

CAPITAL SOUTHWEST CORP

Form 497

December 12, 2017

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The information in this preliminary prospectus supplement is not complete and may be changed. A registration statement relating to these securities has been filed with and declared effective by the Securities and Exchange Commission. This preliminary prospectus supplement and the accompanying prospectus are not an offer to sell and are not soliciting an offer to buy these securities in any jurisdiction where such offer or sale is not permitted.

**SUBJECT TO COMPLETION DATED DECEMBER 12, 2017**

**PRELIMINARY PROSPECTUS SUPPLEMENT**

**(to Prospectus dated November 1, 2017)**

**\$35,000,000**

**% Notes due 2022**

We are an internally managed, closed-end, non-diversified management investment company that has elected to be treated as a business development company under the Investment Company Act of 1940, as amended. Our 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.

We are offering \$35 million in aggregate principal amount of % notes due 2022, which we refer to as the Notes. The Notes will mature on , 2022. We will pay interest on the Notes on March 15, June 15, September 15

and December 15 of each year, beginning March 15, 2018. We may redeem the Notes in whole or in part at any time or from time to time on or after \_\_\_\_\_, 2019, at the redemption price of 100% plus accrued and unpaid interest, as discussed under the section titled "Description of the Notes - Optional Redemption" in this prospectus supplement. The Notes will be issued in minimum denominations of \$25 and integral multiples of \$25 in excess thereof.

Under the terms of this variable price reoffer, the underwriters have agreed to purchase the Notes from us at \_\_\_\_\_% of the aggregate principal amount of the Notes (resulting in \$\_\_\_\_\_ in aggregate proceeds to us, before deducting expenses payable by us). The underwriters propose to offer the Notes for sale, from time to time, in one or more negotiated transactions, at prices that may be different than par. These sales may occur at market prices prevailing at the time of sale, at prices related to such prevailing market prices or at negotiated prices.

The underwriters may also purchase up to an additional \$5.25 million aggregate principal amount of Notes offered hereby, within 30 days of the date of this prospectus supplement. If the underwriters exercise this option to purchase additional Notes in full, the total aggregate proceeds to us, before deducting expenses payable by us, will be \$\_\_\_\_\_.

The Notes will be our direct unsecured obligations and rank *pari passu*, which means equal in right of payment, with all outstanding and future unsecured unsubordinated indebtedness issued by us. Because the Notes will not be secured by any of our assets, they will be effectively subordinated to all of our existing and future secured indebtedness (or any indebtedness that is initially unsecured as to which we subsequently grant security), to the extent of the value of the assets securing such indebtedness, including, without limitation, borrowings under our senior secured revolving credit facility, as amended, or the Credit Facility, of which we had \$86.0 million outstanding as of December 12, 2017. The Notes will be structurally subordinated to all existing and future indebtedness and other obligations of any of our subsidiaries since the Notes are obligations exclusively of Capital Southwest Corporation and not of any of our subsidiaries. None of our subsidiaries is a guarantor of the Notes and the Notes will not be required to be guaranteed by any subsidiary we may acquire or create in the future. In any liquidation, dissolution, bankruptcy or other similar proceeding, the holders of any of our existing or future secured indebtedness may assert rights against the assets pledged to secure that indebtedness in order to receive full payment of their indebtedness before the assets may be used to pay other creditors, including the holders of the Notes, and any assets of our subsidiaries will not be directly available to satisfy the claims of our creditors, including holders of the Notes. For further discussion, see the section titled "Description of the Notes" in this prospectus supplement.

The Notes will rank *pari passu* with, or equal to, our general liabilities. In total, these general liabilities were \$20.2 million as of September 30, 2017. We currently do not have outstanding debt that is subordinated to the Notes and do not currently intend to issue indebtedness that expressly provides that it is subordinated to the Notes. Therefore, the Notes will not be senior to any of our indebtedness or obligations.

We intend to list the Notes on The Nasdaq Global Select Market and we expect trading to commence thereon within 30 days of the original issue date under the trading symbol CSWCL. The Notes are expected to trade flat. This means that purchasers will not pay, and sellers will not receive, any accrued and unpaid interest on the Notes that is not included in the trading price. Currently, there is no public market for the Notes and there can be no assurance that one will develop.

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

**Investing in the Notes involves a high degree of risk, and should be considered highly speculative. See Supplementary Risk Factors beginning on page S-15 of this prospectus supplement and Risk Factors beginning on page 12 of the accompanying prospectus to read about factors you should consider, including the risk of leverage, before investing in the Notes.**

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

**THE NOTES ARE NOT DEPOSITS OR OTHER OBLIGATIONS OF A BANK AND ARE NOT INSURED BY THE FEDERAL DEPOSIT INSURANCE CORPORATION OR ANY OTHER GOVERNMENT AGENCY.**

Delivery of the Notes in book-entry form only through The Depository Trust Company, or DTC, will be made on or about \_\_\_\_\_, 2017.

*Book-Running Manager*

**Keefe, Bruyette & Woods,**

*A Stifel Company*

*Lead Managers*

**Janney Montgomery Scott**

**Ladenburg Thalmann**

*Co-Managers*

**BB&T Capital Markets**

**B. Riley FBR**

The date of this prospectus supplement is \_\_\_\_\_, 2017

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**ABOUT THIS PROSPECTUS SUPPLEMENT**

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

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

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**PROSPECTUS SUPPLEMENT SUMMARY**

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

**Organization**

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

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

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

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

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





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The following diagram depicts CSWC's current summary organizational structure:

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

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

### **Overview**

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

We focus on investing in companies with histories of generating revenues and positive cash flow, established market positions and proven management teams with strong operating discipline. We target senior debt, subordinated debt, and equity investments in LMM companies, as well as first and second lien syndicated loans in UMM companies. Our target LMM companies typically have annual earnings before interest, taxes, depreciation and amortization, or EBITDA, between \$3.0 million and \$15.0 million, and our LMM investments generally range from \$5.0 million to \$20.0 million. Our UMM investments generally include syndicated first and second lien loans in companies with EBITDA generally greater than \$50.0 million, and our UMM investments typically range from \$5.0 million to \$10.0 million.

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

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

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

## **Business Strategies**

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

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

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

**Investing Across Multiple Companies, Industries, Regions and End Markets.** We seek to maintain a portfolio of investments that is appropriately diverse among various companies, industries, geographic

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regions and end markets. This portfolio balance is intended to mitigate the potential effects of negative economic events for particular companies, regions, industries and end markets. However, we may from time to time hold securities of individual portfolio companies that comprise more than 5.0% of our total assets and/or more than 10.0% of the outstanding voting securities of the portfolio company. For that reason, we are classified as a non-diversified management investment company under the 1940 Act.

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

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

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

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

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

### **Risk Factors**

Investing in our securities involves a high degree of risk. You should consider carefully the information found in the sections titled **Supplementary Risk Factors** beginning on page S-15 of this prospectus supplement and **Risk Factors** beginning on page 12 of the accompanying prospectus, including, but not limited to, the following risks:

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

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

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

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

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

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

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

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

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

In addition to regulatory limitations on our ability to raise capital, our 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. 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.

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

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

If we do not invest a sufficient portion of our assets in qualifying assets, we could fail to qualify as a BDC or be precluded from investing according to our current business strategy. A failure on our part to maintain our status as a BDC would significantly reduce our operating flexibility.

We will be subject to corporate-level income tax if we are unable to qualify as a RIC under Subchapter M of the Code. Even if we qualify as a RIC, we may face tax liabilities that reduce our cash flow.

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

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

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

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

The market price of our common stock may fluctuate significantly.

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### **Investment Criteria**

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

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

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

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

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

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

**Location:** We primarily focus on companies located in the United States. Each new investment is evaluated for its appropriateness within our existing portfolio. Prospective portfolio company candidates for our existing portfolio companies may be located worldwide.

### **Recent Developments**

On August 22, 2017, we received an exemptive order that allows us to withhold shares of our common stock to satisfy tax withholding obligations related to the vesting of restricted stock granted pursuant to the Company's 2010 Restricted Stock Award Plan, as amended, or the 2010 Plan, and to pay the exercise price of options to purchase shares of our common stock granted pursuant to the Company's 2009 Stock Incentive Plan, as amended, or the 2009 Plan. In connection with the exemptive order, our Board approved an amendment to the 2010 Plan, or the Restricted Stock Plan Amendment. The Restricted Stock Plan Amendment allows the Company to withhold shares of our common stock from a participant's restricted stock award in order to satisfy tax withholding obligations related to the vesting of such restricted stock. Shares withheld by us pursuant to the Restricted Stock Plan Amendment will not be available for issuance or reissuance under the 2010 Plan. Our Board approved the Restricted Stock Plan Amendment pursuant to the powers granted under Section 14 of the 2010 Plan. In addition, our Board approved an amendment to the 2009 Plan, or the Stock Incentive Plan Amendment. The Stock Incentive Plan Amendment allows a participant of such plan to pay the exercise price of an option with cash or pursuant to a net exercise feature that allows the



Company to withhold the number of shares of our common stock from such participant's option equal to the aggregate exercise price of the option being exercised divided by the fair market value of a share of our common stock. Shares withheld by us pursuant to the Stock Incentive Plan Amendment will not be available for issuance or reissuance under the 2009 Plan. Our Board approved the Stock Incentive Plan Amendment pursuant to the powers granted under Section 18 of the 2009 Plan.

On August 30, 2017, our Board declared a quarterly cash dividend of \$0.24 per share of common stock. The dividend was paid on October 2, 2017 to shareholders of record on September 15, 2017.

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

On November 16, 2017, the Company entered into Amendment No. 1, or the Amendment, to its Credit Facility dated as of August 30, 2016, among the Company, as borrower, the lenders party thereto, ING Capital LLC, as administrative agent, and Texas Capital Bank, N.A., as documentation agent. The Amendment (1) increased the total borrowing capacity under the Credit Facility to \$180 million, supported by 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 the London Interbank Offered Rate, or LIBOR, plus 3.25% to LIBOR plus 3.00%, with a step-down to LIBOR plus 2.75% at the time the Company's net worth exceeds \$325 million, (4) reduced unused commitment fees based on utilization, 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. There are no changes to the covenants or the events of default in the Credit Facility as a result of the Amendment.

On November 30, 2017, our Board declared a quarterly cash dividend of \$0.26 per share of common stock. The dividend is payable on January 2, 2018 to shareholders of record on December 15, 2017.

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This summary sets forth certain terms of the Notes that we are offering pursuant to this prospectus supplement and the accompanying prospectus. This section and the Description of the Notes section in this prospectus supplement outline the specific legal and financial terms of the Notes. You should read this section of the prospectus supplement together with the section titled Description of the Notes beginning on page S-39 of this prospectus supplement and the more general description of the Notes in the section titled Description of Our Debt Securities beginning on page 99 of the accompanying prospectus before investing in the Notes. Capitalized terms used in this prospectus supplement and not otherwise defined shall have the meanings ascribed to them in the accompanying prospectus or in the indenture governing the Notes.

<b>Issuer</b>	Capital Southwest Corporation
<b>Title of the securities</b>	% Notes due 2022
<b>Initial aggregate principal amount being offered</b>	\$35,000,000
<b>Option to purchase additional Notes</b>	The underwriters may also purchase from us up to an additional \$5.25 million aggregate principal amount of Notes offered hereby within 30 days of the date of this prospectus supplement.
<b>Issue price</b>	Variable Price Re-offer. The underwriters propose to offer the Notes for sale, from time to time, in one or more negotiated transactions, at prices that may be different than par. These sales may occur at market prices prevailing at the time of sale, at prices related to such prevailing market prices or at negotiated prices.
<b>Principal payable at maturity</b>	100% of the aggregate principal amount; the principal amount of each Note will be payable on its stated maturity date at the office of the trustee for the Notes or at such other office as we may designate.
<b>Type of note</b>	Fixed rate note
<b>Listing</b>	We intend to list the Notes on The Nasdaq Global Select Market within 30 days of the original issue date under the trading symbol CSWCL.
<b>Interest rate</b>	% per year
<b>Day count basis</b>	360-day year of twelve 30-day months
<b>Original issue date</b>	, 2017
<b>Stated maturity date</b>	, 2022
<b>Date interest starts accruing</b>	, 2017
<b>Interest payment dates</b>	Every March 15, June 15, September 15 and December 15, commencing March 15, 2018. If an interest payment date falls on a non-business day, the applicable interest payment will be made on the next

business day and no additional interest will accrue as a result of such delayed payment.

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<b>Interest periods</b>	The initial interest period will be the period from and including _____, 2017, to, but excluding, the initial interest payment date, and the subsequent interest periods will be the periods from and including an interest payment date to, but excluding, the next interest payment date or the stated maturity date, as the case may be.
<b>Regular record dates for interest</b>	Every March 1, June 1, September 1 and December 1, commencing March 1, 2018.
<b>Specified currency</b>	U.S. Dollars
<b>Place of payment</b>	New York City and/or such other places that may be specified in the indenture or a notice to holders.
<b>Ranking of notes</b>	The Notes will be our direct unsecured obligations and will rank:  <p style="margin-left: 40px;"><i>pari passu</i> with our other outstanding and future unsecured unsubordinated indebtedness;</p> <p style="margin-left: 40px;">senior to any of our future indebtedness that expressly provides it is subordinated to the Notes;</p> <p style="margin-left: 40px;">effectively subordinated to all of our existing and future secured indebtedness (including indebtedness that is initially unsecured in respect of which we subsequently grant security), to the extent of the value of the assets securing such indebtedness, including, without limitation, borrowings under our Credit Facility, of which \$86.0 million was outstanding as of December 12, 2017; and</p> <p style="margin-left: 40px;">structurally subordinated to all future indebtedness and other obligations of any of our subsidiaries.</p>
<b>Denominations</b>	We will issue the Notes in denominations of \$25 and integral multiples of \$25 in excess thereof.
<b>Business day</b>	Each Monday, Tuesday, Wednesday, Thursday and Friday that is not a day on which banking institutions in New York City or another place of payment are authorized or obligated by law or executive order to

close.

**Optional redemption**

The Notes may be redeemed in whole or in part at any time or from time to time at our option on or after \_\_\_\_\_, 2019 upon not less than 30 days nor more than 60 days written notice by mail prior to the date fixed for redemption thereof, at a redemption price of 100% of the outstanding principal amount of the Notes plus accrued and

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unpaid interest payments otherwise payable for the then-current quarterly interest period accrued to the date fixed for redemption.

You may be prevented from exchanging or transferring the Notes when they are subject to redemption. In case any Notes are to be redeemed in part only, the redemption notice will provide that, upon surrender of such Note, you will receive, without a charge, a new Note or Notes of authorized denominations representing the principal amount of your remaining unredeemed Notes.

Before redeeming any Notes, we would have to comply with certain requirements under our Credit Facility, to the extent such requirements remain in effect at such time, or otherwise obtain consent from the lenders.

Any exercise of our option to redeem the Notes will be done in compliance with the 1940 Act.

If we redeem only some of the Notes, the trustee or DTC, as applicable, will determine the method for selection of the particular Notes to be redeemed, in accordance with the indenture governing the Notes and in accordance with the rules of any national securities exchange or quotation system on which the Notes are listed. Unless we default in payment of the redemption price, on and after the date of redemption, interest will cease to accrue on the Notes called for redemption.

The Notes will not be subject to any sinking fund.

Holder will not have the option to have the Notes repaid prior to the stated maturity date.

We may satisfy and discharge our obligations under the indenture and the Notes by delivering to the trustee for cancellation all outstanding Notes or, in certain circumstances, by depositing with the trustee after the Notes have become due and payable, will become due and payable at their stated maturity within one year, or are to be called for redemption moneys sufficient to pay all of the outstanding Notes, and paying all other sums payable under the indenture by us. See Description of the Notes Satisfaction and Discharge in this prospectus supplement.

The Notes are subject to defeasance by us.

Defeasance means that, by depositing with a trustee

**Sinking fund**

**Repayment at option of holders**

**Satisfaction and discharge**

**Defeasance**

an amount of cash and/or government

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securities sufficient to pay all principal and interest, if any, on the Notes when due and satisfying any additional conditions required under the indenture relating to the Notes, we will be deemed to have been discharged from our obligations under the Notes. See Description of the Notes Defeasance in this prospectus supplement.

**Covenant defeasance**

The Notes are subject to covenant defeasance by us. In the event of a covenant defeasance, upon depositing such funds and satisfying conditions similar to those for defeasance we would be released from certain covenants under the indenture relating to the Notes. The consequences to the holders of the Notes would be that, while they would no longer benefit from certain covenants under the indenture, and while the Notes could not be accelerated for any reason, the holders of the Notes nonetheless could look to the Company for repayment of the Notes if there were a shortfall in the funds deposited with the trustee or the trustee is prevented from making a payment. See Description of the Notes Defeasance in this prospectus supplement.

**Form of notes**

The Notes will be represented by global securities that will be deposited and registered in the name of DTC or its nominee. This means that, except in limited circumstances, you will not receive certificates for the Notes. Beneficial interests in the Notes will be represented through book-entry accounts of financial institutions acting on behalf of beneficial owners as direct and indirect participants in DTC. Investors may elect to hold interests in the Notes through either DTC, if they are a participant, or indirectly through organizations that are participants in DTC.

**Trustee, paying agent, and security registrar**

U.S. Bank National Association

**Other covenants**

In addition to any covenants described elsewhere in this prospectus supplement or the accompanying prospectus, the following covenants shall apply to the Notes:

We agree that for the period of time during which the Notes are outstanding, we will not violate Section 18(a)(1)(A) as modified by Section 61(a)(1) of the 1940 Act or any successor provisions, whether or not we continue to be subject to such provisions of the 1940 Act, but giving effect, in either case,

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to any exemptive relief granted to us by the SEC. Currently, these provisions generally prohibit us from incurring additional borrowings, including through the issuance of additional debt securities, unless our asset coverage, as defined in the 1940 Act, equals at least 200% after such borrowings. See [Supplementary Risk Factors](#) [Risks Related to the Notes](#) Pending legislation may allow us to incur additional leverage in this prospectus supplement.

We agree that, for the period of time during which the Notes are outstanding, we will not violate Section 18(a)(1)(B) as modified by (i) Section 61(a)(1) of the 1940 Act or any successor provisions and after giving effect to any exemptive relief granted to us by the SEC and (ii) the two other exceptions set forth below. These statutory provisions of the 1940 Act are not currently applicable to us and will not be applicable to us as a result of this offering. However, if Section 18(a)(1)(B) as modified by Section 61(a)(1) of the 1940 Act were currently applicable to us in connection with this offering, these provisions would generally prohibit us from declaring any cash dividend or distribution upon any class of our capital stock, or purchasing any such capital stock if our asset coverage, as defined in the 1940 Act, were below 200% at the time of the declaration of the dividend or distribution or the purchase and after deducting the amount of such dividend, distribution, or purchase. Under the covenant, we will be permitted to declare a cash dividend or distribution notwithstanding the prohibition contained in Section 18(a)(1)(B) as modified by Section 61(a)(1) of the 1940 Act or any successor provisions, but only up to such amount as is necessary for us to maintain our status as a RIC under Subchapter M of the Code. Furthermore, the covenant will not be triggered unless and until such time as our asset coverage has not been in compliance with the minimum asset coverage required by Section 18(a)(1)(B) as modified by Section 61(a)(1) of the 1940 Act or any successor provisions (after giving effect to any exemptive relief granted to us by the

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SEC) for more than six consecutive months. See Supplementary Risk Factors Risks Related to the Notes Pending legislation may allow us to incur additional leverage in this prospectus supplement.

If, at any time, we are not subject to the reporting requirements of Sections 13 or 15(d) of the Securities Exchange Act of 1934, or the Exchange Act, to file any periodic reports with the SEC, we agree to furnish to holders of the Notes and the trustee, for the period of time during which the Notes are outstanding, our audited annual consolidated financial statements, within 90 days of our fiscal year end, and unaudited interim consolidated financial statements, within 45 days of our fiscal quarter end (other than our fourth fiscal quarter). All such financial statements will be prepared, in all material respects, in accordance with applicable Generally Accepted Accounting Principles in the United States of America, or U.S. GAAP.

**Events of default**

You will have rights if an Event of Default occurs with respect to the Notes and is not cured.

The term Event of Default in respect of the Notes means any of the following:

We do not pay the principal of, or any premium on, any Note when due and payable at maturity;

We do not pay interest on any Note when due and payable, and such default is not cured within 30 days of its due date;

We remain in breach of any other covenant in respect of the Notes for 60 days after we receive a written notice of default stating we are in breach (the notice must be sent by either the trustee or holders of at least 25% of the principal amount of the outstanding Notes);

We file for bankruptcy or certain other events of bankruptcy, insolvency or reorganization occur and remain undischarged or unstayed for a period of 60 days; or

On the last business day of each of twenty-four consecutive calendar months, the Notes have an asset coverage of less than 100%, giving effect to any exemptive relief granted to us by the SEC.

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**Further issuances**

We have the ability to issue additional debt securities under the indenture with terms different from the Notes and, without the consent of the holders of the Notes, to reopen the Notes and issue additional Notes. If we issue additional debt securities, these additional debt securities could have a lien or other security interest greater than that accorded to the holders of the Notes, which are unsecured.

**Use of proceeds**

We estimate that the net proceeds we wi