Goodman Scott Richard
Form 4
March 01, 2019

FORM 4

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

OMB APPROVAL

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STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

(Print or Type Responses)

1. Name and Address of Reporting Person *
Goodman Scott Richard

(Last) (First) (Middle)

150 N. MERAMEC

(Street)

CLAYTON, MO 63105

(City) (State) (Zip)

2. Issuer Name **and** Ticker or Trading Symbol
ENTERPRISE FINANCIAL SERVICES CORP [EFSC]

3. Date of Earliest Transaction (Month/Day/Year)
02/27/2019

4. If Amendment, Date Original Filed(Month/Day/Year)

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

_____ Director _____ 10% Owner
__X__ Officer (give title below) _____ Other (specify below)
President

6. Individual or Joint/Group Filing(Check Applicable Line)
_X_ Form filed by One Reporting Person
___ Form filed by More than One Reporting Person

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1.Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)		4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)			5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)
			Code	V	Amount	(A) or (D)	Price			
Common Stock								47,872	D	
Common Stock								4,419	I	401(k) Plan (1)

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

Persons who respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB control number.

SEC 1474 (9-02)

Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned
(*e.g.*, puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of Derivative Security	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)		5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)		6. Date Exercisable and Expiration Date (Month/Day/Year)		7. Title and Amount of Underlying Securities (Instr. 3 and 4)		8. Price Derivat Securit (Instr. 5
				Code	V	(A)	(D)	Date Exercisable	Expiration Date	Title	Amount or Number of Shares	
Restricted Share Units	(2)	02/27/2019		A		616		(3)	(3)	Common Stock	616	(2)
Restricted Share Units	(2)							(4)	(4)	Common Stock	560	

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
Goodman Scott Richard 150 N. MERAMEC CLAYTON, MO 63105			President	

Signatures

/s/ Scott Richard Goodman	03/01/2019
**Signature of Reporting Person	Date

Explanation of Responses:

* If the form is filed by more than one reporting person, *see* Instruction 4(b)(v).

** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

(1) The reporting person holds units in the stock fund and the number of shares reported as indirectly held in the 401 (k) plan in this row is an estimate of the number of shares of the issuer's Common Stock held in the unitized stock fund and allocated to the reporting person's account.

(2) The RSU's were granted pursuant to the Company's 2018 Stock Incentive Plan. Each RSU represents the right to receive one share of Common Stock, subject to adjustment as provided in the Grant Agreement.

(3) The RSU's vest 100% in the first quarter of 2022, subject to continued employment by the reporting person.

(4) The RSU's vest 100% in the first quarter of 2021, subject to continued employment by the reporting person.

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *see* Instruction 6 for procedure.

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March 31, 2018:

First lien loans
$
197,110

50.1
%

$
194,820

58.1
%
Second lien loans
23,229

5.9

23,092

6.9

Subordinated debt
18,783

4.8

18,885

5.6

Preferred equity
36,545

9.3

16,666

5.0

Common equity & warrants
50,315

12.8

17,134

5.1

I-45 SLF LLC[3]
67,113

17.1

64,800

19.3

$
393,095

100.0
%

$
335,397

Explanation of Responses:

100.0
%

[1] Included in first lien loans are loans structured as first lien last out loans. These loans may in certain cases be subordinated in payment priority to other senior secured lenders. As of December 31, 2018 and March 31, 2018, the fair value of the first lien last out loans are $22.7 million and $26.9 million, respectively.

[2] Included in second lien loans are loans structured as split lien term loans. These loans provide the Company with a first lien priority on certain assets of the obligor and a second lien priority on different assets of the obligor. As of December 31, 2018 and March 31, 2018, the fair value of the split lien term loans are $18.3 million and $0, respectively.

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

Portfolio Asset Quality

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

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

- Investment Rating 1 represents the least amount of risk in our portfolio. The investment is performing materially above underwriting expectations and the trends and risk factors are generally favorable.
- Investment Rating 2 indicates the investment is performing as expected at the time of underwriting and the trends and risk factors are generally favorable to neutral.
- Investment Rating 3 involves an investment performing below underwriting expectations and the trends and risk factors are generally neutral to negative. The portfolio company or investment may be out of compliance with financial covenants and interest payments may be impaired, however principal payments are generally not past due.
- Investment Rating 4 indicates that the investment is performing materially below underwriting expectations, the trends and risk factors are generally negative and the risk of the investment has increased substantially. Interest and principal payments on our investment are likely to be impaired.

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

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

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

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

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

Investment Activity

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

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

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

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

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

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RESULTS OF OPERATIONS

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

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

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

Investment Income

Total investment income consisted of interest income, management fees, dividend income and other income for each applicable period. For the three months ended December 31, 2018, Capital Southwest reported investment income of $13.9 million, a $4.9 million, or 53.8%, increase as compared to the three months ended December 31, 2017. The increase was primarily due to a $4.5 million, or 81.1%, increase in interest income from our debt investments due to a 42.0% increase in the cost basis of our debt investments from $320.1 million to $454.6 million year over year in addition to an increase in the weighted average yield on debt investments from 10.95% to 11.56% year over year.

Operating Expenses

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

Interest and Fees on our Borrowings

For the three months ended December 31, 2018, our total interest expense was $3.3 million, an increase of $2.1 million as compared to the total interest expense of $1.3 million for the three months ended December 31, 2017. The increase was primarily attributable to an increase of $55.4 million in average borrowings on our Credit Facility during the three

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months ended December 31, 2018 as compared to the three months ended December 31, 2017, as well as an increase of $19.6 million in December 2022 Notes outstanding.

Salaries, General and Administrative Expenses

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

Net Investment Income

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

Increase in Net Assets from Operations

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

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

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

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

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

	Nine Months Ended December 31,		Net Change	
	2018	2017	Amount	%
	(in thousands)			
Total investment income	$37,572	$25,252	$12,320	48.8 %
Interest expense	(8,829)	(2,924)	(5,905)	201.9 %
Other operating expenses	(11,170)	(10,376)	(794)	7.7 %
Income before taxes	17,573	11,952	5,621	47.0 %
Income tax (benefit) expense	736	(84)	820	(976.2)%
Net investment income	16,837	12,036	4,801	39.9 %
Net realized gain on investments before income tax	20,796	1,451	19,345	1,333.2 %
Net unrealized (depreciation) appreciation on investments, net of tax	(15,073)	10,843	(25,916)	(239.0)%
Net increase in net assets from operations	$22,560	$24,330	$(1,770)	(7.3)%

Investment Income

Total investment income consisted of interest income, management fees, dividend income and other income for each applicable period. For the nine months ended December 31, 2018, Capital Southwest reported investment income of $37.6 million, a $12.3 million, or 48.8%, increase as compared to the nine months ended December 31, 2017. The increase was primarily due to an $11.7 million, or 76.3%, increase in interest income from our debt investments due to a 42.0% increase in the cost basis of our debt investments from $320.1 million to $454.6 million year over year in addition to an increase in the weighted average yield on debt investments from 10.95% to 11.56% year over year.

Operating Expenses

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

Interest and Fees on our Borrowings

For the nine months ended December 31, 2018, our total interest expense was $8.8 million, an increase of $5.9 million as compared to the total interest expense of $2.9 million for the nine months ended December 31, 2017. The increase was primarily attributable to an increase of $47.4 million in average borrowings on our Credit Facility during the nine months ended December 31, 2018 as compared to the nine months ended December 31, 2017, as well as an increase of $19.6 million in December 2022 Notes outstanding.

Salaries, General and Administrative Expenses

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

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Net Investment Income

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

Increase in Net Assets from Operations

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

In addition, during the nine months ended December 31, 2018, we recorded net unrealized depreciation on investments totaling $15.1 million, consisting of net unrealized depreciation on our current portfolio of $1.4 million, the reversal of $14.2 million of net unrealized appreciation recognized in prior periods due to realized gains noted above, and net unrealized appreciation related to deferred tax associated with the Taxable Subsidiary of $0.5 million. Net unrealized depreciation on our current portfolio included unrealized losses on I-45 SLF LLC of $4.0 million, American Nuts Operations LLC of $1.6 million and Zenfolio Inc. of $1.6 million, offset by unrealized gains on Media Recovery, Inc. of $6.0 million and Dynamic Communities, LLC of $0.9 million. These unrealized gains and losses were due to changes in fair value based on the overall EBITDA performance and cash flows of each investment.

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

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

FINANCIAL LIQUIDITY AND CAPITAL RESOURCES

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

Cash Flows

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

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

Financing Transactions

In accordance with the 1940 Act, with certain limitations, the Company is only allowed to borrow amounts such that its asset coverage (i.e., the ratio of assets less liabilities not represented by senior securities to senior securities such as borrowings), calculated pursuant to the 1940 Act, is at least 200% (or, pursuant to the 1940 Act, 150% if certain requirements are met as described in our Annual Report on Form 10-K in the Business Section under “Regulation as a Business Development Company-Senior Securities”) after such borrowing. On April 25, 2018, the Board of Directors unanimously approved the application of the recently modified asset coverage requirements set forth in Section 61(a)(2) of the 1940 Act. As a result, the minimum asset coverage ratio applicable to the Company will be decreased from 200% to 150%, effective April 25, 2019. The Board of Directors also approved a resolution which limits the Company’s issuance of senior securities such that the asset coverage ratio, taking into account any such issuance, would not be less than 166%, effective April 25, 2019. As of December 31, 2018, the Company’s asset coverage was 260%.

Credit Facility

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

On November 16, 2017, CSWC entered into Amendment No. 1 (the “Amendment”) to its Credit Facility. Prior to the Amendment, borrowings under the Credit Facility accrued interest on a per annum basis at a rate equal to the applicable LIBOR rate plus 3.25% with no LIBOR floor. CSWC paid unused commitment fees of 0.50% to 1.50% per annum, based on utilization, on the unused lender commitments under the Credit Facility. The Amendment (1) increased the total borrowing capacity under the Credit Facility to $180 million, with commitments from a diversified group of eight lenders, (2) increased the Credit Facility’s accordion feature that allows for an increase in total commitments of up to $250 million under the Credit Facility from new and existing lenders on the same terms and conditions as the existing commitments, (3) reduced the interest rate on borrowings from LIBOR plus 3.25% down to LIBOR plus 3.00%, with a further step-down to LIBOR plus 2.75% at the time the Company’s net worth exceeds $325 million, (4) reduced unused commitment fees from a utilization-based grid of 0.50% to 1.5% down to a range of 0.50% to 1.0% per annum, and (5) extended the Credit Facility’s revolving period that ended on August 30, 2019 through November 16, 2020. Additionally, the final maturity of the Credit Facility was extended from August 30, 2020 to November 16, 2021. On April 16, 2018 and May 11, 2018, CSWC entered into Incremental Assumption Agreements, which increased the total commitments under the Credit Facility by $20 million and $10 million, respectively. The increases were executed in accordance with the accordion feature of the Credit Facility, increasing total commitments from $180 million to $210 million.

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

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the Credit Facility's revolving period from November 16, 2020 to December 21, 2022 and the final maturity was extended from November 16, 2021 to December 21, 2023.

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

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

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

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

Notes

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

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

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

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

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

As of December 31, 2018, the carrying amount of the December 2022 Notes was $75.0 million on an aggregate principal amount of $77.1 million at a weighted average effective yield of 5.93%. As of December 31, 2018, the fair value of the December 2022 Notes was $76.7 million. The fair value is based on the closing price of the security on The Nasdaq Global Select Market, which is a Level 1 input under ASC 820. The Company recognized interest expense related to the December 2022 Notes, including amortization of deferred issuance costs of $1.3 million and $3.5 million, respectively, for the three and nine months ended December 31, 2018. For both the three and nine months ended December 31, 2017, the Company recognized interest expense related to the December 2022 Notes of $0.2 million. Average borrowings for the three and nine months ended December 31, 2018 were $77.0 million and $67.8 million, respectively. Average borrowings for both the three and nine months ended December 31, 2017 were $57.5 million.

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

Equity Capital Activities

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

During the nine months ended December 31, 2018, the Company completed an offering of 700,000 shares of the Company's common stock at a net price of $18.90 per share. The Company issued 100,000 shares of its common stock to certain institutional investors in a direct registered offering and 600,000 shares of its common stock in a "best efforts" underwritten offering. The total net proceeds of the offerings, before expenses, was approximately $13.2 million.

We anticipate that we will continue to fund our investment activities through existing cash and cash equivalents, cash flows generated through our ongoing operating activities, utilization of available borrowings under our Credit Facility

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and future issuances of debt and equity on terms we believe are favorable to the Company and our shareholders. Our primary uses of funds will be investments in portfolio companies and operating expenses.

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

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CONTRACTUAL OBLIGATIONS

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

	Payments Due By Period (In thousands)				
Contractual Obligations	Total	Less than 1 Year	1-3 Years	3-5 Years	More Than 5 Years
Operating lease obligations	$835	$255	$ 580	$—	$ —
Credit Facility (1)	156,366	6,911	13,841	135,614	—
December 2022 Notes (2)	95,557	4,653	9,319	81,585	—
	$252,758	$11,819	$ 23,740	$217,199	$ —

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

(2) Includes interest payments.

OFF-BALANCE SHEET ARRANGEMENTS

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

At December 31, 2018 and March 31, 2018, we had a total of approximately $21.2 million and $11.6 million, respectively, in currently unfunded commitments (as discussed in Note 11 to the Consolidated Financial Statements). Included within the total unfunded commitments as of December 31, 2018 were commitments to issue letters of credit through a financial intermediary on behalf of certain portfolio companies. As of December 31, 2018, we had $3.4 million in letters of credit issued and outstanding under these commitments on behalf of the portfolio companies. For the letters of credit issued and outstanding, we would be required to make payments to third parties if the portfolio companies were to default on their related payment obligations. Of these letters of credit, $3.4 million expire in May 2019. As of December 31, 2018, none of the letters of credit issued and outstanding were recorded as a liability on the Company's balance sheet as such letters of credit are considered in the valuation of the investments in the portfolio company.

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

Item 3. Quantitative and Qualitative Disclosures about Market Risk

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

Interest Rate Risk

We are subject to interest rate risk. Interest rate risk is defined as the sensitivity of our current and future earnings to interest rate volatility, variability of spread relationships, the difference in re-pricing internals between our assets and liabilities and the effect that interest rates may have on our cash flows. Changes in the general level of interest rates can affect our net interest income, which is the difference between the interest income earned on interest earning assets and our

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interest expense incurred in connection with our interest-bearing liabilities. Changes in interest rates can also affect, among other things, our ability to acquire and originate loans and securities and the value of our investment portfolio. Our net investment income is affected by fluctuations in various interest rates including LIBOR and prime rates. However, the interest rates on our December 2022 Notes are fixed for the life of such debt. Our risk management systems and procedures are designed to identify and analyze our risk, to set appropriate policies and limits and to continually monitor these risks. We regularly measure exposure to interest rate risk and determine whether or not any hedging transactions are necessary to mitigate exposure to changes in interest rates. As of December 31, 2018, we were not a party to any hedging arrangements.

As of December 31, 2018, approximately 95.1% of our debt investment portfolio (at fair value) bore interest at floating rates, 87.7% of which were subject to contractual minimum interest rates. A hypothetical 100 basis point increase in interest rates could increase our net investment income by a maximum of $2.7 million, or $0.16 per share, on an annual basis. A hypothetical 100 basis point decrease in interest rates could decrease our net investment income by a maximum of $2.6 million, or $0.15 per share, on an annual basis. Our Credit Facility bears interest on a per annum basis equal to the applicable LIBOR rate plus 2.50%. We pay unused commitment fees of 0.50% to 1.00% per annum, based on utilization.

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

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

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Item 4. Controls and Procedures

As of the end of the period covered by this report, an evaluation was performed under the supervision and with the participation of our management, including the President and Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15 of the Securities Exchange Act of 1934). Based upon this evaluation, management, including our President and Chief Executive Officer and our Chief Financial Officer, concluded that our current disclosure controls and procedures are effective as of December 31, 2018.

During the three months ended December 31, 2018, 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 have been no material changes to the risk factors as previously disclosed in our Annual Report on Form 10-K for the fiscal year ended March 31, 2018 that we filed with the SEC on June 5, 2018.

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

Sales of Unregistered Securities

None.

Issuer Purchases of Equity Securities

On January 25, 2016, we announced that our Board of Directors authorized us to repurchase an indeterminate number of shares of our common stock at an aggregate market value of up to $10 million. The share repurchase program will be in effect until the approved dollar amount has been used to repurchase shares or the Board amends or discontinues the program at any time. During the nine months ended December 31, 2018, the Company repurchased 10,452 shares at an average price of $17.72, including commissions paid, under the share repurchase program. As of December 31, 2018, the Company has approximately $9.2 million available for additional repurchases under the program.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Mine Safety Disclosures.

None.

Item 5. Other Information.

None.

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Item 6. Exhibits

Exhibit No.	Description
10.1	Amended and Restated Senior Secured Revolving Credit Agreement dated as of December 21, 2018 among Capital Southwest Corporation, as Borrower, the Lenders Party Hereto, ING Capital LLC, as Administrative Agent, Arranger and Bookrunner and Texas Capital Bank, N.A., as Documentation Agent
10.2	Amended and Restated Guarantee, Pledge and Security Agreement dated as of December 21, 2018 among Capital Southwest, as Borrower, the Subsidiary Guarantors party hereto, ING Capital LLC, as Revolving Administrative Agent for the Revolving Lenders, each Financing Agent and Designated Indebtedness Holder party hereto and ING Capital LLC, as Collateral Agent
31.1*	Certification of President and Chief Executive Officer required by Rule 13a-14(a) of the Exchange Act.
31.2*	Certification of Chief Financial Officer required by Rule 13a-14(a) of the Exchange Act.
32.1*^	Certification of President and Chief Executive Officer required by Rule 13a-14(b) of the Exchange Act and Section 1350 of Chapter 63 of Title 18 of the United States Code.
32.2*^	Certification of Chief Financial Officer required by Rule 13a-14(b) of the Exchange Act and Section 1350 of Chapter 63 of Title 18 of the United States Code.

* Filed herewith.

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

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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

February 5, 2019	By: /s/ Bowen S. Diehl
Date	Bowen S. Diehl
	President and Chief Executive Officer
February 5, 2019	By: /s/ Michael S. Sarner
Date	Michael S. Sarner
	Chief Financial Officer, Secretary and Treasurer

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