

CAPITAL SOUTHWEST CORP
Form 10-Q
August 09, 2016
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2016

OR

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

For the transition period fromto

Commission File Number: 814-00061

CAPITAL SOUTHWEST CORPORATION

(Exact name of registrant as specified in its charter)

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

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

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

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

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

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

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

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

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

15,718,126 shares of Common Stock, \$0.25 value per share, as of August 5, 2016.

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PART I – FINANCIAL INFORMATION

Item 1. Consolidated Financial Statements

CAPITAL SOUTHWEST CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF ASSETS AND LIABILITIES

(In thousands of dollars, except shares and per share data)

	June 30, 2016 (Unaudited)	March 31, 2016
Assets		
Investments at fair value:		
Non-control/Non-affiliate investments (Cost: June 30, 2016 - \$92,366, March 31, 2016 - \$101,538)	\$ 90,080	\$ 99,279
Affiliate investments (Cost: June 30, 2016 - \$6,359, March 31, 2016 - \$6,356)	11,627	10,618
Control investments (Cost: June 30, 2016 - \$46,215, March 31, 2016 - \$42,215)	74,208	68,539
Total investments (Cost: June 30, 2016 - \$144,940, March 31, 2016 - \$150,110)	175,915	178,436
Cash and cash equivalents	96,957	95,969
Receivables:		
Dividends and interest	1,384	1,752
Escrow	1,824	3,424
Other	279	219
Income tax receivable	1,010	1,010
Deferred tax asset	1,874	2,342
Other assets	1,613	1,341
Total assets	\$ 280,856	\$ 284,493
Liabilities		
Other liabilities	\$ 4,852	\$ 5,713
Payable for unsettled transaction	-	3,940
Accrued restoration plan liability	2,198	2,205
Deferred income taxes	522	-
Total liabilities	7,572	11,858
Net Assets		
Common stock, \$0.25 par value: authorized, 25,000,000 shares; issued, 18,057,638 shares at June 30, 2016 and 18,065,518 shares at March 31, 2016	4,514	4,516

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Additional capital	261,432	262,539
Accumulated net investment (loss) income	(875)	(307)
Accumulated net realized gain	1,697	1,498
Unrealized appreciation of investments, net of income taxes	30,453	28,326
Treasury stock - at cost, 2,339,512 shares	(23,937)	(23,937)
Total net assets	273,284	272,635
Total liabilities and net assets	\$ 280,856	\$ 284,493
Net asset value per share (15,718,126 shares outstanding at June 30, 2016 and 15,726,006 shares outstanding at March 31, 2016)	\$ 17.39	\$ 17.34

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

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CAPITAL SOUTHWEST CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

(In thousands, except shares and per share data)

	Three Months Ended June 30,	
	2016	2015
Investment income:		
Interest and dividends		
Non-control/Non-affiliate investments	\$ 2,082	\$ 403
Affiliate investments	140	-
Control investments	1,769	300
Interest income from cash and cash equivalents	70	56
Fees and other income	96	205
Total investment income	4,157	964
Operating expenses:		
Compensation	1,484	1,212
Spin-off compensation plan	172	-
Share-based compensation	239	359
Net pension expense (benefit)	43	(70)
Spin-off professional fees	-	1,238
General and administrative	1,301	1,025
Total operating expenses	3,239	3,764
Income (loss) before income taxes	918	(2,800)
Income tax expense	547	30
Net investment income (loss)	\$ 371	\$ (2,830)
Realized gain (loss)		
Non-control/Non-affiliate investments	\$ 199	\$ 65
Affiliate investments	-	684
Control investments	-	-
Total net realized gain (loss) on investments before income tax	199	749
Unrealized appreciation of investments		
Portfolio company investments	2,649	4,245
Income tax provision	(522)	-
Total net increase (decrease) in unrealized appreciation of investments	2,127	4,245
Net realized and unrealized gain on investments	\$ 2,326	\$ 4,994

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Net increase (decrease) in net assets from operations	\$ 2,697	\$ 2,164
Pre-tax net investment income (loss) per share - basic and diluted	\$ 0.06	\$ (0.18)
Net investment income (loss) per share – basic and diluted	\$ 0.02	\$ (0.18)
Net increase (decrease) in net assets from operations – basic and diluted	\$ 0.17	\$ 0.14
Weighted average shares outstanding – basic	15,724,620	15,573,291
Weighted average shares outstanding – diluted	15,791,299	15,676,513

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

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CAPITAL SOUTHWEST CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

(Unaudited)

(In thousands)

	Three Months Ended June 30,	
	2016	2015
Operations:		
Net investment (loss) income	\$ 371	\$ (2,830)
Net realized (loss) gain on investments	199	749
Net increase (decrease) in unrealized appreciation of investments	2,127	4,245
Net (decrease) increase in net assets from operations	2,697	2,164
Distributions from:		
Undistributed net investment income	(939)	(1,542)
Spin-Off Compensation Plan distribution	(1,348)	-
Capital share transactions:		
Exercise of employee stock options	-	387
Share-based compensation expense (benefit)	239	359
(Decrease) increase in net assets	649	1,368
Net assets, beginning of period	272,635	767,418
Net assets, end of period	\$ 273,284	\$ 768,786

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

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CAPITAL SOUTHWEST CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(In thousands)

	Three Months Ended	
	June 30,	2015
	2016	2015
Cash flows from operating activities		
Net increase in net assets from operations	\$ 2,697	\$ 2,164
Adjustments to reconcile net increase in net assets from operations to net cash provided by (used in) operating activities:		
Purchases and originations of investments	(5,836)	(14,765)
Net proceeds from disposition of and return of capital on investments	-	7,894
Principal repayments on debt investments	11,253	-
Payment of accreted original issue discounts	27	-
Depreciation and amortization	23	16
Net pension benefit	(7)	(128)
Realized gain on investments before income tax	(199)	(749)
Net increase in unrealized appreciation of investments	(2,127)	(4,245)
Accretion of discounts on investments	(75)	(4)
Stock option and restricted awards expense	239	359
Deferred income tax expense	547	-
Decrease (increase) in dividend and interest receivable	368	(18)
Decrease in escrow receivables	1,600	207
Increase in other receivables	(60)	(137)
Increase in tax receivable	-	(589)
(Increase) decrease in other assets	(295)	69
Decrease in other liabilities	(1,257)	(2,711)
Decrease in payable for unsettled transaction	(3,940)	-
Increase in deferred income taxes	-	618
Net cash provided by (used in) operating activities	2,958	(12,019)
Cash flows from financing activities		
Distributions from undistributed net investment income	(625)	(1,542)
Proceeds from exercise of employee stock options	-	387
Spin-off Compensation Plan distribution	(1,345)	-
Net cash used in financing activities	(1,970)	(1,155)
Net increase (decrease) in cash and cash equivalents	988	(13,174)
Cash and cash equivalents at beginning of period	95,969	225,797
Cash and cash equivalents at end of period	\$ 96,957	\$ 212,623
Supplemental disclosure of noncash financing activities:		

Dividend declared, not yet paid	\$ 939	\$ -
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The accompanying Notes are an integral part of these Consolidated Financial Statements.

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CAPITAL SOUTHWEST CORPORATION AND SUBSIDIARIES

CONSOLIDATED SCHEDULE OF INVESTMENTS

(Unaudited)

June 30, 2016

Company1 Control/Non-affiliate Investments4	Type of Investment	Industry	Current Interest Rate2	Maturity	Principal	Cost	Fair Value
LDINGS III	Senior secured debt	Consumer products & retail	L+9.00% (Floor 1.00%)	10/1/2021	\$ 6,965,000	\$ 6,688,081	\$ 6,7
GROUP INC.	176 shares of common stock		-	-	-	-	11,
MEDICAL ES	Senior secured debt	Healthcare products	L+9.50% (Floor 1.00%)	6/23/2022	5,000,000	4,858,852	4,9
ND CREW LL, LLC	Senior secured debt	Media, marketing & entertainment	L+7.75% (Floor 1.00%)	8/12/2023	5,000,000	4,971,065	4,6
ATER SION ES, INC.	127,004 shares of Series A convertible preferred stock	Energy services (upstream)	-	-	-	8,000,000	5,9
L RIVER, INC.	Senior secured debt	Software & IT services	L+6.50% (Floor 1.00%)	2/12/2021	4,632,285	4,599,657	4,6
HOLDINGS	Senior secured debt Warrants	Healthcare services	L+9.25% -	2/22/2019 -	8,000,000 -	7,310,235 546,000 7,856,235	7,3 546 7,8
NE! PRINT IONS, INC.	Senior secured debt	Media, marketing & entertainment	L+6.00% (Floor 1.00%)	3/30/2022	4,000,000	3,931,639	3,9
ROUP INC.	Senior secured debt	Software & IT services	L+5.50% (Floor 1.50%)	5/26/2018	1,729,774	1,674,667	1,6
LDINGS, INC.	Senior secured debt	Industrial products	L+9.25% (Floor 1.00%)	4/17/2023	7,000,000	6,841,495	6,3
	Senior secured debt			7/1/2020	5,000,000	4,947,217	4,9

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D LEGAL ES, INC.		Consumer services	L+9.00% (Floor 1.25%)					
RCH NOW , INC.	Senior secured debt	Business services	L+8.75% (Floor 1.00%)	3/18/2022	7,000,000	6,908,975	6,7	
HOLDINGS, T, INC.7	Senior secured debt	Specialty chemicals	L+7.50% (Floor 1.00%)	6/19/2023	1,000,000	993,169	930	
INER, INC.	Senior subordinated debt 339,277 shares of Series A convertible preferred stock	Financial services Energy services (upstream)	8.50% (Floor 1.00%)	12/31/2022	4,500,000	4,163,230	4,2	
				6/30/2017	2,747,000	2,747,000	2,5	
					-	3,204,222	2,6	
					-	5,951,222	5,2	
DATA RY, INC.	Common stock	Software & IT services	-			817,781	1,6	
SEATS	Senior secured debt	Media, marketing & entertainment	L+6.00% (Floor 1.00%)	3/1/2022	7,000,000	6,529,982	6,9	

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Portfolio Company 1	Type of Investment	Industry	Current Interest Rate 2	Maturity	Fair
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