4	
Subordinated debt		15.1	10.1			15.1	8.5	
Preferred equity, common equity & warrants		19.9	13.2			49.3	27.6	
I-45 SLF, LLC		36.8	24.5			36.3	20.4	
	$	150.1	100.0	%	$	178.4	100.0	%

[1] Included in 1st lien loans are loans structured as first lien last out loans. These loans may in certain cases be subordinated in payment priority to other senior secured lenders.

Portfolio Asset Quality

During the quarter ended December 31, 2015, we established 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

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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 above underwriting expectations and the trends and risk factors are favorable.
- Investment Rating 2 indicates the investment is performing as expected at the time of underwriting and the risk factors are neutral to favorable.
- Investment Rating 3 involves an investment performing below underwriting expectations and indicates that the investment requires closer monitoring. 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 and the risk of the investment has increased substantially. Interest and principal payments on our investment are likely to be impaired.

The following table shows the distribution of our debt portfolio investments on the 1 to 4 investment rating scale at fair value as of September 30, 2016 and March 31, 2016:

	As of September 30, 2016		
Investment Rating	Debt Investments at Fair Value	Percentage of Debt Portfolio	
	(dollars in thousands)		
1	$ 15,478	11.2	%
2	119,643	87.0	
3	-	-	
4	2,465	1.8	
Total	$ 137,586	100.0	%

	As of March 31, 2016		
Investment Rating	Debt Investments at Fair Value	Percentage of Debt Portfolio	
	(dollars in thousands)		
1	$ 4,626	5.0	%
2	88,205	95.0	
3	-	-	
4	-	-	
Total	$ 92,831	100.0	%

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

As of September 30, 2016, we had one debt investment on non-accrual status, which comprised approximately 1.8% of our debt portfolio's fair value and approximately 1.9% of its cost. As of March 31, 2016, we did not have any investments on non-accrual status.

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Investment Activity

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

During the six months ended September 30, 2015, we made debt investments in eight new portfolio companies totaling $34.1 million. We received proceeds related to the sales of certain equity securities and partnership interests totaling $16.4 million and recognized net realized losses on such sales totaling $2.6 million.

Total portfolio investment activity for the six months ended September 30, 2016 and 2015 was as follows:

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

Six months ended September 30, 2015	1st Lien Loans	2nd Lien Loans	Subordinated Debt	Preferred & Common Equity	Partnership Interest	I-45 SLF, LLC	Total
Fair value, beginning of period	$ -	$ 6,895	$ 2,906	$ 517,306	$ 8,429	$ -	$ 535,536
New investments	5,378	20,799	7,937	-	-	-	34,114
Proceeds from sales of investments	-	-	-	(11,174)	(5,221)	-	(16,395)
Cost of investments spun off	-	-	-	(6,981)	-	-	(6,981)
Accretion of loan discounts	-	15	7	-	-	-	22
Realized gain (loss)	-	-	-	1,672	(4,320)	-	(2,648)
Unrealized gain (loss)	-	-	12	6,904	1,112	-	8,028
Decrease in unrealized appreciation related to spin-off investments	-	-	-	(458,338)	-	-	(458,338)
Fair value, end of period	$ 5,378	$ 27,709	$ 10,862	$ 49,389	$ -	$ -	$ 93,338
Weighted average yield on debt investments at end of period							2.87 %
Weighted average yield on total investments at end of period							0.25 %

RESULTS OF OPERATIONS

The composite measure of our financial performance in the Consolidated Statements of Operations is captioned "(Decrease) increase in net assets from operations" and consists of three elements. The first is "Net investment income (loss)," which is the difference between income from interest, dividends and fees and our combined operating and interest expenses, net of applicable income taxes. The second element is "Net realized gain (loss) on investments," which is the difference between the proceeds received from the disposition of portfolio securities and their stated cost, net of applicable

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income tax expense based on our tax year. The third element is the “Net increase (decrease) in unrealized appreciation of investments,” which is the net change in the market or fair value of our investment portfolio, compared with stated cost. It should be noted that the “Net realized gain (loss) on investments” and “Net increase (decrease) in unrealized appreciation of investments” are directly related in that when an appreciated portfolio security is sold to realize a gain, a corresponding decrease in net unrealized appreciation occurs by transferring the gain associated with the transaction from being “unrealized” to being “realized.” Conversely, when a loss is realized on a depreciated portfolio security, an increase in net unrealized appreciation occurs.

Comparison of three months ended September 30, 2016 and September 30, 2015

	Three Months Ended September 30,		Net Change	
	2016	2015	Amount	%
	(in thousands)			
Total investment income	$ 4,726	$ 1,078	$ 3,648	338.4 %
Total operating expenses	(2,949)	(10,325)	7,376	71.4 %
Pre-tax net investment income (loss)	1,777	(9,247)	11,024	119.2 %
Income tax expense	412	88	324	(368.2)%
Net investment income (loss)	1,365	(9,335)	10,700	114.6 %
Net realized gain (loss) on investments before income tax	3,527	(3,396)	6,923	203.9 %
Net increase in net unrealized appreciation on investments	2,026	3,783	(1,757)	46.4 %
Net increase (decrease) in net assets from operations	$ 6,918	$ (8,948)	$ 15,866	(177.3)%

Investment Income

Total investment income consisted of interest income, management fees, dividend income and other income for each applicable period. For the three months ended September 30, 2016, Capital Southwest reported investment income of $4.7 million, a $3.6 million, or 338.4%, increase as compared to the quarter ended September 30, 2015. The increase was primarily due to a $1.7 million, or 205.7%, increase in interest income generated from our debt investments, as well as an increase of $2.0 million in dividend income due to dividends received from I-45 SLF LLC and Media Recovery, Inc.

Operating Expenses

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

For the three months ended September 30, 2016, our total operating expenses were $2.9 million, a decrease of $7.4 million, or 71.4%, as compared to the total operating expenses of $10.3 million for the three months ended September 30, 2015. The decrease was primarily attributable to one-time expenses incurred in the three months ended September 30, 2015 in connection with the spin-off of CSWI.

Net Investment Income/Loss

For the three months ended September 30, 2016, pre-tax net investment income increased by $11.0 million, or 119.2%. As a result of the $3.6 million increase in total investment income and the $7.4 million decrease in operating expenses, net investment income increased by 114.6% from the prior year period to $1.4 million.

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Increase/Decrease in Net Assets from Operations

During the three months ended September 30, 2016, we recognized realized gains totaling $3.5 million, which consisted of net gains on the partial repayments of seven non-control/non-affiliate investments, the sale of one equity investment, and the write down of two escrow receivables. In addition, during the three months ended September 30, 2016, we recorded a net increase in unrealized appreciation of investments totaling $2.0 million, consisting of net unrealized appreciation on our current portfolio of $5.8 million and the reversal of $3.8 million of net unrealized appreciation recognized in prior periods due to realized gains noted above.

During the three months ended September 30, 2015, we recognized realized losses totaling $3.4 million, which consisted of net losses on the sale of certain equity securities and partnership investments. In addition, during the three months ended September 30, 2015, we recorded a net increase in unrealized appreciation of investments totaling $3.8 million, consisting of net unrealized appreciation on our current portfolio of $2.3 million and the reversal of $1.5 million of net unrealized depreciation recognized in prior periods due to realized losses noted above.

Comparison of six months ended September 30, 2016 and September 30, 2015

	Six Months Ended September 30,		Net Change	
	2016	2015	Amount	%
	(in thousands)			
Total investment income	$ 8,883	$ 2,042	$ 6,841	335.0 %
Total operating expenses	(6,188)	(14,089)	7,901	56.1 %
Pre-tax net investment income (loss)	2,695	(12,047)	14,742	122.4 %
Income tax (benefit) expense	958	118	840	(711.9)%
Net investment income (loss)	1,737	(12,165)	13,902	114.3 %
Net realized gain (loss) on investments before income tax	3,726	(2,648)	6,374	240.7 %
Net increase in net unrealized appreciation on investments	4,153	8,028	(3,875)	48.3 %
Net increase (decrease) in net assets from operations	$ 9,616	$ (6,785)	$ 16,401	(241.7)%

Investment Income

Total investment income consisted of interest income, management fees, dividend income and other income for each applicable period. For the six months ended September 30, 2016, Capital Southwest reported investment income of $8.9 million, a $6.8 million, or 335.0%, increase as compared to the six months ended September 30, 2015. The increase was primarily due to a $3.6 million, or 285.1%, increase in interest income generated from our debt investments, as well as an increase of $3.5 million in dividend income due to dividends received from I-45 SLF LLC and Media Recovery, Inc.

Operating Expenses

For the six months ended September 30, 2016, our total operating expenses were $6.2 million, a decrease of $7.9 million, or 56.1%, as compared to total operating expenses of $14.1 million for the six months ended September 30, 2015. The decrease was primarily attributable to one-time expenses incurred in the six months ended September 30, 2015 in connection with the spin-off of CSWI.

Net Investment Income/Loss

For the six months ended September 30, 2016, pre-tax net investment income increased by $14.7 million, or 122.4%. As a result of the $6.8 million increase in total investment income and the $7.9 million decrease in operating expenses, net investment income increased by 114.3% to $1.7 million.

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Increase/Decrease in Net Assets from Operations

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

During the six months ended September 30, 2015, we recognized realized losses totaling $2.6 million, which consisted of net losses on the sale of certain equity securities and partnership investments. In addition, during the six months ended September 30, 2015, we recorded net unrealized appreciation of $8.0 million, consisting of net unrealized appreciation on our current portfolio of $6.4 million and the reversal of $1.6 million of net unrealized appreciation recognized in prior periods due to the realized losses noted above.

FINANCIAL LIQUIDITY AND CAPITAL RESOURCES

At September 30, 2016, the Company had cash and cash equivalents of approximately $57.8 million and $100.0 million committed under the Credit Facility, which is currently undrawn.

With the exception of one capital gain distribution made in the form of cash dividends during the fiscal year ended March 31, 2016, two capital gain distributions made in the form of cash dividends during the fiscal year ended March 31, 2013 and a capital gain distribution made in the form of a distribution of the stock of a portfolio company in the fiscal year ended March 31, 1996, we have historically elected to retain all realized gains.

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.

CRITICAL ACCOUNTING POLICIES AND USE OF ESTIMATES

The preparation of our financial statements in accordance with Generally Accepted Accounting Principles in the United States of America, or U.S. GAAP requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses for the periods covered by the 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 both September 30, 2016 and March 31, 2016, our investment portfolio at fair value represented approximately 77.6% of our total assets. We are required to report our investments at fair value. We follow the provisions of 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 the fair value of each individual investment and record changes in fair value as unrealized appreciation or depreciation.

Our Board of Directors has the final responsibility for reviewing and approving, in good faith, our determination of the fair value for our investment portfolio and our valuation procedures, consistent with 1940 Act requirements. We believe our investment portfolio as of September 30, 2016 and March 31, 2016 approximates fair value as of those dates based on the markets in which we operate and other conditions in existence on those reporting dates.

Revenue Recognition

Interest and Dividend Income

Interest and dividend income is recorded on an accrual basis to the extent amounts are expected to be collected. Dividend income is recognized on the date dividends are declared. Discounts/premiums received to par on loans purchased are capitalized and accreted or amortized into income over the life of the loan using the effective interest method. Any remaining discount/premium is accreted or amortized into income upon prepayment of the loan. In accordance with our valuation policy, accrued interest and dividend income is evaluated periodically for collectability. When we do not expect the debtor to be able to service all of its debt or other obligations, we will generally establish a reserve against interest income receivable, thereby placing the loan or debt security on non-accrual status, and cease to recognize interest income on that loan or debt security until the borrower has demonstrated the ability and intent to pay contractual amounts due. If a loan or debt security's status significantly improves regarding ability to service debt or other obligations, it will be restored to accrual basis.

Recently Issued Accounting Standards

In February 2015, the FASB issued Accounting Standards Update 2015-02, Consolidation (ASC Topic 810): Amendments to the Consolidation Analysis. ASU 2015-02 significantly changes the consolidation analysis required under U.S. GAAP and ends the deferral of the amendments to the VIE guidance in ASU 2009-17 (FAS 166) for investments in certain investment companies. Now all legal entities that are VIEs are evaluated for consolidation under the same criteria. Under this update, limited partnerships (or similar entities) that provide the limited partners with substantive kick-out or participating rights will be considered voting interest entities. For such entities, the investor that holds the majority of the substantive kick-out or participating rights will consolidate the VIE. This has the effect of reducing the likelihood that a general partner will consolidate a limited partnership or similar entity. ASU 2015-02 is effective for interim and annual reporting periods in fiscal years that begin after December 15, 2015 and early adoption is permitted. In accordance with this new guidance, we did not consolidate I-45 SLF, LLC based on the voting model as we only control 50% of the voting rights of this entity and, accordingly, share power over the entity equally in all respects with our joint venture partner. We adopted this guidance during the quarter ended December 31, 2015.

In April 2015, the FASB issued ASU 2015-03, Interest-Imputation of Interest (Subtopic 835-30), Simplifying the Presentation of Debt Issuance Costs. ASU 2015-03 requires that debt issuance costs related to a recognized liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. It is effective for annual reporting periods beginning after December 15, 2015. Subsequently, in August 2015, the FASB issued ASU 2015-15, Interest-Imputation of Interest (Subtopic 835-30), Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements. ASU 2015-15 allows debt issuance costs for lines of credit to be presented as an asset and subsequently amortized ratably over the term of the line-of-credit arrangement, regardless of whether there are outstanding borrowings on the line-of-credit arrangement. We adopted this guidance during the quarter ended September 30, 2016.

In May 2015, the FASB issued ASU 2015-07, Fair Value Measurements – Disclosures for Certain Entities that Calculate Net Asset Value per Share. This amendment updates guidance intended to eliminate the diversity in practice surrounding how investments measured at net asset value under the practical expedient with future redemption dates have been categorized in the fair value hierarchy. Under the updated guidance, investments for which fair value is measured at net asset value per share using the practical expedient should no longer be categorized in the fair value hierarchy, while investments for which fair value is measured at net asset value per share but the practical expedient is not applied should continue to be categorized in the fair value hierarchy. The updated guidance requires retrospective adoption for all periods presented and is effective for interim and annual reporting periods beginning after December 15, 2015, with early adoption

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permitted. We elected to adopt this standard during the quarter ended December 31, 2015. As a result, investments measured at net asset value per share using the practical expedient are no longer categorized in the fair value hierarchy.

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

In March 2016, the FASB issued ASU 2016-09, Compensation – Stock Compensation: Improvements to Employee Share-Based Payment Accounting, which is intended to simplify several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. The new guidance is effective for annual periods beginning after December 15, 2016, and interim periods therein. Early application is permitted. CSWC is currently evaluating the impact the adoption of this new accounting standard will have on its financial statements.

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606). ASU 2014-09 supercedes the revenue recognition requirements under SAC Topic 605, Revenue Recognition, and most industry-specific guidance throughout the Industry Topics of the ASC. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which an entity expects to be entitled in exchange for those goods or services. Under the new guidance, an entity is required to perform the following five steps: (1) identify the contract(s) with a customer; (2) identify the performance obligations in the contract; (3) determine the transaction price; (4) allocate the transaction price to the performance obligations in the contract, and (5) recognize revenue when (or as) the entity satisfies a performance obligation. The new guidance will significantly enhance comparability of revenue recognition practices across entities, industries, jurisdictions and capital markets. Additionally, the guidance requires improved disclosures as to the nature, amount, timing and uncertainty of revenue that is recognized. In May 2016, the FASB issued ASU No. 2016-12, Revenue from Contracts with Customers (Topic 606)—Narrow-Scope Improvements and Practical Expedients. This ASU clarified guidance on assessing collectability, presenting sales tax, measuring noncash consideration, and certain transition matters. The FASB tentatively decided to defer the effective date of the new revenue standard for public entities under U.S. GAAP for one year. The new guidance will be effective for the annual reporting period beginning after December 15, 2017, including interim periods within that reporting period. Early adoption would be permitted for annual reporting periods beginning after December 15, 2016. CSWC is currently evaluating the impact the adoption of this new accounting standard will have on its financial statements.

OFF-BALANCE SHEET ARRANGEMENTS

We may be a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financial needs of our portfolio companies. These instruments may include commitments to extend credit and fund equity capital and involve, to varying degrees, elements of liquidity and credit risk in excess of the amount recognized in the balance sheet. At September 30, 2016, we had a total of $19.2 million in outstanding commitments comprised of one investment with equity capital commitments that had not been fully called.

RECENT DEVELOPMENTS

In October 2016, we received a full prepayment on our investment in Vivid Seats in the amount of $6.9 million. Additionally, we originated one new 1st lien senior secured debt investment in Lighting Retrofit International in the amount of $8.0 million.

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Item 3.Quantitative and Qualitative Disclosures about Market Risk

Our investment portfolio consists of debt and equity securities of private companies. We are subject to financial market risks, including changes in interest rates for debt securities of private companies. Changes in interest rates may affect our interest income from portfolio investments and idle funds investments. Our risk management systems and procedures are designed to identify and analyze our risk, to set appropriate policies and limits and to continually monitor these risks. Our investment income will be affected by changes in various interest rates, including LIBOR and prime rates, to the extent of any debt investments that include floating interest rates. The majority of our debt investments are made with either fixed interest rates or floating rates that are subject to contractual minimum interest rates for the term of the investment. As of September 30, 2016, approximately 89% of our debt investment portfolio (at fair value) bore interest at floating rates, 94% of which were subject to contractual minimum interest rates. As of September 30, 2016, none of our idle fund investments bore interest at floating rates.

Our investment performance is also a function of our equity securities of portfolio companies’ profitability, which may be affected by economic cycles, competitive forces, and production costs including labor rates, raw material prices and certain basic commodity prices. All of these factors may have an adverse effect on the value of our investments and on our net asset value.

Item 4.Controls and Procedures

As of the end of the period covered by this report, an evaluation was performed under the supervision and with the participation of our management, including the President and Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15 of the Securities Exchange Act of 1934). Based upon this evaluation, management, including our President and Chief Executive Officer and our Chief Financial Officer, concluded that our current disclosure controls and procedures are effective as of September 30, 2016.

During the three months ended September 30, 2016, there have been no changes in our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect our internal control over financial reporting.

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PART II. – OTHER INFORMATION

Item 1.Legal Proceedings

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

Item 1A.Risk Factors

Investing in our common stock involves a number of significant risks. There are no material changes to the risk factors previously disclosed in our Annual Report on Form 10-K for the fiscal year ended March 31, 2016, with the exception of the additional risk factors discussed below. The risks and uncertainties described below could adversely affect the material risks we all face. Risks and uncertainties not presently known to us, or not presently deemed material by us, may also impair our operations and performance. If any of the following risks actually occur, our business, financial condition or results of operations could be materially adversely affected. If that happens, the trading price of our common stock could decline, and you may lose all or part of your investment.

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

We will have a continuing need for capital to finance our investments. We are party to a senior secured credit facility (the “Credit Facility”), dated as of August 30, 2016, which provides us with a revolving credit line of up to $100.0 million, which is currently undrawn as of September 30, 2016. The Credit Facility contains customary terms and conditions, including, without limitation, affirmative and negative covenants such as information reporting requirements, minimum consolidated net worth, minimum consolidated interest coverage ratio, minimum regulatory asset coverage, and maintenance of RIC and BDC status. The Credit Facility also contains customary events of default with customary cure and notice, including, without limitation, nonpayment, misrepresentation of representations and warranties in a material respect, breach of covenants, bankruptcy, and change of control. The Credit Facility permits us to fund additional loans and investments as long as we are within the conditions set out in the Credit Facility. Our continued compliance with these covenants depends on many factors, some of which are beyond our control, and there are no assurances that we will continue to comply with these covenants. Our failure to satisfy these covenants could result in foreclosure by our lenders, which would accelerate our repayment obligations under the facility and thereby have a material adverse effect on our business, liquidity, financial condition, results of operations and ability to pay distributions to our stockholders.

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.

Borrowings to fund investments, also known as leverage, magnify the potential for loss on investments in our indebtedness and gain or loss on investments in our equity capital. As we use leverage to partially finance our investments, you will experience increased risks of investing in our securities. We may borrow from banks and other lenders, including under our Credit Facility, and may issue debt securities or enter into other types of borrowing arrangements in the future. If the value of our assets decreases, leveraging would cause net asset value to decline more sharply than it otherwise would have had we not leveraged our business. Similarly, any decrease in our income would cause net investment income to decline more sharply than it would have had we not leveraged our business. Such a decline could negatively affect our ability to pay common stock dividends, scheduled debt payments or other payments related to our securities. Use of leverage is generally considered a speculative investment technique.

As of September 30, 2016, we had no debt outstanding under our Credit Facility. Borrowings under the Credit Facility bear interest, on a per annum basis at a rate equal to the applicable LIBOR rate (0.85% as of September 30, 2016) plus 3.25%. For the first six months following the close of the Credit Facility, we pay unused commitment fees of 0.50% per annum on the unused lender commitments under the Credit Facility. Subsequent to that period, the unused commitment fee is 0.50% to 1.50% based on utilization. The Credit Facility is secured by all of our assets. If we are unable to meet the

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financial obligations under the Credit Facility, the lenders under the Credit Facility may exercise its remedies under the Credit Facility as the result of a default by us.

Our ability to achieve our investment objective may depend in part on our ability to access additional leverage on favorable terms by borrowing from banks or insurance companies or by issuing debt securities and there can be no assurance that such additional leverage can in fact be achieved.

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

All of our assets are currently pledged as collateral under our Credit Facility. If we default on our obligations under the Credit Facility, the lenders party thereto may have the right to foreclose upon and sell, or otherwise transfer, the collateral subject to their security interests. In such event, we may be forced to sell our investments to raise funds to repay our outstanding borrowings in order to avoid foreclosure and these forced sales may be at times and at prices we would not consider advantageous. Moreover, such deleveraging of our company could significantly impair our ability to effectively operate our business in the manner in which we have historically operated. As a result, we could be forced to curtail or cease new investment activities and lower or eliminate the dividends that we have historically paid to our stockholders. In addition, if the lenders exercise their right to sell the assets pledged under our Credit Facility, such sales may be completed at distressed sale prices, thereby diminishing or potentially eliminating the amount of cash available to us after repayment of the amounts outstanding under the Credit Facility.

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Item 6.Exhibits

Exhibit No.	Description
31.1	Certification of President and Chief Executive Officer required by Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), filed herewith.
31.2	Certification of Chief Financial Officer required by Rule 13a-14(a) of the Exchange Act, filed herewith.
32.1	Certification of President and Chief Executive Officer required by Rule 13a-14(b) of the Exchange Act and Section 1350 of Chapter 63 of Title 18 of the United States Code, furnished herewith.
32.2	Certification of Chief Financial Officer required by Rule 13a-14(b) of the Exchange Act and Section 1350 of Chapter 63 of Title 18 of the United States Code, furnished herewith.

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SIGNATURES

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

	CAPITAL SOUTHWEST CORPORATION
November 8, 2016 Date	By: /s/ Bowen S. Diehl Bowen S. Diehl President and Chief Executive Officer
November 8, 2016 Date	By: /s/ Michael S. Sarner Michael S. Sarner Chief Financial Officer