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

FORM 10-K/A

(Mark One)

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

For the fiscal year ended March 31, 2007

OR

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

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

Commission File Number: 814-61

CAPITAL SOUTHWEST CORPORATION
(Exact name of registrant as specified in its charter)

Texas	75-1072796
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
12900 Preston Road, Suite 700, Dallas, Texas	75230
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: (972) 233-8242

Securities registered pursuant to section 12(b) of the Act: None

Securities registered pursuant to section 12(g) of the Act:
Common Stock, $1.00 par value

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No X .

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No X .

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K/A or any amendment to this Form 10-K/A. [X]

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

Large accelerated filer ____ Accelerated filer X Non-accelerated filer ____

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

The aggregate market value of the voting stock held by non-affiliates of the registrant as of September 30, 2006 was $332,548,127, based on the last sale price of such stock as quoted by Nasdaq on such date (officers, directors and 5% shareholders are considered affiliates for purposes of this calculation).

The number of shares of common stock outstanding as of January 9, 2008 was 3,889,151.

Documents Incorporated by Reference	Part of Form 10-K
Proxy Statement for Annual Meeting of Shareholders to be held July 16, 2007	Part III

TABLE OF CONTENTS

PART I

Explanatory Note Regarding Restatements

Capital Southwest Corporation (the "Company") is filing this amendment to its Annual Report on Form 10-K for the year ended March 31, 2007, to amend and restate its consolidated financial statements and per share data and ratios for each of the fiscal years ended March, 31, 2007, 2006 and 2005 and our selected per share data and ratios for the years ended March 31, 2004 and 2003. In addition, we are filing an amendment to our Quarterly Report on Form 10-Q for the quarter ended June 30, 2007.

After reviewing the accounting treatment for deferred taxes on unrealized appreciation of investments, the Company has determined its long-standing policy of recording deferred taxes on unrealized appreciation of investments was not in conformity with generally accepted accounting principles and its previously issued financial statements required restatement. Specifically, a Regulated Investment Company (RIC) is required to record deferred taxes when it is probable the RIC will not qualify under Subchapter M of the Internal Revenue Code for a period longer that one year. Historically, management believed it was probable the Company would not maintain its qualifying status as a RIC in future years and recorded a deferred tax liability on the unrealized appreciation of investments. However, upon further analysis, the Company determined it was only reasonably possible, but not probable, the Company would not maintain its qualifying status as a RIC. Thus the deferred tax liability consistently recorded and disclosed should not have been recognized. Additionally, the Company historically has accrued income taxes payable on its investment gains as they have been incurred, as it has been the Company's practice to retain its investment gains. However, RICs are required to accrue federal income taxes on investment gains that are retained only on the last day of the tax year. The Company incorrectly recorded the tax impact of its investment gains in periods other than the last day of its tax year, December 31. Therefore, the income taxes payable recorded at times other than the tax year end should not have been recognized. Furthermore, the Company incorrectly classified its' return of capital contributions cumulatively as "undistributed net realized gains on investments." RICs are required to classify return of capital contributions as "additional capital" in the period in which tax basis amounts become permanent; and reflect undistributed amounts remaining since its' previous tax year end adjusted for temporary tax basis differences as "undistributed net realized gains on investments." The restatement will eliminate the accrual for deferred taxes on unrealized appreciation of investments, and income taxes payable and related tax carryforwards on realized gains, increasing the net asset value per share and net assets from operations for the periods restated; and reclassify return of capital contributions to "additional capital."

The summary of the effects of this change on our consolidated statements of financial condition as of March 31, 2007 and 2006, our consolidated statements of operations, our consolidated statements of cashflow and our consolidated statements of changes in net assets for the years ended March 31, 2007, 2006, and 2005 is included in Note 2, "Restatement of Consolidated Financial Statements," located in the notes to our consolidated financial statements elsewhere in this annual report amendment.

The following information has been updated to give the effect to the restatement. In accordance with Rule 12b-15, under the Security Exchange Act of 1934, as amended, the complete text of each amended item is set forth in this report, even though much of the disclosure in the restated items has not changed. The disclosure in this annual report amendment supersedes and replaces corresponding disclosures in our annual report on Form 10-K for the year ended March 31, 2007.

Item 1. Business

We were organized as a Texas corporation on April 19, 1961. Until September 1969, we operated as a licensee under the Small Business Investment Act of 1958. At that time, we transferred to our wholly-owned subsidiary, Capital Southwest Venture Corporation ("CSVC"), certain assets and our license as a small business investment company ("SBIC"). CSVC is a closed-end, non-diversified investment company of the management type registered under the Investment Company Act of 1940 (the "1940 Act"). Prior to March 30, 1988, we were registered as a closed-end, non-diversified investment company under the 1940 Act. On that date, we elected to become a business development company subject to the provisions of the 1940 Act, as amended by the Small Business Incentive Act of 1980. Because we wholly own CSVC, the portfolios of both entities are referred to collectively as "our", "we" and "us".

We are a venture capital investment company whose objective is to achieve capital appreciation through long-term investments in businesses believed to have favorable growth potential. Our investment interests are focused on expansion financings, management buyouts, recapitalizations, industry consolidations and early-stage financings in a broad range of industry segments. Our portfolio is a composite of companies in which we have major interests as well as a number of developing companies and marketable securities of established publicly-owned companies. We make available significant managerial assistance to the companies in which we invest and believe that providing material assistance to such investee companies is critical to their business development activities.

The 12 largest investments we own had a combined cost of $38,566,269 and a value of $638,196,845, representing 93.7% of the value of our consolidated investment portfolio at March 31, 2007. For a narrative description of the 12 largest investments, see "Twelve Largest Investments - March 31, 2007" in Exhibit 13.1 of this Form 10-K/A which is herein incorporated by reference. Certain of the information presented on the 12 largest investments has been obtained from the respective companies and, in certain cases, from public filings of such companies. The financial information presented on each of the respective companies is from such companies' audited financial statements.

We compete for attractive investment opportunities with venture capital partnerships and corporations, venture capital affiliates of industrial and financial companies, SBICs and wealthy individuals.

The number of persons employed by us at March 31, 2007 was seven.

Our internet website address is www.capitalsouthwest.com. You can review the filings we have made with the U.S. Securities and Exchange Commission, free of charge by linking directly from our website to NASDAQ, a database that links to EDGAR, the Electronic Data Gathering, Analysis, and Retrieval System of the SEC. You should be able to access our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934. The charters adopted by the committees of our board of directors are also available on our website.

Item 1A. Risk Factors

You should carefully consider the risks described below and all other information contained in this restated annual report on Form 10-K/A, including our consolidated financial statements and the related notes thereto. The risks and uncertainties described below are not the only ones facing us. Additional risks and uncertainties not presently known to us, or not presently deemed material by us, may also impair our operations and performance. If any of the following risks actually occur, our business, financial condition or results of operations could be materially adversely affected. If that happens, the trading price of our common stock could decline, and you may lose all or part of your investment.

There is uncertainty regarding the value of our investments in restricted securities.

Our net asset value is based on the values assigned to the various investments in our portfolio, determined in good faith by our board of directors. Because of the inherent uncertainty of the valuation of portfolio securities which do not have readily ascertainable market values, our fair value determinations may differ materially from the values which would be applicable to unrestricted securities having a public market.

We have identified a material weakness in our internal control over financial reporting ("ICFR"), which could adversely affect our ability to report our financial condition and results of operations accurately or on a timely basis. As a result, current and potential stockholders could lose confidence in our financial reporting, which could harm our business and the trading price of our stock.

As required by Section 404 of the Sarbanes-Oxley Act of 2002, our management has conducted an evaluation of the effectiveness of our internal control over financial reporting as of March 31, 2007. We have identified material weakness in our internal controls over financial reporting, specifically related to accounting for taxes and have concluded that as of March 31, 2007, we did not maintain effective control over financial reporting.

A material weakness is a control deficiency, or a combination of deficiencies, that result in more than a remote likelihood that a material misstatement of our annual or interim financial statements will not be prevented or detected. We determined as of November 19, 2007 we did not maintain effective controls related to accounting for taxes. Management believes they will be effective in remediation of the material weakness indentified in Management's Report on Internal Control over Financial Reporting within the current fiscal year.

A material weakness in our internal control over financial reporting could adversely impact our ability to provide timely and accurate financial information. If we are unsuccessful in implementing or following our remediation plan, or fail to update our internal control over financial reporting as our business evolves, we may be unable to report financial information timely and accurately or to maintain effective disclosure controls and procedures. Any such failure in the future could also adversely affect the results of periodic management evaluations and annual auditor attestation reports regarding disclosure controls and effectiveness of our internal control over financial reporting required under Section 404 of the Sarbanes-Oxley Act of 2002 and the rules promulgated thereunder. If we are unable to report financial information in a timely and accurate manner or to maintain effective disclosure controls and procedures, we could be subject to, among other things, regulatory or enforcement actions by the SEC and NASDAQ, including a delisting from the NASDAQ Stock Market.

We are subject to additional risks in light of the restatement of our prior period consolidated financial statements.

As described in Note 2, "Restatement of Consolidated Financial Statements" of the notes to our consolidated financial statements, we have restated our consolidated financial statements for the year ended March 31, 2007 and all years represented in our Form 10-K for the year ended March 31, 2007. The restatement of our consolidated financial statements could expose us to legal actions. The defense of any such actions could cause the diversion of management's attention and resources, and we could be required to pay damages to settle such actions if any such actions are not resolved in our favor. Even if resolved in our favor, such actions could cause us to incur significant legal and other expenses. Moreover, we may be the subject of negative publicity focusing on the restatement and negative reactions from shareholders and others with whom we do business.

The lack of liquidity of our restricted securities may adversely affect our business.

Our portfolio contains many securities which are subject to restrictions on sale because they were acquired from issuers in "private placement" transactions or because we are deemed to be an affiliate of the issuer. Unless an exemption from the registration requirements of the Securities Act of 1933 is available, we will not be able to sell these securities publicly without the expense and time required to register the securities under applicable federal and state securities laws. In addition, contractual or practical limitations may restrict our ability to liquidate our securities in portfolio companies, because we may own a relatively large percentage of the issuer's outstanding securities. Sales may also be limited by unfavorable market conditions. The illiquidity of our investments may preclude or delay the disposition of such securities, which may make it difficult for us to obtain cash equal to the value at which we record our investments.

There is limited publicly available information regarding the companies in which we invest.

Many of the securities in our portfolio are issued by privately held companies. There is generally little or no publicly available information about such companies, and we must rely on the diligence of our management to obtain the information necessary for our decision to invest. There can be no assurance that such diligence efforts will uncover all material information necessary to make fully informed investment decisions.

Certain of our portfolio companies are highly leveraged.

Many of our portfolio companies have incurred substantial indebtedness in relation to their overall capital base. Such indebtedness often has a term that will require the balance of the loan to be refinanced when it matures. If portfolio companies cannot generate adequate cash flow to meet the principal and interest payments on their indebtedness, the value of our investments could be reduced or eliminated through foreclosure on the portfolio company's assets or by the portfolio company's reorganization or bankruptcy.

Fluctuations may occur in our quarterly results.

Our quarterly operating results may fluctuate materially due to a number of factors including, among others, variations in and the timing of the recognition of realized and unrealized gains or losses, the degree to which we encounter competition in our portfolio companies' markets, the ability to find and close suitable investments, and general economic conditions. As a result of these factors, results for any period should not be relied upon as being indicative of performance in future periods. See "Management's Discussion and Analysis of Financial Condition and Results of Operations."

We may not continue to qualify for pass-through tax treatment.

We may not qualify for conduit tax treatment as a Regulated Investment Company ("RIC") if we are unable to comply with the requirements of Subchapter M of the Internal Revenue Code. If we fail to satisfy such requirements and cease to qualify for conduit tax treatment, we will be subject to federal taxes on our net investment income. To the extent we had unrealized gains, we would have to establish reserves for taxes, which would reduce our net asset value accordingly. In addition, if we, as a RIC, were to decide to make a deemed distribution of net realized capital gains and retain the net realized capital gain, we would have to establish appropriate reserves for taxes, at the end of the tax year, that we would have to pay on behalf of our shareholders. The loss of this pass-through tax treatment could have a material adverse effect on the total return, if any, obtainable from an investment in our common stock.

Historically, we have distributed net investment income semi-annually. Our current intention is to continue these distributions of ordinary income to our shareholders. Also, historically, we have retained net realized capital gains, paid the resulting tax at the corporate level and retained the after-tax gains to supplement our equity capital and support continuing additions to our portfolio. Our shareholders then report such capital gains on their tax returns, receive credit for the tax we paid and are deemed to have reinvested the amount of the retained after-tax gain. We cannot assure you that we will achieve investment results or maintain a RIC tax status that will allow any specified level of cash distributions or our shareholders' current tax treatment of realized and retained capital gains.

Our financial condition and results of operations will depend on our ability to effectively manage any future growth.

Sustaining growth depends on our ability to identify, evaluate, finance, and invest in companies that meet our investment criteria. Accomplishing such results on a cost-effective basis is a function of our marketing capabilities and skillful management of the investment process. Failure to achieve future growth could have a material adverse effect on our business, financial condition, and results of operations.

We are dependent upon management for our future success.

Selection, structuring and closing our investments depends upon the diligence and skill of our management, which is responsible for identifying, evaluating, negotiating, monitoring and disposing of our investments. Our management's capabilities may significantly impact our results of operations. If we lose any member of our management team and he/she cannot be promptly replaced with an equally capable team member, our results of operations could be significantly impacted.

We operate in a highly competitive market for investment opportunities.

We compete with a number of private equity funds, other investment entities and individuals for investment opportunities. Some of these competitors are substantially larger and have greater financial resources, and some are subject to different and frequently less stringent regulation. As a result of this competition, we may not be able to take advantage of attractive investment opportunities from time to time and there can be no assurance that we will be able to identify and make investments that satisfy our objectives.

Changes in laws or regulations governing our operations or our failure to comply with those laws or regulations may adversely affect our business.

We and our portfolio companies are subject to regulation by laws at the local, state and federal level. These laws and regulations, as well as their interpretation, may be changed from time to time. Accordingly, any changes in these laws and regulations or failure to comply with them could have a material adverse effect on our business. Certain of these laws and regulations pertain specifically to business development companies such as ours.

Failure to deploy new capital may reduce our return on equity.

If we fail to invest our capital effectively, our return on equity may be decreased, which could reduce the price of the shares of our common stock.

Investment in shares of our common stock should not be considered a complete investment program.

Our stock is intended for investors seeking long-term capital appreciation. Our investments in portfolio securities generally require many years to reach maturity, and such investments generally are illiquid. An investment in our shares should not be considered a complete investment program. Each prospective purchaser should take into account his or her investment objectives as well as his or her other investments when considering the purchase of our shares.

Our common stock often trades at a discount from net asset value.

Our common stock is listed on The Nasdaq Global Market ("NASDAQ"). Shareholders desiring liquidity may sell their shares on NASDAQ at current market value, which has often been below net asset value. Shares of closed-end investment companies frequently trade at discounts from net asset value, which is a risk separate and distinct from the risk that a fund's performance will cause its net asset value to decrease.

The market price of our common stock may fluctuate significantly.

The market price and marketability of shares of our common stock may from time to time be significantly affected by numerous factors, including our investment results, market conditions, and other influences and events over which we have no control and that may not be directly related to us.

Item 1B. Unresolved Staff Comments

We have no unresolved staff comments to report pursuant to Item 1B.

Item 2. Properties

We maintain our offices at 12900 Preston Road, Suite 700, Dallas, Texas, 75230, where we rent approximately 4,232 square feet of office space pursuant to a lease agreement expiring in February 2008. On December 7, 2007, we renewed our lease and extended our commitment through February 2013. We believe that our offices are adequate to meet our current and expected future needs.

Item 3. Legal Proceedings

We have no material pending legal proceedings to which we are a party or to which any of our property is subject.

Item 4. Submission of Matters to a Vote of Security Holders

No matters were submitted to a vote of security holders during the quarter ended March 31, 2007.

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Information set forth under the captions "Shareholder Information - Shareholders, Market Prices and Dividends" in Exhibit 13.1 of this Form 10-K/A is herein incorporated by reference.

Performance Graph

The following graph compares our cumulative total shareholder return during the last five years (based on the market price of our common stock and assuming reinvestment of all dividends and tax credits on retained long-term capital gains) with the Total Return Index for NASDAQ (U.S. Companies) and with the Total Return Index for Nasdaq Financial Stocks, both of which indices have been prepared by the Center for Research in Security Prices at the University of Chicago.

Comparison of Five Year Cumulative Total Returns

[GRAPH OMITTED]

	Nasdaq Total Return (U.S.)	Nasdaq Financial Stocks	Capital Southwest Corporation
2002	100.000	100.000	100.000
2003	73.397	92.777	70.744
2004	108.335	133.387	112.003
2005	109.059	138.745	118.299
2006	128.607	162.999	143.785
2007	133.404	170.643	241.089

Item 6. Selected Financial Data

See Exhibit 13.1 "Selected Consolidated Financial Data" of this Form 10-K/A.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

See Exhibit 13.1 "Selected Consolidated Financial Data" of this Form 10-K/A.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

We are subject to financial market risks, including changes in marketable equity security prices. We do not use derivative financial instruments to mitigate any of these risks.

Our investment performance is a function of our portfolio companies' profitability, which may be affected by economic cycles, competitive forces, foreign currency fluctuations and production costs including labor rates, raw material prices and certain basic commodity prices. Most of the companies in our investment portfolio do not hedge their exposure to raw material and commodity price fluctuations. However, the portfolio company with the greatest exposure to foreign currency fluctuations generally hedges its exposure. All of these factors may have an adverse effect on the value of our investments and on our net asset value.

Our investment in portfolio securities includes fixed-rate debt securities which totaled $6,109,238 at March 31, 2007, equivalent to 0.9% of the value of our total investments. Generally, these debt securities are below investment grade and have relatively high fixed rates of interest, therefore; minor changes in market yields of publicly-traded debt securities have little or no effect on the values of debt securities in our portfolio and no effect on interest income. Our investments in debt securities are generally held to maturity and their fair values are determined on the basis of the terms of the debt security and the financial condition of the issuer.

A portion of our investment portfolio consists of debt and equity securities of private companies. We anticipate little or no effect on the values of these investments from modest changes in public market equity valuations. Should significant changes in market valuations of comparable publicly-owned companies occur, there may be a corresponding effect on valuations of private companies, which would affect the value and the amount and timing of proceeds eventually realized from these investments. A portion of our investment portfolio also consists of restricted common stocks of publicly-owned companies. The fair values of these restricted securities are influenced by the nature of applicable resale restrictions, the underlying earnings and financial condition of the issuers of such restricted securities and the market valuations of comparable publicly-owned companies. A portion of our investment portfolio also consists of unrestricted, freely marketable common stocks of publicly-owned companies. These freely marketable investments, which are valued at the public market price, are directly exposed to equity price risks, in that a change in an issuer's public market equity price would result in an identical change in the value of our investment in such security.

Item 8. Financial Statements and Supplementary Data

See Item 15 of this Form 10-K/A - "Exhibits and Financial Statement Schedules".

Selected Quarterly Financial Data (Unaudited)

The following presents a summary of the unaudited quarterly consolidated financial information for the years ended March 31, 2007 and 2006.

	First Quarter as restated	Second Quarter as restated	Third Quarter as restated	Fourth Quarter as restated	Total as restated
	(In thousands, except per share amounts)				
2007					
Net investment income	$ 492	$ 1,170	$ 1,617	$ 954	$ 4,233
Net realized gain (loss) on investments	397	9,219	19,531	(14,181)	14,966
Net increase (decrease) in unrealized appreciation of investments	(5,218)	(2,931)	132,210	23,621	147,682
Net increase (decrease) in net assets from operations	(4,329)	7,458	153,358	10,394	166,881
Net increase (decrease) in net assets from operations per share	(1.12)	1.92	39.46	2.66	42.94
2006					
Net investment income	$ 574	$ 666	$ 893	$ 256	$ 2,389
Net realized gain on investments	5,261	5,915	6,317	(2,042)	15,451
Net increase in unrealized appreciation of investments	4,142	26,824	15,009	78,380	124,355
Net increase in net assets from operations	9,977	33,405	22,219	76,594	142,195
Net increase in net assets from operations per share	2.59	8.66	5.76	19.83	36.84

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

(i) Disclosure Controls and Procedures.

An evaluation was performed under the supervision and with the participation of our management, including the President and Controller, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15 and 15d-15 of the Securities Exchange Act of 1934). Based on that evaluation, the President and Controller concluded that our disclosure controls and procedures as of March 31, 2007 were not effective due to a material weakness in the Company's internal control over financial reporting disclosed in "Item 9A. Controls and Procedures" of the Company's Annual Report on Form 10-K/A, for the fiscal year ended March 31, 2007.

(ii) Internal Control Over Financial Reporting.

(a) Management's annual report on internal control over financial reporting.

Management is responsible for establishing and maintaining adequate controls over financial reporting, as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Securities and Exchange Act of 1934. The Company's internal control over financial reporting ("ICFR")is designed to provide reasonable assurance regarding the reliability of financial reporting and preparation of the financial statements for external purposes in accordance with accounting principles generally accepted in the United States.

Because of its inherent limitations, internal controls over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with policies and procedures may deteriorate.

The Company has reassessed the effectiveness of its internal control over financial reporting as of November 19, 2007. The Company has been subject to Section 404 (Management's Assessment of Internal Controls) of the Sarbanes-Oxley Act of 2002 since March 31, 2005. For purposes of Management's internal control evaluation, the following from the the Securities and Exchange Commission Federal Register SEC 17 CFR Part 241 ("SEC") and Public Company Accounting Oversight Board ("PCAOB") Auditing Standard No. 5 were considered.

Deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. Significant deficiency is a deficiency, or a combination of deficiencies, in internal control over financial reporting that are less severe than a material weakness, yet important enough to merit attention by those responsible for oversight of a company's financial reporting. Material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company's annual or interim financial statements will not be prevented or detected on a timely basis.

Under the supervision and with the participation of our management, including our President and Controller, we conducted an evaluation of the effectiveness of our internal control over financial reporting in connection with preparation of the Amended Annual Report on Form 10-K/A for the year ended March 31, 2007. As a result of this assessment, a material weakness was identified.

The following material weakness was the basis for our conclusion at March 31, 2007:

- We did not maintain an adequate process to assess and determine the probability of the Company maintaining its qualifying status as a RIC subject to subchapter M of the IRC over the next twelve months at any given quarter end.

According to SEC and PCAOB Auditing Standard No. 5, one of the indicators of a material weakness in internal control is a restatement of previously issued financial statements to reflect the correction of a material misstatement. Management has concluded that ICFR as of March 31, 2007 was not effective as it relates to the Company's accounting for taxes.

Impact on the Company's Financial Reporting and ICFR

Management has identified a material weakness related to its accounting for taxes, and has determined that a restatement of its previously issued financial statements is required. Management believes, however, the material weakness identified does not have a pervasive impact on ICFR and the restatement is not an indication that other significant control deficiencies or material weaknesses exist.

Remediation

Management will add a formal evaluation to consider whether it is probable the Company will not qualify as a RIC subject to Subchapter M of the IRC over the next 12 months at any given quarter end. The considerations will primarily include review of current investments and assessing the probability that a non-qualifying event will occur to a degree the Company would not be able to cure within prescribed timeframes. Additionally, the Company will review its investment gains quarterly and calculate the tax impact on those gains it will retain, however, they will only record the tax liability at the last day of the tax year. Management will also determine, based on materiality, any footnote disclosure that will be required during the interim periods. Furthermore, Management will review and assess temporary and permanent differences for reclassification to "additional capital" at each tax year end. When considered necessary by Management, an independent attorney or accountant with requisite knowledge of investment company taxation will be consulted in order to provide necessary guidance.

As a result, the Company will amend and restate its previously filed Annual Report on Form 10-K for the fiscal year ended March 31, 2007 and its Form 10-Q for the quarter ended June 30, 2007. Concurrent with this assessment, Management concludes the Company's ICFR related to accounting for taxes was ineffective and a material weakness exists. Management believes the actions taken to remediate the internal control deficiencies, as more fully described above, are adequate to address future considerations of RIC status and related financial statement presentations and disclosures.

There were no other changes in the Company's internal control over financial reporting that have materially affected or are reasonably likely to materially affect our ICFR during the year ended March 31, 2007.

(b) Attestation report of the registered public accounting firm

Grant Thornton, LLP, the independent registered public accounting firm that audited the consolidated financial statements of the Company included in the Amended Annual Report on Form 10-K/A has issued an audit report on the effectiveness of the Company's internal control over financial reporting as of March 31, 2007. The report, dated January 9, 2008, which expressed an opinion that the Company had not maintained effective internal control over financial reporting as of March 31, 2007 is based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and is set forth in our Exhibit 13.1.

Item 9B. Other Information

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

The section of our 2007 Proxy Statement captioned "Nominees for Director" under "Proposal 1. Election of Directors" identifies members of our board of directors and nominees, and is incorporated in this Item 10 by reference.

The names and ages of our executive officers as of January 8, 2008, together with certain biographical information, are as follows:

William M. Ashbaugh, age 52, has served as Senior Vice President since 2005 and Vice President since 2001. He previously served as Managing Director in the corporate finance departments of Hoak Breedlove Wesneski & Co. from 1998 to 2001, Principal Financial Securities from 1997 to 1998 and Southwest Securities from 1995 to 1997.

Gary L. Martin, age 61, was named President and Chief Executive Officer in July 2007, has been a director since July 1988 and has served as Vice President since 1984. He previously served as Vice President from 1978 to 1980. Since 1980, Mr. Martin has served as President of The Whitmore Manufacturing Company, a wholly-owned portfolio company.

Jeffrey G. Peterson, age 34, was named Secretary in August 2007 and has served as Vice President and Treasurer since 2005 and was an Investment Associate since 2001. He previously held positions with the investment banking division of Scott & Stringfellow, Inc. and the corporate lending division of Bank One.

William R. Thomas, age 79, has served as Chairman of the Board of Directors since 1982. In July 2007, he retired from his role as President, which he held since 1980. In addition, he has been a director since 1972 and was previously Senior Vice President from 1969 to 1980.

The sections of our 2007 Proxy Statement captioned "Meetings and Committees of the Board of Directors under "Proposal 1. Election of Directors" and "Report of the Audit Committee" identifies members of our audit committee of our board of directors and our audit committee financial expert, and are incorporated in this Item 10 by reference.

The section of our 2007 Proxy Statement captioned "Section 16(a) Beneficial Ownership Reporting Compliance" is incorporated in this Item 10 by reference.

Code of Ethics

We have adopted a code of ethics that applies to all our directors, officers and employees. We have made the Code of Conduct and Ethics available on our website at www.capitalsouthwest.com.

Item 11. Executive Compensation

The information in the section of our 2007 Proxy Statement captioned "Compensation Discussion and Analysis" is incorporated in this Item 11 by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information in the sections of our 2007 Proxy Statement captioned "Stock Ownership of Certain Beneficial Owners" are incorporated in this Item 12 by reference.

The table below sets forth certain information as of March 31, 2007 regarding the shares of our common stock available for grant or granted under stock option plans that (i) were approved by our shareholders, and (ii) were not approved by our shareholders.

Equity Compensation Plan Information

Plan Category	Number of Securities To Be Issued Upon Exercise of Outstanding Options, Warrants And Rights	Weighted-Average Exercise Price Of Outstanding Options, Warrants And Rights	Number of Securities Remaining Available For Future Issuance Under Equity Compensation Plans (excluding securities reflected in column (a)
	(a)	(b)	(c)
Equity compensation plans approved by security holders(1)	52,500	$86.184	58,500
Equity compensation plans not approved by security holders	-	-	-
Total	52,500	$86.184	58,500

(1) Includes the 1999 Stock Option Plan. For a description of this plan, please refer to Footnote 5 contained in our consolidated financial statements.

Item 13. Certain Relationships and Related Transactions, and Director Independence

The information in the sections of our 2007 Proxy Statement captioned "Meetings and Committees of the Board of Directors" - "Committee Member Independence" and "Certain Relationships and Related Party Transactions" are incorporated in this Item 13 by reference.

Item 14. Principal Accountant Fees and Services

The information in the sections of our 2007 Proxy Statement captioned "Proposal 2: Ratification of Appointment of Independent Registered Accounting Firm" and "Audit and Other Fees" are incorporated in this Item 14 by reference.

PART IV

Item 15. Exhibits and Financial Statement Schedules

(a)(1) The following information included in Exhibit 13.1 is herein incorporated by reference:

(A) Portfolio of Investments - March 31, 2007
Consolidated Statements of Financial Condition - March 31, 2007 and 2006
Consolidated Statements of Operations - Years Ended March 31, 2007, 2006 and 2005
Consolidated Statements of Changes in Net Assets - Years Ended March 31, 2007, 2006 and 2005
Consolidated Statements of Cash Flows - Years Ended March 31, 2007, 2006 and 2005

(B) Notes to Consolidated Financial Statements

(C) Notes to Portfolio of Investments

(D) Selected Per Share Data and Ratios

(E) Management's Report on Internal Control over Financial Reporting

(F) Reports of Independent Registered Public Accounting Firm

(G) Portfolio Changes During the Year

(a)(2) All schedules are omitted because they are not applicable or not required, or the information is otherwise supplied.

(a)(3) See the Exhibit Index.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of 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

/s/ Gary L. Martin
By:____________________________
Gary L. Martin, President

Date: January 9, 2008

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the date indicated.

Signature	Title	Date
/s/ Gary L. Martin Gary L. Martin	President (chief executive officer)	January 9, 2008
/s/ William R. Thomas William R. Thomas	Chairman of the Board	January 9, 2008
/s/ Donald W. Burton Donald W. Burton	Director	January 9, 2008
/s/ Graeme W. Henderson Graeme W. Henderson	Director	January 9, 2008
/s/ Gary L. Martin Gary L. Martin	Director	January 9, 2008
/s/ Samuel B. Ligon Samuel B. Ligon	Director	January 9, 2008
/s/ John H. Wilson John H. Wilson	Director	January 9, 2008
/s/ Tracy L. Morris Tracy L. Morris	Controller (chief financial/accounting officer)	January 9, 2008

EXHIBIT INDEX

The following exhibits are filed with this report or are incorporated herein by reference to a prior filing, in accordance with Rule 12b-32 under the Securities Exchange Act of 1934. Asterisk denotes exhibits filed with this report. Double asterick denotes exhibits furnished with this report.

Exhibit No.	Description
3.1(a)	Articles of Incorporation and Articles of Amendment to Articles of Incorporation, dated June 25, 1969 (filed as Exhibit 1(a) and 1(b) to Amendment No. 3 to Form N-2 for the fiscal year ended March 31, 1979).
3.1(b)	Articles of Amendment to Articles of Incorporation, dated July 20, 1987 (filed as an exhibit to Form N-SAR for the six month period ended September 30, 1987).
3.2	By-Laws of the Company, as amended.
4.1	Specimen of Common Stock certificate (filed as Exhibit 4.1 to Form 10-K for the fiscal year ended March 31, 2002).
10.1	The RectorSeal Corporation and Jet-Lube, Inc. Employee Stock Ownership Plan as revised and restated effective April 1, 2007.
10.2	Retirement Plan for Employees of Capital Southwest Corporation and Its Affiliates as amended and restated effective April 1, 2006.
10.3	Capital Southwest Corporation and Its Affiliates Restoration of Retirement Income Plan for certain highly-compensated superseded plan participants effective April 1, 1993 (filed as Exhibit 10.4 to Form 10-K for the fiscal year ended March 31, 1995).
10.4	Amendment One to Capital Southwest Corporation and Its Affiliates Restoration of Retirement Income Plan for certain highly-compensated superceded plan participants effective April 1, 1993 (filed as Exhibit 10.6 to Form 10-K for the fiscal year ended March 31, 1998).
10.5	Capital Southwest Corporation Retirement Income Restoration Plan as amended and restated effective April 1, 1989 (filed as Exhibit 10.5 to Form 10-K for the fiscal year ended March 31, 1995).
10.6	Form of Indemnification Agreement which has been established with all directors and executive officers of the Company (filed as Exhibit 10.9 to Form 8-K dated February 10, 1994).
10.7	Capital Southwest Corporation 1999 Stock Option Plan (filed as Exhibit 10.10 to Form 10-K for the fiscal year ended March 31, 2000).
10.8	Severance Pay Agreement with William M. Ashbaugh (filed as Exhibit 10.1 to Form 8-K dated July 18, 2005).
10.9	Severance Pay Agreement with Susan K. Hodgson (filed as Exhibit 10.3 to Form 8-K dated July 18, 2005).
10.10	Severance Pay Agreement with Jeffrey G. Peterson (filed as Exhibit 10.4 to Form 8-K dated July 18, 2005).

13.1	*	Selected Consolidated Financial Data.
21.1		List of subsidiaries of the Company.
23.1	*	Consent of Independent Registered Public Accounting Firm - Grant Thornton LLP.
31.1	*	Certification of President required by Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), filed herewith.
31.2	*	Certification of Controller required by Rule 13a-14(a) or Rule 15d-14(a) of the Exchange Act, filed herewith.
32.1	**	Certification of President required by Rule 13a-14(b) or Rule 15d-14(b) of the Exchange Act and Section 1350 of Chapter 63 of Title 18 of the United States Code, furnished herewith.
32.2	**	Certification of Controller required by Rule 13a-14(b) or Rule 15d-14(b) of the Exchange Act and Section 1350 of Chapter 63 of Title 18 of the United States Code, furnished herewith.

Exhibit 13.1

Twelve Largest Investments - March 31, 2007

Heelys, Inc. $195,664,000

Heelys, Inc., Carrollton, Texas, manufacturers and markets specialty stealth skate footwear, equipment and apparel under the brand name Heelys. The company manufactures its products in China and Korea and distributes them through domestic and international sporting goods chains, department and lifestyle stores and specialty footwear retailers.

During the year ended December 31, 2006, Heelys reported net income of $29,174,000 ($1.16 per share) on net sales of $188,208,000, compared with net income of $4,347,000 ($0.17 per share) on net sales of $43,950,000 in the previous year. The March 30, 2007 closing Nasdaq market price of Heely's common stock was $29.34 per share.

At March 31, 2007, the $102,490 investment in Heelys by Capital Southwest's subsidiary was valued at $195,664,000 ($21.00 per share), consisting of 9,317,310 restricted shares of common stock, representing a fully-diluted equity interest of 31.8%.

The RectorSeal Corporation $98,000,000

The RectorSeal Corporation, Houston, Texas, with facilities in Texas, New York and Idaho, manufactures specialty chemical products including pipe thread sealants, firestop sealants, plastic cements and other formulations for plumbing, HVAC, electrical and industrial applications. The company also makes special tools for plumbers and systems for containing smoke from building fires. RectorSeal's subsidiary, Jet-Lube, Inc., with plants in Texas, England and Canada, produces anti-seize compounds, specialty lubricants and other products used in industrial and oil field applications. Another subsidiary produces and sells automotive chemical products. RectorSeal also owns a 20% equity interest in The Whitmore Manufacturing Company (described on page 9).

During the year ended March 31, 2007, RectorSeal earned $10,381,000 on revenues of $103,922,000, compared with earnings of $8,655,000 on revenues of $95,060,000 in the previous year. RectorSeal's earnings do not reflect its 20% equity in The Whitmore Manufacturing Company.

At March 31, 2007, Capital Southwest owned 100% of RectorSeal's common stock having a cost of $52,600 and a value of $98,000,000.

Palm Harbor Homes, Inc. $70,696,000

Palm Harbor Homes, Dallas, Texas, is an integrated manufacturer and retailer of manufactured and modular housing produced in 14 plants and sold in 27 states by 107 company-owned retail stores and builder locations and approximately 350 independent dealers, builders and developers. The company provides financing through its 80% owned subsidiary, CountryPlace Mortgage, and sells insurance through its subsidiary, Standard Casualty. Palm Harbor's traditional manufactured homes and its upscale modular homes are designed to meet the need for attractive, affordable housing.

During the year ended March 30, 2007, Palm Harbor reported a net loss of $11,565,000 ($0.51 per share) on net sales of $661,247,000, compared with net income of $11,114,000 ($0.49 per share) on net sales of $710,635,000 in the previous year. The March 30, 2007 closing Nasdaq market price of Palm Harbor's common stock was $14.34 per share.

At March 31, 2007, the $10,931,955 investment in Palm Harbor by Capital Southwest and its subsidiary was valued at $70,696,000 ($9.00 per share), consisting of 7,855,121 restricted shares of common stock, representing a fully-diluted equity interest of 30.5%.

Encore Wire Corporation $69,475,000

Encore Wire Corporation, McKinney, Texas, manufactures a broad line of copper electrical building wire and cable including non-metallic sheathed, underground feeder and THHN wire and cable and also armored cable for residential, commercial and industrial construction. Encore's products are sold through large-volume distributors and building materials retailers.

For the year ended December 31, 2006, Encore reported net income of $115,133,000 ($4.86 per share) on net sales of $1,249,330,000, compared with net income of $50,079,000 ($2.13 per share) on net sales of $758,089,000 in the previous year. The March 30, 2007 closing Nasdaq bid price of Encore's common stock was $25.29 per share.

At March 31, 2007, the $5,800,000 investment in 4,086,750 shares of Encore's restricted common stock by Capital Southwest and its subsidiary was valued at $69,475,000 ($17.00 per share), representing a fully-diluted equity interest of 16.9%.

Alamo Group Inc. $47,962,000

Alamo Group Inc., Seguin, Texas, is a leading designer, manufacturer and distributor of heavy-duty, tractor and truck mounted mowing and other vegetation maintenance equipment, mobile excavators, street-sweeping and snow removal equipment and replacement parts. Founded in 1969, Alamo Group operates 16 manufacturing facilities and serves governmental, industrial and agricultural markets in North America, Europe, and Australia.

For the year ended December 31, 2006, Alamo reported net income of $11,488,000 ($1.16 per share) on net sales of $456,494,000, compared with net income of $11,291,000 ($1.14 per share) on net sales of $368,110,000 in the previous year. The March 30, 2007 closing NYSE market price of Alamo's common stock was $23.21 per share.

At March 31, 2007, the $2,065,047 investment in Alamo by Capital Southwest and its subsidiary was valued at $47,962,000 ($17.00 per share), consisting of 2,821,300 restricted shares of common stock, representing a fully-diluted equity interest of 26.2%.

Media Recovery, Inc. $45,000,000

Media Recovery, Inc., Dallas, Texas, provides datacenter supplies and services to corporate customers through its direct sales force. Its Shockwatch division manufactures monitoring devices used to detect mishandled shipments and devices for monitoring material handling equipment. Media Recovery's subsidiary, The Damage Prevention Company, Denver, Colorado, manufactures dunnage products used to prevent damage in trucking, rail and export container shipments.

During the year ended September 30, 2006, Media Recovery reported net income of $5,164,000 on net sales of $137,040,000, compared with net income of $5,028,000 on net sales of $142,574,000 in the previous year.

At March 31, 2007, the $5,415,000 investment in Media Recovery by Capital Southwest and its subsidiary was valued at $45,000,000, consisting of 800,000 shares of Series A convertible preferred stock and 4,000,000 shares of common stock, representing a fully-diluted equity interest of 96.5%.

Lifemark Group $40,000,000

Lifemark Group, Hayward, California, owns and operates cemeteries, mausoleums and mortuaries. Lifemark's operations, all of which are in California, include a major cemetery and funeral home in San Mateo, a mausoleum and an adjacent mortuary in Oakland and cemeteries, mausoleums and mortuaries in Hayward and Sacramento. The company also owns a funeral home in San Bruno. Its funeral and cemetery trusts enable Lifemark's clients to make pre-need arrangements. The company's assets also include excess real estate holdings.

For the fiscal year ended March 31, 2007, Lifemark reported earnings of $2,239,000 on revenues of $28,727,000, compared with earnings of $2,457,000 on revenues of $27,178,000 in the previous year.

At March 31, 2007, Capital Southwest owned 100% of Lifemark Group's common stock, which had a cost of $4,510,400 and was valued at $40,000,000.

The Whitmore Manufacturing Company $26,000,000

The Whitmore Manufacturing Company, Rockwall, Texas, manufactures specialty lubricants for heavy equipment used in surface mining, railroads and other industries, and produces water-based coatings for the automotive and primary metals industries. Whitmore's Air Sentry division manufactures fluid contamination control devices. The company's assets also include several commercial real estate tracts.

During the year ended March 31, 2007, Whitmore reported net income of $2,848,000 on net sales of $20,863,000, compared with net income of $1,776,000 on net sales of $18,010,000 in the previous year. The company is owned 80% by Capital Southwest and 20% by Capital Southwest's subsidiary, The RectorSeal Corporation (described on page 8).

At March 31, 2007, the direct investment in 80% of Whitmore by Capital Southwest was valued at $26,000,000 and had a cost of $1,600,000.

- --

Hologic, Inc. $18,228,380

- --

Hologic, Inc., Bedford, Massachusetts, is a leading developer, manufacturer and supplier of bone densitometers, mammography and breast biopsy devices, direct-to-digital x-ray systems and other x-ray based imaging systems. These products are generally targeted to address women's healthcare and general radiographic applications.

For the year ended September 30, 2006, Hologic reported net income of $27,423,000 ($0.56 per share) on net sales of $462,680,000, compared with net income of $28,256,000 ($0.63 per share) on net sales of $287,684,000 in the previous year. The March 30, 2007 closing Nasdaq bid price of Hologic's common stock was $57.61 per share.

At March 31, 2007, Capital Southwest and its subsidiary owned 316,410 unrestricted shares of common stock, having a cost of $220,000 and a market value of $18,228,380 ($57.61 per share).

- --

Texas Capital Bancshares, Inc. $10,013,465

- --

Texas Capital Bancshares, Inc. of Dallas, Texas, formed in 1998, has total assets of approximately $3.7 billion. With branch banks in Austin, Dallas, Fort Worth, Houston, Plano and San Antonio, Texas Capital Bancshares conducts its business through its subsidiary, Texas Capital Bank, N.A., which targets middle market commercial and wealthy private client customers in Texas. In 2006, Texas Capital Bancshares sponsored the formation of BankCap Partners Fund I, a $109 million partnership organized to finance and launch other regional banks similar to Texas Capital Bancshares.

For the year ended December 31, 2006, Texas Capital reported net income of $28,924,000 ($1.09 per share), compared with net income of $27,192,000 ($1.02 per share) in the previous year. The March 30, 2007 closing Nasdaq bid price of Texas Capital's common stock was $20.45 per share.

At March 31, 2007, Capital Southwest owned 489,656 unrestricted shares of common stock, having a cost of $3,550,006 and a market value of $10,013,465 ($20.45 per share).

- --

PETsMART, Inc. $9,885,000

- --

PETsMART, Inc., Phoenix, Arizona, is the largest specialty retailer of services and solutions for the lifetime needs of pets. The company operates more than 928 pet superstores in the United States and Canada, many of which offer pet grooming services, operate PETsHOTELS and house veterinary clinics. It is also a direct marketer of pet products through its e-commerce site and its pet and equine catalog businesses.

For the year ended January 28, 2007, PETsMART, Inc. reported net income of $185,069,000 ($1.33 per share) on net sales of $4.234 billion, compared with net income of $182,490,000 ($1.25 per share) on net sales of $3.760 billion in the previous year. The March 30, 2007 closing Nasdaq bid price of PETsMART's common stock was $32.95 per share.

At March 31, 2007, Capital Southwest and its subsidiary owned 300,000 unrestricted shares of common stock, having a cost of $1,318,771 and a market value of $9,885,000 ($32.95 per share).

- --

Extreme International, Inc. $7,273,000

- --

Extreme International, Inc., Sugar Land, Texas, owns Bill Young Productions, Texas Video and Post, and Extreme Communications, which produce radio and television commercials and corporate communications videos.

During the year ended September 30, 2006, Extreme reported net income of $1,202,723 on net sales of $10,342,478, compared with net income of $817,121 on net sales of $8,688,545 in the previous year.

At March 31, 2007, Capital Southwest and its subsidiary owned 39,359.18 shares of Series C convertible preferred stock, 3,750 shares of 8% Series A convertible preferred stock and warrants to purchase 13,035 shares of common stock at $25 per share, having a cost of $3,000,000 and a market value of $7,273,000, representing a fully-diluted equity interest of 53.3%.

Portfolio of Investments - March 31, 2007

Company	Equity (a)	Investment (b)	Cost	Value (c)
+AT&T, INC. San Antonio, Texas Global leader in local, long distance, Internet and transaction- based voice and data services.	<1%	++20,770 shares common stock (acquired 3-9-99)	$ 12	$ 818,961
+ALAMO GROUP INC. Seguin, Texas Tractor-mounted mowing and mobile excavation equipment for governmental, industrial and agricultural markets; street-sweeping equipment for municipalities.	26.2%	2,821,300 shares common stock (acquired 4-1-73 thru 10-4-99)	2,065,047	47,962,000
ALL COMPONENTS, INC. Addison, Texas Electronics contract manufacturing; distribution and productionof memory and other components for computer manufacturers, retailers and value-added resellers.	57.0%	10% subordinated note due 2008 (acquired 10-28-03 thru 10-3-05)	3,000,00	3,000,000
		150,000 shares Series A convertible preferred stock, convertible into 600,000 shares of common stock at $0.25 per share (acquired 9-16-94)	150,000	1,000,000
			3,150,000	4,000,000
+ALLTEL CORPORATION Little Rock, Arkansas Owner and operator of the nation's largest wireless network.	<1%	++8,880 shares common stock (acquired 7-1-98)	88,699	550,560
BALCO, INC. Wichita, Kansas Specialty architectural products used in the construction and remodeling of commercial and institutional buildings.	88.5%	445,000 shares common stock and 60,920 shares Class B non-voting common stock (acquired 10-25-83 and 5-30-02)	624,920	2,500,000
BOXX TECHNOLOGIES, INC. Austin, Texas Workstations for computer graphics imaging and design.	15.2%	3,125,354 shares Series B convertible preferred stock,convertible into 3,125,354 shares of common stock at $0.50 per share (acquired 8-20-99 thru 8-8-01)	1,500,000	300,000
CMI HOLDING COMPANY, INC. Richardson, Texas Owns Chase Medical, which develops and sells devices used in cardiac surgery to relieve congestive heart failure; develops and supports cardiac imaging systems.	18.2%	10% convertible subordinated notes, convertible into 720,350 shares of common stock at $1.32 per share, due 2007 (acquired 4-16-04 thru 12-17-04)	750,000	750,000
		2,327,658 shares Series A convertible preferred stock, convertible into 2,327,658 shares of common stock at $1.72 per share (acquired 8-21-02 and 6-4-03)	4,000,000	2,000,000
		Warrants to purchase 109,012 shares of common stock at$1.72 per share, expiring 2012 (acquired 4-16-04)	-	-
			4,750,000	2,750,000

+Publicly-owned company

++Unrestricted securities as defined in Note (b)

Company	Equity (a)	Investment (b)	Cost	Value (c)
+COMCAST CORPORATION Philadelphia, Pennsylvania Leading provider of cable, entertainment and communications products and services.	<1%	++64,656 shares common stock (acquired 11-18-02)	$ 21	$ 1,675,884
DENNIS TOOL COMPANY Houston, Texas Polycrystalline diamond compacts (PDCs) used in oil field drill bits and in mining and industrial applications.	67.4%	20,725 shares 5% convertible preferred stock, convertible into 20,725 shares of common stock at $48.25 per share (acquired 8-10-98)	999,981	999,981
		140,137 shares common stock (acquired 3-7-94 and 8-10-98)	2,329,963	2
			3,329,944	999,983
+DISCOVERY HOLDING COMPANY Englewood, Colorado Provider of creative content, media management and network services worldwide.	<1%	++70,501 shares Series A common stock (acquired 7-21-05)	220,262	1,347,274
+EMBARQ CORPORATION Overland Park, Kansas Local exchange carrier that provides voice and data services, including high-speed Internet.	<1%	++4,500 shares common stock (acquired 5-17-06)	46,532	253,575
+ENCORE WIRE CORPORATION McKinney, Texas Electric wire and cable for residential and commercial use.	16.9%	4,086,750 shares common stock (acquired 7-16-92 thru 10-7-98)	5,800,000	69,475,000
EXTREME INTERNATIONAL, INC. Sugar Land, Texas Owns Bill Young Productions, Texas Video and Post, and Extreme Communications, which produce radio and television commercials and corporate communications videos.	53.3%	39,359.18 shares Series C convertible preferred stock, convertible into 157,436.72 shares of common stock at $25.00 per share (acquired 9-30-03)	2,625,000	6,449,000
		3,750 shares 8% Series A convertible preferred stock, convertible into 15,000 shares of common stock at $25.00 per share (acquired 9-30-03)	375,000	614,000
		Warrants to purchase 13,035 shares of common stock at $25.00 per share, expiring 2008 (acquired 8-11-98 thru 9-30-03)	-	210,000
			3,000,000	7,273,000
+FMC CORPORATION Philadelphia, Pennsylvania Chemicals for agricultural, industrial and consumer markets.	<1%	++6,430 shares common stock (acquired 6-6-86)	66,726	485,015
+FMC TECHNOLOGIES, INC. Houston, Texas Equipment and systems for the energy, food processing and air transportation industries.	<1%	++11,057 shares common stock (acquired 1-2-02)	57,051	771,336

+Publicly-owned company

++Unrestricted securities as defined in Note (b)

Company	Equity (a)	Investment (b)	Cost	Value (c)
+HEELYS, INC. Carrollton, Texas Heelys stealth skate shoes, equipment and apparel sold through sporting goods chains, department stores and footwear retailers.	31.8%	9,317,310 shares common stock (acquired 5-26-00)	$ 102,490	$195,664,000
HIC-STAR CORPORATION Dallas, Texas Holding company previously engaged in mortgage banking operations, which have now been sold.	34.9%	10% subordinated note due 2007 (acquired 10-19-04 and 1-13-05)	352,646	-
		12% subordinated notes due 2008 (acquired 3-25-05 thru 2-27-06)	717,523	354,738
		12% demand note (acquired 12-15-06)	4,500	4,500
		Warrants to purchase 463,162 shares of Series A common stock at $1.00 per share, expiring 2014 (acquired 3-31-04 thru 1-13-05)	-	-
			1,074,669	359,238
+HOLOGIC, INC. Bedford, Massachusetts Medical instruments including bone densitometers, mammography devices and digital radiography systems.	<1%	++316,410 shares common stock (acquired 8-27-99)	220,000	18,228,380
+KIMBERLY-CLARK CORPORATION Dallas, Texas Manufacturer of tissue, personal care and health care products.	<1%	++77,180 shares common stock (acquired 12-18-97)	2,358,518	5,286,058
+LIBERTY GLOBAL, INC. Englewood, Colorado Owns interests in broadband, distribution and content companies.	<1%	++42,463 shares Series A common stock (acquired 6-15-05)	106,553	1,397,033
		++42,463 shares Series C common stock (acquired 9-6-05)	100,870	1,299,368
			207,423	2,696,401
+LIBERTY MEDIA CORPORATION Englewood, Colorado Holding company owning interests in electronic retailing, media, communications and entertainment businesses.	<1%	++35,250 shares Liberty Capital Series A common stock(acquired 5-9-06)	51,829	3,897,593
		++176,252 shares Liberty Interactive Series A common stock (acquired 5-9-06)	66,424	4,196,560
			118,253	8,094,153
LIFEMARK GROUP Hayward, California Cemeteries, mausoleums and mortuaries located in northern California.	100.0%	1,449,026 shares common stock (acquired 7-16-69)	4,510,400	40,000,000

+Publicly-owned company

++Unrestricted securities as defined in Note (b)

Company	Equity (a)	Investment (b)	Cost	Value (c)
MEDIA RECOVERY, INC. Dallas, Texas Computer datacenter and office automation supplies and accessories; impact, tilt monitoring and temperature sensing devices to detect mishandled shipments; dunnage for protecting shipments.	96.5%	800,000 shares Series A convertible preferred stock, convertible into 800,000 shares of common stock at $1.00 per share (acquired 11-4-97)	$ 800,000	$ 7,500,000
		4,000,000 shares common stock (acquired 11-4-97)	4,615,000	37,500,000
			5,415,000	45,000,000
PALLETONE, INC. Bartow, Florida Manufacturer of wooden pallets and pressure-treated lumber.	8.8%	12.3% senior subordinated notes due 2012 (acquired 9-25-06)	1,553,150	2,000,000
		150,000 shares common stock (acquired 10-18-01)	150,000	1,714,000
		Warrant to purchase 15,294 shares share, of common stock at $1.00 per expiring 2011 (acquired 2-17-06)	45,746	159,000
			1,748,896	3,873,000
+PALM HARBOR HOMES, INC. Dallas, Texas Integrated manufacturing, retailing, financing and insuring of manufactured housing and modular homes.	30.5%	7,855,121 shares common stock (acquired 1-3-85 thru 7-31-95)	10,931,955	70,696,000
+PETSMART, INC. Phoenix, Arizona Retail chain of more than 928 stores selling pet foods, supplies and services.	<1%	++300,000 shares common stock (acquired 6-1-95)	1,318,771	9,885,000
THE RECTORSEAL CORPORATION Houston, Texas Specialty chemicals for plumbing, HVAC, electrical, construction, industrial, oil field and automotive applications; smoke containment systems for building fires; also owns 20% of The Whitmore Manufacturing Company.	100.0%	27,907 shares common stock (acquired 1-5-73 and 3-31-73)	52,600	98,000,000
+SPRINT NEXTEL CORPORATION Reston, Virginia Diversified telecommunications company.	<1%	++90,000 shares common stock (acquired 6-20-84)	457,113	1,706,400
TCI HOLDINGS, INC. Denver, Colorado Cable television systems and microwave relay systems.	-	21 shares 12% Series C cumulative compounding preferred stock (acquired 1-30-90)	-	677,250
+TEXAS CAPITAL BANCSHARES, INC. Dallas, Texas Regional bank holding company with banking operations in six Texas cities.	1.6%	++489,656 shares common stock (acquired 5-1-00)	3,550,006	10,013,465

+Publicly-owned company

++Unrestricted securities as defined in Note (b)

Company	Equity (a)	Investment (b)	Cost	Value (c)
VIA HOLDINGS, INC. Sparks, Nevada Designer, manufacturer and distributor of high-quality office seating.	28.2%	9,118 shares Series B preferred stock (acquired 9-19-05)	$4,559,000	$ 2
WELLOGIX, INC. Houston, Texas Developer and supporter of software used by the oil and gas industry to control drilling and maintenance expenses.	19.3%	4,478,673 shares Series A-1 convertible participating preferred stock, convertible into 4,478,673 shares of common stock at $1.1164 per share (acquired 8-19-05 thru 9-15-06)	5,000,000	2
THE WHITMORE MANUFACTURING COMPANY Rockwall, Texas Specialized mining, railroad and industrial lubricants; coatings for automobiles and primary metals; fluid contamination control devices.	80.0%	80 shares common stock (acquired 8-31-79)	1,600,000	26,000,000
+WINDSTREAM CORPORATION Little Rock, Arkansas Provider of voice, broadband and entertainment services.	<1%	++9,181 shares common stock (acquired 7-17-06)	19,656	134,869
MISCELLANEOUS	-	BankCap Partners Fund, L.P. -6.0% limited partnership interest (acquired 7-14-06 and 1/8-07)	565,619	595,619
	-	Diamond State Ventures, L.P. - 1.9% limited partnership interest (acquired 10-12-99 thru 8-26-05)	146,000	146,000
	-	First Capital Group of Texas III, L.P. - 3.3% limited partnership interest (acquired 12-26-00 thru 8-12-05)	964,604	964,604
	100.0%	Humac Company - 1,041,000 shares common stock (acquired 1-31-75 and 12-31-75)	--	172,000
	-	PharmaFab, Inc. - contingent payment agreement (acquired 2-15-07)	2	2
	-	STARTech Seed Fund I - 12.1% limited partnership interest (acquired 4-17-98 thru 1-5-00)	178,066	1
	-	STARTech Seed Fund II - 3.2% limited partnership interest (acquired 4-28-00 thru 2-23-05)	950,000	1
	-	Sterling Group Partners I, L.P. - 1.7% limited partnership interest (acquired 4-20-01 thru 1-24-05)	1,064,042	1,800,000
TOTAL INVESTMENTS			$71,642,297	$681,155,033

+Publicly-owned company

++Unrestricted securities as defined in Note (b)

Notes to Portfolio of Investments

(a) The percentages in the "Equity" column express the potential equity interests held by Capital Southwest Corporation and Capital Southwest Venture Corporation (together, the "Company") in each issuer. Each percentage represents the amount of the issuer's common stock the Company owns or can acquire as a percentage of the issuer's total outstanding common shares, plus shares reserved for all warrants, convertible securities and employee stock options. The symbol "<1%" indicates that the Company holds a potential equity interest of less than one percent.

(b) Unrestricted securities (indicated by ++) are freely marketable securities having readily available market quotations. All other securities are restricted securities which are subject to one or more restrictions on resale and are not freely marketable. At March 31, 2007, restricted securities represented approximately 90.9% of the value of the consolidated investment portfolio.

(c) Under the valuation policy of the Company, unrestricted securities are valued at the closing sale price for listed securities and at the lower of the closing bid price or the last sale price for Nasdaq securities on the valuation date. Restricted securities, including securities of publicly-owned companies which are subject to restrictions on resale, are valued at fair value as determined by the Board of Directors. Fair value is considered to be the amount which the Company may reasonably expect to receive for portfolio securities if such securities were sold on the valuation date. Valuations as of any particular date, however, are not necessarily indicative of amounts which may ultimately be realized as a result of future sales or other dispositions of securities.

Among the factors considered by the Board of Directors in determining the fair value of restricted securities are the financial condition and operating results of the issuer, the long-term potential of the business of the issuer, the market for and recent sales prices of the issuer's securities, the values of similar securities issued by companies in similar businesses, the proportion of the issuer's securities owned by the Company, the nature and duration of resale restrictions and the nature of any rights enabling the Company to require the issuer to register restricted securities under applicable securities laws. In determining the fair value of restricted securities, the Board of Directors considers the inherent value of such securities without regard to the restrictive feature and adjusts for any diminution in value resulting from restrictions on resale.

(d) Agreements between certain issuers and the Company provide that the issuers will bear substantially all costs in connection with the disposition of common stocks, including those costs involved in registration under the Securities Act of 1933 but excluding underwriting discounts and commissions. These agreements cover common stocks owned at March 31, 2007 and common stocks which may be acquired thereafter through exercise of warrants and conversion of debentures and preferred stocks. They apply to restricted securities of all issuers in the investment portfolio of the Company except securities of the following issuers, which are not obligated to bear registration costs: Humac Company, Lifemark Group and The Whitmore Manufacturing Company.

(e) The descriptions of the companies and ownership percentages shown in the portfolio of investments were obtained from published reports and other sources believed to be reliable, are supplemental and are not covered by the report of independent registered public accounting firm. Acquisition dates indicated are the dates specific securities were acquired, which may differ from the original investment dates. Certain securities were received in exchange for or upon conversion or exercise of other securities previously acquired.

Portfolio Changes During the Year

New Investments and Additions to Previous Investments

	Amount
BankCap Partners Fund I, L.P.	$595,619
Hic-Star Corporation	4,500
PalletOne, Inc	203,150
	$803,269

Dispositions

	Cost	Amount Received
Cenveo, Inc.	$ 712,318	$ 9,597,254
Diamond State Ventures, L.P	64,000	64,000
Exopack, Inc	-	230,035
Heelys, Inc	17,510	31,087,659
Hic-Star Corporation	6,529,167	-
PharmaFab, Inc	9,499,998	-
StarTech Seed Fund II	50,000	50,000
Sterling Group Partners I, L.P	-	601,081
Texas Shredder, Inc	-	1,289,959
	$16,872,993	$42,919,988
Repayments Received		$884,935

Capital Southwest Corporation and Subsidiaries
Consolidated Statements of Financial Condition

Assets	March 31, 2007 as restated	March 31, 2006 as restated
Investments at market or fair value		
Companies more than 25% owned (Cost: 2007 - $28,632,356, 2006 - $23,114,866)	$526,993,983	$298,481,983
Companies 5% to 25% owned (Cost: 2007 - $18,798,896, 2006 - $18,595,746)	76,398,002	92,070,852
Companies less than 5% owned (Cost: 2007 - $24,211,045, 2006 - $46,886,344)	77,763,048	159,875,248
Total investments (Cost: 2007 - $71,642,297, 2006 - $88,596,956)	681,155,033	550,428,083
Cash and cash equivalents	38,844,203	11,503,866
Receivables	337,892	135,887
Other assets	9,170,185	7,300,297
Totals	$729,507,313	$569,368,133

Liabilities and Shareholders' Equity	March 31, 2007 as restated	March 31, 2006 as restated
Note payable to bank	$ -	$ 8,000,000
Other liabilities	1,457,847	1,697,086
Deferred income taxes	2,317,777	1,635,057
Total liabilities	3,775,624	11,332,143
Shareholders' equity		
Common stock, $1 par value: authorized, 5,000,000 shares; issued, 4,323,416 shares at March 31, 2007 and 4,297,616 shares at March 31, 2006	4,323,416	4,297,616
Additional capital	116,373,960	92,410,082
Undistributed net investment income	5,655,020	3,744,830
Undistributed net realized gain (loss) on investments	(3,100,142)	2,785,636
Unrealized appreciation of investments	609,512,737	461,831,128
Treasury stock - at cost (437,365 shares)	(7,033,302)	(7,033,302)
Net assets at market or fair value, equivalent to $186.75 per share at March 31, 2007 on the 3,886,051 shares outstanding and $144.56 per share at March 31, 2006 on the 3,860,251 shares outstanding	725,731,689	558,035,990
Totals	$729,507,313	$569,368,133

See Notes to Consolidated Financial Statements

Capital Southwest Corporation and Subsidiaries
Consolidated Statements of Operations

	Years Ended March 31		
	2007 as restated	2006 as restated	2005 as restated
Investment income:			
Interest	$ 2,308,660	$ 505,536	$ 437,753
Dividends	3,954,875	3,485,430	3,778,190
Management and directors' fees	708,900	848,070	637,000
	6,972,435	4,839,036	4,852,943
Operating expenses:			
Salaries	1,356,062	1,211,584	1,132,510
Net pension benefit	(144,945)	(116,747)	(254,872)
Other operating expenses	1,014,255	859,702	1,068,313
	2,225,372	1,954,539	1,945,951
Income before interest expense and income taxes	4,747,063	2,884,497	2,906,992
Interest expense	460,399	436,021	420,351
Income before income taxes	4,286,664	2,448,476	2,486,641
Income tax expense	53,324	59,220	80,693
Net investment income	$ 4,233,340	$ 2,389,256	$ 2,405,948
Proceeds from disposition of investments	$ 42,919,988	$ 30,802,552	$ 4,565,232
Cost of investments sold	16,872,993	10,523,986	14,677,252
Realized gain (loss) on investments before income taxes	26,046,995	20,278,566	(10,112,020)
Income tax expense	11,080,699	4,827,663	--
Net realized gain (loss) on investments	14,966,296	15,450,903	(10,112,020)
Net increase in unrealized appreciation of investments	147,681,609	124,355,303	27,809,654
Net realized and unrealized gain on investments	$ 162,647,905	$ 139,806,206	$ 17,697,634
Increase in net assets from operations	$ 166,881,245	$ 142,195,462	$ 20,103,582

See Notes to Consolidated Financial Statements

Capital Southwest Corporation and Subsidiaries
Consolidated Statements of Changes in Net Assets

	Years Ended March 31		
	2007	2006	2005
	as restated	as restated	as restated
Operations:			
Net investment income	$ 4,233,340	$ 2,389,256	$ 2,405,948
Net realized gain (loss) on investments	14,966,296	15,450,903	(10,112,020)
Net increase in unrealized appreciation of investments	147,681,609	124,355,303	27,809,654
Increase in net assets from operations	166,881,245	142,195,462	20,103,582
Distributions from:			
Undistributed net investment income	(2,323,150)	(2,314,231)	(2,314,231)
Net realized gains deemed distributed to shareholders	(11,417,283)	(13,573,139)	--
Capital share transactions:			
Allocated increase in share value for deemed distribution	11,417,283	13,573,139	--
Exercise of employee stock options	1,794,850	208,000	--
Adjustment to initially apply FASB No. 158, net of tax	1,173,751	--	--
Stock option expense	169,003	--	--
Increase in net assets	167,695,699	140,089,231	17,789,351
Net assets, beginning of year	558,035,990	417,946,759	400,157,408
Net assets, end of year	$ 725,731,689	$ 558,035,990	$ 417,946,759

See Notes to Consolidated Financial Statements

Capital Southwest Corporation and Subsidiaries
Consolidated Statements of Cash Flows

	Years Ended March 31		
	2007	2006	2005
	as restated	as restated	as restated
Cash flows from operating activities			
Increase in net assets from operations	$ 166,881,245	$ 142,195,462	$ 20,103,582
Adjustments to reconcile increase in net assets from operations to net cash provided by operating activities:			
Proceeds from disposition of investments	42,919,988	30,802,552	4,510,652
Purchases of securities	(803,269)	(15,054,741)	(2,280,690)
Maturities of securities	884,935	480,197	394,269
Depreciation and amortization	16,808	16,136	17,597
Net pension benefit	(144,945)	(116,747)	(254,872)
Realized (gain) loss on investments after income taxes	(14,966,296)	(15,450,905)	10,112,020
Net increase in unrealized appreciation of investments	(147,681,609)	(124,355,303)	(27,809,654)
Stock option expense	169,003	--	--
(Increase) decrease in receivables	(202,005)	514	(59,924)
Increase in other assets	(39,982)	(3,226)	(10,477)
Increase (decrease) in other liabilities	8,934	(67,245)	121,196
Decrease in accrued pension cost	(144,171)	(154,673)	(164,129)
Increase in deferred income taxes	50,700	40,800	88,800
Net cash provided by operating activities	49,949,336	18,332,821	4,768,370
Cash flows from financing activities			
Decrease in note payable to bank	(8,000,000)	--	(7,500,000)
Decrease in note payable to portfolio company	--	(5,000,000)	--
Distributions from undistributed net investment income	(2,323,150)	(2,314,231)	(2,314,231)
Proceeds from exercise of employee stock options	1,794,850	208,000	--
Payment of federal income tax for deemed capital gains distribution	(11,080,699)	(4,827,659)	--
Net cash used in financing activities	(19,608,999)	(11,933,890)	(9,814,231)
Net increase (decrease) in cash and cash equivalents	27,340,337	6,398,931	(5,045,861)
Cash and cash equivalents at beginning of year	11,503,866	5,104,935	10,150,796
Cash and cash equivalents at end of year	$ 38,844,203	$ 11,503,866	$ 5,104,935
Supplemental disclosure of cash flow information:			
Cash paid during the year for: Interest	$ 460,399	$ 436,920	$ 420,446
Income taxes	$ 20,000	$ 18,420	$ --

See Notes to Consolidated Financial Statements

1. Summary of Significant Accounting Policies

Capital Southwest Corporation ("CSC") is a business development company subject to regulation under the Investment Company Act of 1940. Capital Southwest Venture Corporation ("CSVC"), a wholly-owned subsidiary of CSC, is a Federal licensee under the Small Business Investment Act of 1958. Capital Southwest Management Corporation ("CSMC"), a wholly-owned subsidiary of CSC, is the management company for CSC and CSVC. The following is a summary of significant accounting policies followed in the preparation of the consolidated financial statements of CSC, CSVC and CSMC (together, the "Company"):

Principles of Consolidation. The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for investment companies. Under rules and regulations applicable to investment companies, we are precluded from consolidating any entity other than another investment company. An exception to this general principle occurs if the investment company has an investment in an operating company that provides services to the investment company. Our consolidated financial statements include our management company, CSMC.

Cash and Cash Equivalents. All temporary cash investments having a maturity of three months or less when purchased are considered to be cash equivalents.

Investments. Investments are stated at market or fair value determined by the Board of Directors as described in the Notes to Portfolio of Investments and Note 3 below. The average cost method is used in determining cost of investments sold. Investments are recorded on a trade date basis. Dividends are recognized on the ex-dividend date and interest income is accrued daily.

Segment Information. The Company operates and manages its business in a singular segment. As an investment company, the Company invests in portfolio companies in various industries and geographic areas as presented in the portfolio of investments.

Use of Estimates. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Federal Income Taxes. CSC and CSVC intend to comply with the requirements of the Internal Revenue Code necessary to qualify as regulated investment companies. By meeting these requirements, they will not be subject to corporate federal income taxes on ordinary income distributed to shareholders. The Company's policy is to retain and pay the 35% corporate tax on realized long-term capital gains. For investment companies that qualify as RIC's under the IRC, federal income taxes payable on security gains that the company elects to retain are accrued only on the last day of the tax year, December 31. Therefore, CSC and CSVC made no provision for federal income taxes on such gains and net investment income in their financial statements.

CSMC, a wholly owned subsidiary of CSC, is not a RIC and is required to pay taxes at the current corporate rate.

Deferred Taxes. The Company sponsors a qualified defined benefit pension plan which covers its employees and employees of certain of its wholly-owned portfolio companies. Deferred taxes related to the qualified defined benefit pension plan are recorded as incurred.

Stock-Based Compensation. In December 2004, the Financial Accounting Standards Board (FASB) issued SFAS No. 123 (revised 2004), Share-Based Payment (SFAS 123R), which revised SFAS 123. SFAS 123R also supersedes APB 25 and amends SFAS No. 95, Statement of Cash Flows. SFAS 123R eliminates the alternative to account for employee stock options under APB 25 and requires the fair value of all share-based payments to employees, including the fair value of grants of employee stock options, be recognized in the income statement, generally over the vesting period.

In March 2005, the Securities and Exchange Commission issued Staff Accounting Bulletin (SAB) No. 107, which provides additional implementation guidance for SFAS 123R. Among other things, SAB 107 provides guidance on share-based payment valuations, income statement classification and presentation, capitalization of costs and related income tax accounting.

Effective April 1, 2006, the Company adopted SFAS 123R using the modified prospective transition method. The Company recognizes compensation cost over the straight-line method for all share-based payments granted on or after that date and for all awards granted to employees prior to April 1, 2006 that remain unvested on that date. The fair value of stock options are determined on the date of grant using the Black-Scholes pricing model and are expensed over the vesting period of the related stock options. Accordingly, for the year ended March 31, 2007, the Company recognized compensation expense of $169,003.

The following table illustrates the effect on net asset value and net asset value per share for the years ended March 31, 2006 and 2005 if the Company had applied the fair value recognition provisions to stock-based compensation for options.

	Years Ended March 31	
	2006	2005
	as restated	as restated
Net asset value, as reported	$558,035,990	$417,946,757
Deduct: Total fair value computed stock-based compensation	150,936	160,764
Pro forma net asset value	$557,885,054	$417,785,993
Net asset value per share:		
Basic - as reported	$144.56	$108.36
Basic - pro forma	$144.52	$108.32
Diluted - as reported	$144.20	$108.28
Diluted- pro forma	$144.16	$108.24

As of March 31, 2007, the total remaining unrecognized compensation cost related to non-vested stock options was $1,171,452 which will be amortized over the weighted-average service period of approximately 7.53 years.

Defined Pension Benefits and Other Postretirement Plans

Effective March 31, 2007, the Company adopted Statement of Financial Accounting Standards (SFAS) No. 158, Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements Nos. 87, 88, 106 and 132R (SFAS 158). SFAS 158 is required to be adopted on a prospective basis and prior year financial statements and related disclosures are not permitted to be restated. SFAS 158 requires an employer that sponsors one or more postretirement defined benefit plan(s) to:

- Recognize the funded status of postretirement defined benefit plans - measured as the difference between the fair value of plan assets and the benefit obligations - in its balance sheet.
- Recognize changes in the funded status of postretirement defined benefit plans in shareholder's equity in the year in which the changes occur.
- Measure postretirement defined benefit plan assets and obligations as of the date of the employer's fiscal year-end. The Company presently uses March 31 as the measurement date for all of its postretirement defined benefit plans.

Recent Accounting Pronouncements

In June 2006, the Financial Accounting Standards Board (FASB) issued Interpretation No. 48 (FIN48), which clarifies the accounting for uncertainty in income taxes recognized in an entity's financial statements in accordance with FASB Statement 109, "Accounting for Income Taxes". FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 is effective for our Company April 1, 2007. The Company has evaluated the positions in the tax returns it has filed and does not believe that FIN 48 will have a material impact on the Company's financial statements.

The State of Texas recently passed House Bill 3 (HB3), which revises the existing franchise tax system to create a new tax on virtually all Texas businesses. Starting in the fiscal year 2007, HB3 changes the franchise tax base, lowers the tax rate and extends coverage to active businesses receiving state law liability protection. The Company has been subject to an immaterial amount of Texas franchise taxes and expects the future effect of HB3 to also be immaterial.

In September 2006, the FASB issued Statement of Financial Accounting Standard No. 157, "Fair Value Measurements" (SFAS 157). The standard defines fair value, outlines a framework for measuring fair value, and details the required disclosures about fair value measurements. The standard is effective for years beginning after November 15, 2007, therefore the Company will adopt SFAS 157 effective April 1, 2008. The Company is evaluating the impact of SFAS 157.

In September 2006, the SEC issued Staff Accounting Bulletin No. 108, "Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements" (SAB 108). SAB 108 clarifies the SEC staff's beliefs regarding the process of quantifying financial statement misstatements and is effective for fiscal years ending after November 15, 2006. The Company applied SAB 108 during the year and was not required to record an adjustment as a result of the application of SAB 108.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities" (SFAS 159). SFAS 159 permits entities to choose to measure many financial instruments and certain other items at fair value and establishes presentation and disclosure requirements designed to facilitate comparisons between entities that choose different measurement attributes for similar types of assets and liabilities. SFAS 159 is effective for our Company beginning April 1, 2008. The impact, if any, from the adoption of SFAS 159 has not been determined.

2. Restatement

As previously announced in a Current Report on Form 8-K filed with the SEC on November 20, 2007, the Company determined that its long-standing practice of recording deferred taxes on unrealized appreciation of investments was not in conformity with GAAP, and its previously issued financial statements, including the Company's annual report on Form 10-K for the fiscal year ended March 31, 2007 and the Company's quarterly report on Form 10-Q for the quarter ended June 30, 2007, as well as all prior period data included within these reports, required restatement. The effects of these changes on the consolidated statements of financial condition as of March 31, 2007 and 2006; the consolidated statements of operations, statements of cash flow and changes in net assets for the three years ended March 31, 2007, 2006 and 2005 are summarized as follows and shown in the tables below:

(A) A Regulated Investment Company (RIC) is required to record deferred taxes when it is probable the RIC will not qualify under Subchapter M of the Internal Revenue Code for a period longer that one year. Historically, management believed it was probable the Company would not maintain its qualifying status as a RIC in future years and recorded a deferred tax liability on the unrealized appreciation of investments. However, upon further analysis, the Company determined it was only reasonably possible, but not probable, the Company would not maintain its qualifying status as a RIC. Thus the deferred tax liability consistently recorded and disclosed should not have been recognized.

(B) The Company historically has accrued income taxes payable on its investment gains as they have been incurred, as it has been the Company's practice to retain its investment gains. However, RICs are required to accrue federal income taxes on investment gains that are retained only on the last day of the tax year. The Company incorrectly recorded the tax impact of its investment gains in periods other than the last day of its tax year, December 31. Therefore, the income taxes payable recorded at times other than the tax year end should not have been recognized.

(C) The Company incorrectly classified its' return of capital contributions cumulatively as "undistributed net realized gains on investments." RICs are required to classify return of capital contributions as "additional capital" in the period in which tax basis amounts become permanent; and reflect undistributed amounts remaining since its' previous tax year end adjusted for temporary tax basis differences as "undistributed net realized gains on investments."

The restatement will eliminate the accrual for deferred taxes on unrealized appreciation of investments, and income taxes payable and related tax carryforwards on realized gains, increasing the net asset value per share and net assets from operations for the periods restated; and reclassify return of capital contributions to "additional capital."

Our prior accounting treatments resulted in an understatement of our net asset value, and overstatement of our deferred tax liability. This resulted in an understatement of the Company's net asset value in an aggregate amount of $211,388,177 and $161,417,881 as of March 31, 2007 and 2006, respectively. The impact on undistributed net realized gains, undistributed appreciation of investments and additional capital as of April 1, 2005, is $115,412,852 in the aggregate; ($76,531,825) in undistributed net realized losses, $117,094,000 in undistributed appreciation of investments, and $74,850,675 in additional capital.

Consolidated Statement of Financial Condition	As of March 31, 2007 Previously Reported (1)	Adjustment	As Restated (2)
Total assets	729,507,313	--	729,507,313
Income taxes payable	231,274	(231,274)	-- (B)
Deferred income tax	213,474,680	(211,156,903)	2,317,777 (A)(B)
Total liabilities	215,163,801	(211,388,177)	3,775,624
Additional capital	11,221,601	105,152,359	116,373,960 (C)
Undistributed net realized gain (loss) on investment	102,766,040	(105,152,359)	(3,100,142)(B)(C)
Net unrealized appreciation of investments	397,410,737	212,102,000	609,512,737 (A)
Net assets at market or fair value	514,343,512	211,388,177	725,731,689
Total liabilities and shareholders' equity	729,507,313	--	729,507,313

Consolidated Statement of Financial Condition	As of March 31, 2006 Previously Reported (1)	Adjustment	As Restated (2)
Total assets	569,368,133	--	569,368,133
Income taxes payable	982,653	(982,653)	-- (B)
Deferred income tax	162,070,285	(160,435,228)	1,635,057 (A)(B)
Total liabilities	172,750,024	(161,417,881)	11,332,143
Additional capital	8,109,797	84,300,285	92,410,082 (C)
Undistributed net realized gain on investments	86,432,040	(83,646,404)	2,785,636 (B)(C)
Net unrealized appreciation of investments	301,067,128	160,764,000	461,831,128 (A)
Net assets at market or fair value	396,618,109	161,417,881	558,035,990
Total liabilities and shareholders' equity	569,368,133	--	569,368,133

Consolidated Statement of Operations	Year Ended March 31, 2007 Previously Reported (1)	Adjustment	As Restated (2)
Net investment income	4,233,340	--	4,233,340
Net realized gain on investments	16,334,000	(1,367,704)	14,966,296 (B)
Net increase in unrealized appreciation of investments	96,343,609	51,338,000	147,681,609 (A)
Net realized and unrealized gain on investments	112,677,609	49,970,296	162,647,905
Increase in net assets from operations	116,910,949	49,970,296	166,881,245

Consolidated Statement of Operations	Year Ended March 31, 2006 Previously Reported (1)	Adjustment	As Restated (2)
Net investment income	2,389,256	--	2,389,256
Net realized gain on investments	13,115,874	2,335,029	15,450,903 (B)
Net increase in unrealized appreciation of investments	80,685,303	43,670,000	124,355,303 (A)
Net realized and unrealized gain on investments	93,801,177	46,005,029	139,806,206
Increase in net assets from operations	96,190,433	46,005,029	142,195,462

Consolidated Statement of Operations	Year Ended March 31, 2005 Previously Reported (1)	Adjustment	As Restated (2)
Net investment income	2,405,948	--	2,405,948
Net realized loss on investments	(6,065,814)	(4,046,206)	(10,112,020) (B)
Net increase in unrealized appreciation of investments	17,884,654	9,925,000	27,809,654 (A)
Net realized and unrealized gain on investments	11,818,840	5,878,794	17,697,634
Increase in net assets from operations	14,224,788	5,878,794	20,103,582

Consolidated Statement of Changes in Net Assets	Year Ended March 31, 2007 Previously Reported (1)	Adjustment	As Restated (2)
Net investment income	4,233,340	--	4,233,340
Net realized gain on investments	16,334,000	(1,367,704)	14,966,296 (B)
Net increase on unrealized appreciation before distributions	96,343,609	51,338,000	147,681,609 (A)
Increase in net assets from operations before distributions	116,910,949	49,970,296	166,881,245
Undistributed net investment income	(2,323,150)	--	(2,323,150)
Net realized gains deemed distributed to shareholders	--	(11,417,283)	(11,417,283) (C)
Allocated increase in share value for deemed distribution	--	11,417,283	11,417,283 (C)
Employee stock options exercised	1,794,850	--	1,794,850
Stock option expense	1,173,751	--	1,173,751
Adjustment to initially apply FASB Statement No. 158, net of tax	169,003	--	169,003
Increase in net assets	117,725,403	49,970,296	167,695,699
Net assets, beginning of year	396,618,109	161,417,881	558,035,990
Net assets, end of year	514,343,512	211,388,177	725,731,689
Net asset value, per share	$ 132.36	$ 54.40	$ 186.75

Consolidated Statement of Changes in Net Assets	Year Ended March 31, 2006 Previously Reported (1)	Adjustment	As Restated (2)
Net investment income	2,389,256	--	2,389,256
Net realized gain on investments	13,115,874	2,335,029	15,450,903 (B)
Net increase on unrealized appreciation before distributions	80,685,303	43,670,000	124,355,303 (A)
Increase in net assets from operations before distributions	96,190,433	46,005,029	142,195,462
Undistributed net investment income	(2,314,231)	--	(2,314,231)
Net realized gains deemed distributed to shareholders	--	(13,573,139)	(13,573,139)(C)
Allocated increase in share value for deemed distribution	--	13,573,139	13,573,139 (C)
Employee stock options exercised	208,000	--	208,000
Stock option expense	--	--	--
Adjustment to initially apply FASB Statement No. 158, net of tax	--	--	--
Increase in net assets	94,084,202	46,005,029	140,089,231
Net assets, beginning of year	302,533,907	115,412,852	417,946,759
Net assets, end of year	396,618,109	161,417,881	558,035,990
Net asset value, per share	$ 102.74	$ 41.82	$ 144.56

Consolidated Statement of Changes in Net Assets	Year Ended March 31, 2005 Previously Reported (1)	Adjustment	As Restated (2)	
Net investment income	2,405,948	--	2,405,948	
Net realized loss on investments	(6,065,814)	(4,046,206)	(10,112,020)	(B)
Net increase on unrealized appreciation before distributions	17,884,654	9,925,000	27,809,654	(A)
Increase (decrease) in net assets from operations before distributions	14,224,788	5,878,794	20,103,582	
Undistributed net investment income	(2,314,231)	--	(2,314,231)	
Employee stock options exercised	--	--	--	
Stock option expense	--	--	--	
Adjustment to initially apply FASB Statement No. 158, net of tax	--	--	--	
Increase in net assets	11,910,557	5,878,794	17,789,351	
Net assets, beginning of year	290,623,350	109,534,058	400,157,408	
Net assets, end of year	302,533,907	115,412,852	417,946,759	
Net asset value, per share	$ 78.44	$ 29.92	$ 108.36	

Consolidated Statement of Cash Flow	Year Ended March 31, 2007 Previously Reported (1)	Adjustment	As Restated (2)
Net Cash provided by (used in):			
Operating activities	35,868,637	11,080,699	46,949,336 (B)
Financing activities	(8,528,300)	(11,080,699)	(19,608,999)(B)
Net increase in cash and cash equivalents	27,340,337	--	27,340,337

Consolidated Statement of Cash Flow	Year Ended March 31, 2006		
	Previously Reported (1)	Adjustment	As Restated (2)
Net Cash provided by (used in):			
Operating activities	13,505,162	4,827,659	18,332,821 (B)
Financing activities	(7,106,231)	(4,827,659)	(11,933,890)(B)
Net increase in cash and cash equivalents	6,398,931	--	6,398,931

Consolidated Statement of Cash Flow	Year Ended March 31, 2005		
	Previously Reported (1)	Adjustment	As Restated (2)
Net Cash provided by (used in):			
Operating activities	4,768,370	--	4,768,370
Financing activities	(9,814,231)	--	(9,814,231)
Net decrease in cash and cash equivalents	(5,045,861)	--	(5,045,861)

(1) As presented in the Company's original Form 10-K for the fiscal year ended March 31, 2007.
(2) Adjusted to reflect the restatement described above.
(A), (B) and (C) are described in detail above.

3. Valuation of Investments

The consolidated financial statements as of March 31, 2007 and 2006 include restricted securities valued at $619,207,702 (90.9% of the value of the consolidated investment portfolio) and $485,924,522 (88.3% of the value of the consolidated investment portfolio), respectively, whose values have been determined by the Board of Directors in the absence of readily ascertainable market values. Because of the inherent uncertainty of valuation, these values may differ significantly from the values that would have been used had a ready market for the securities existed, and the differences could be material. Unrestricted securities are valued at the closing sale price for listed securities and at the lower of the closing bid price or the last sale price for Nasdaq securities on the valuation date.

4. Income Taxes

For the tax years ended December 31, 2006, 2005 and 2004, CSC and CSVC qualified to be taxed as regulated investment companies ("RICs") under applicable provisions of the Internal Revenue Code. As RICs, CSC and CSVC must distribute at least 90% of their taxable net investment income (investment company taxable income) and may either distribute or retain their taxable net realized gain on investments (capital gains). To the extent that we retain capital gains and declare a deemed dividend to shareholders, at the corporate rate, on the distribution, and the shareholders would receive a tax credit equal to their proportionate share of the tax paid. Both CSC and CSVC intend to meet the applicable qualifications to be taxed as RICs in future years; however, either company's ability to meet certain portfolio diversification requirements of RICs in future years may not be controllable by such company.

For the year ended December 31, 2006, CSC and CSVC had net investment income for book and tax purposes of $2,323,150 and $394,124, respectively, all of which has been distributed. During 2006, CSC and CSVC had a net capital gain for book purposes of $31,932,775 and $28,697,723, respectively, and a net capital gain for tax purposes of $31,659,140 and $28,697,723, respectively.

The aggregate cost of investments for federal income tax purposes as of March 31, 2007 was $75,147,983. Such investments had unrealized appreciation of $626,445,188 and unrealized depreciation of $16,932,452 for book purposes, or net unrealized appreciation of $609,512,736. They had unrealized appreciation of

$623,584,608 and unrealized depreciation of $17,577,558 for tax purposes, or net unrealized appreciation of $606,007,050 at March 31, 2007. The difference between book basis and tax basis net unrealized appreciation is attributable primarily to interest income that was accrued for tax purposes, but not for book purposes.

CSMC, a wholly owned subsidiary of CSC, is not a RIC and is required to pay taxes at the current corporate rate. The Company sponsors a qualified defined benefit pension plan which covers its employees and employees of certain of its wholly-owned portfolio companies. Deferred taxes related to the qualified defined benefit pension plan are recorded as incurred.

5. Undistributed Net Realized Gains (Losses) on Investments

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

For income tax purposes, the $11,417,283 and $13,573,139 are treated as deemed distributions to our shareholders for the tax years ended December 31, 2006 and 2005. We reclassified the deemed distribution, net of tax, from our undistributed net realized earnings capital in excess of par value. For the tax year ended December 31, 2004 to the extent we had capital gains, they were fully offset by either capital losses or capital loss carry forwards.

As of March 31, 2007 and 2006, our undistributed net realized gains (losses) on investments determined in accordance with generally accepted accounting principles as reflected on our consolidated statement of financial condition were comprised of the following:

As of March 31,	2007	2006
	(as restated)	(as restated)
Undistributed net realized gains (losses) on investments	($3,100,142)	$2,785,636

6. Note Payable

The note payable to bank at March 31, 2007 and 2006 was from an unsecured revolving line of credit of $25,000,000 of which $0 and $8,000,000 had been drawn at March 31, 2007 and 2006, respectively. The revolving line of credit bears interest at the bank's base rate less .50% or LIBOR plus 1.25% and matures on August 31, 2007. The average interest rates during the years ended March 31, 2007 and 2006 were 6.46% and 5.05% respectively.

7. Employee Stock Option Plan

On July 19, 1999, shareholders approved the 1999 Stock Option Plan ("Plan"), which provided for the granting of stock options to employees and officers of the Company and authorized the issuance of common stock upon exercise of such options for up to 140,000 shares. All options are granted at or above market price, generally expire ten years from the date of grant and are generally exercisable on or after the first anniversary of the date of grant in five to ten annual installments.

At March 31, 2007, there were 58,500 shares available for grant under the Plan. The per share weighted-average fair value of the stock options granted on May 15, 2006 was $31.276 per option using the Black-Scholes pricing model with the following assumptions: expected dividend yield of 0.64%, risk-free interest rate of 5.08%, expected volatility of 21.1%, and expected life of 7 years. The per share weighted-average fair value of the stock options granted on July 17, 2006 was $33.045 per option using the Black-Scholes pricing model with the following assumptions: expected dividend yield of 0.61%, risk-free interest rate of 5.04%, expected volatility of 21.2%, and expected life of 7 years.

The following summarizes activity in the stock option plans for the years ended March 31, 2007, 2006 and 2005:

	Number of shares	Weighted Average Exercise Price
Balance at April 1, 2004	54,500	$70.004
Granted	7,500	76.000
Exercised	-	-
Canceled	(13,500)	79.870
Balance at March 31, 2005	48,500	68.186
Granted	-	-
Exercised	(3,200)	65.000
Canceled	-	-
Balance at March 31, 2006	45,300	68.411
Granted	57,500	94.136
Exercised	(25,800)	69.568
Canceled	(24,500)	89.482
Balance at March 31, 2007	52,500	$86.184

At March 31, 2007, the range of exercise prices and weighted-average remaining contractual life of outstanding options was $65.00 to $98.44 and 7.78 years, respectively. The total intrinsic value of options exercised during the year ended March 31, 2007 was $571,565, with the exercise prices ranging from $65.00 to $77.00 per share. New shares were issued for the $1,794,850 cash received from option exercises for the year ended March 31, 2007.

At March 31, 2007, 2006 and 2005, the number of options exercisable was 8,515, 29,500 and 25,650, respectively and the weighted-average exercise price of those options was $69.15, $69.01 and $68.98, respectively.

8. Employee Stock Ownership Plan

The Company and one of its wholly-owned portfolio companies sponsor a qualified employee stock ownership plan ("ESOP") in which certain employees participate. Contributions to the plan, which are invested in Company stock, are made at the discretion of the Board of Directors. A participant's interest in contributions to the ESOP fully vests after five years of active service.

Effective April 1, 2007, the vesting period will be three years. During the three years ended March 31, 2007, the Company made contributions to the ESOP, which were charged against net investment income, of $84,488 in 2007, $99,167 in 2006 and $93,588 in 2005.

9. Retirement Plans

The Company sponsors a qualified defined benefit pension plan which covers its employees and employees of certain of its wholly-owned portfolio companies. The following information about the plan represents amounts and information related to the Company's participation in the plan and is presented as though the Company sponsored a single-employer plan. Benefits are based on years of service and an average of the highest five consecutive years of compensation during the last ten years of employment. The funding policy of the plan is to contribute annual amounts that are currently deductible for tax reporting purposes. No contribution was made to the plan during the three years ended March 31, 2007.

The following tables set forth the qualified plan's benefit obligations and fair value of plan assets at March 31, 2007, 2006 and 2005:

	Years Ended March 31		
	2007	2006	2005
Change in benefit obligation			
Benefit obligation at beginning of year	$ 4,004,017	$ 3,833,411	$ 3,799,113
Service cost	103,342	95,590	92,434
Interest cost	230,711	223,374	214,076
Actuarial loss	68,854	228,122	94,812
Benefits paid	(386,982)	(376,480)	367,024)
Plan change	(54,842)	--	--
Benefit obligation at end of year	$ 3,965,100	$ 4,004,017	$ 3,833,411
Change in plan assets			
Fair value of plan assets at beginning of year	$ 11,640,693	$ 9,326,254	$ 10,030,763
Actual return on plan assets	1,719,581	2,690,919	(337,485)
Benefits paid	(386,982)	(376,480)	(367,024)
Fair value of plan assets at end of year	$ 12,973,292	$ 11,640,693	$ 9,326,254

The following table sets forth the qualified plan's funded status and amounts recognized in the Company's consolidated statements of financial condition:

	March 31	
	2007	2006
Actuarial present value of benefit obligations:		
Accumulated benefit obligation	$ (3,435,396)	$ (3,475,899)
Projected benefit obligation for service rendered to date	$ (3,965,100)	$ (4,004,017)
Plan assets at fair value*	12,973,292	11,640,693
Funded status	9,008,192	7,636,676
Unrecognized net (gain) loss from past experience different from that assumed and effects of changes in assumptions	(1,761,054)	(670,478)
Unrecognized prior service costs	132,904	195,281
Additional asset, FAS 158	1,628,150	--
Prepaid pension cost included in other assets	$ 9,008,192	$ 7,161,479

- -------------

*Primarily equities and bonds including approximately 25,000 shares of common stock of the Company.

Components of net pension benefit related to the qualified plan include the following:

	Years Ended March 31		
	2007	2006	2005
Service cost - benefits earned during the year	$ 103,342	$ 95,590	$ 92,434
Interest cost on projected benefit obligation	230,711	223,374	214,076
Expected return on assets	(580,104)	(551,026)	(564,627)
Net amortization	27,487	38,897	(66,280)
Net pension benefit from qualified plan	$(218,564)	$(193,165)	$(324,397)

The Company also sponsors an unfunded Retirement Restoration Plan, which is a nonqualified plan that provides for the payment, upon retirement, of the difference between the maximum annual payment permissible under the qualified retirement plan pursuant to Federal limitations and the amount which would otherwise have been payable under the qualified plan.

The following table sets forth the Retirement Restoration Plan's benefit obligations at March 31, 2007, 2006 and 2005:

	Years Ended March 31		
	2007	2006	2005
Change in benefit obligation			
Benefit obligation at beginning of year	$ 1,280,542	$ 1,302,368	$ 1,414,091
Service cost	20,245	19,094	10,380
Interest cost	68,937	72,886	74,711
Actuarial (gain) loss	(36,529)	40,867	(32,685)
Benefits paid	(144,170)	(154,673)	(164,129)
Plan change	(10,134)	--	--
Benefit obligation at end of year	$ 1,178,891	$ 1,280,542	$ 1,302,368

The following table sets forth the status of the Retirement Restoration Plan and the amounts recognized in the consolidated statements of financial condition:

	March 31	
	2007	2006
Projected benefit obligation	$(1,178,891)	$(1,280,542)
Unrecognized net loss from past experience different from that assumed and effects of changes in assumptions	56,523	93,049
Unrecognized prior service costs	(234,144)	(239,573)
Additional asset, FAS 158	177,621	--
Accrued pension cost included in other liabilities	$(1,178,891)	$(1,427,066)

The Retirement Restoration Plan expenses recognized during the years ended March 31, 2007, 2006 and 2005 of $73,619, $76,417 and $69,528, respectively, are offset against the net pension benefit from the qualified plan.

The following assumptions were used in estimating the actuarial present value of the projected benefit obligations:

	Years Ended March 31		
	2007	2006	2005
Discount rate	6.0%	5.75%	5.75%
Rate of compensation increases	5.0%	5.0%	5.0%

The following assumptions were used in estimating the net periodic (income)/expense:

	Years Ended March 31		
	2007	2006	2005
Discount rate	5.75%	5.75%	5.75%
Expected return on plan assets	6.0%	6.0%	6.0%
Rate of compensation increases	5.0%	5.0%	5.0%

The expected rate of return on assets assumption was determined based on the anticipated performance of the various asset classes in the plan's portfolio and the allocation of assets to each class. The anticipated asset class return is developed using historical and predicted asset return performance, considering the investments underlying each asset class and expected investment performance based on forecasts of inflation, interest rates and market indices for fixed income and equity securities.

The Company's pension plan asset allocations are as follows:

	Percentage of plan assets at March 31	
Asset Category	2007	2006
Equity securities	79.1%	83.6%
Debt securities	11.4%	12.9%
Cash	9.5%	3.5%
	100.0%	100.0%

The Company's pension plan is administered by a board-appointed committee that has fiduciary responsibility for the plan's management. The trustee of the plan is JPMorgan Asset Management. Currently, approximately 18% of the assets are selected and managed by the trustee and the remainder of the assets are managed by the committee, invested mostly in equity securities, including the Company's stock.

Following are the expected benefit payments for the next five years and in the aggregate for the years 2013-2017:

	Years Ended March 31					
(In Thousands)	2008	2009	2010	2011	2012	2013-2017
	$357	$337	$316	$294	$281	$1,136

Incremental effect of applying FASB Statement No. 158 on individual line items in the Statement of Financial Condition:

	March 31, 2007		
	Before Application Of Statement 158	Adjustments	After application of Statement 158
Other assets	$ 7,542,035	$ 1,628,150	$ 9,170,185
Other liabilities	1,635,468	(177,621)	1,457,847
Deferred income taxes	212,842,660	632,020	213,474,680
Additional capital	10,047,850	1,173,751	11,221,601
Net assets at market or fair value	513,169,761	1,173,751	514,343,512

10. Commitments

The Company has agreed, subject to certain conditions, to invest up to $9,891,281 in three portfolio companies.

The Company leases office space under an operating lease which requires base annual rentals of approximately $80,000 through February, 2008. For the three years ended March 31, total rental expense charged to investment income was $79,979 in 2007, $76,877 in 2006 and $75,248 in 2005.

11. Sources of Income

Income was derived from the following sources:

Years Ended March 31 2007	Investment Income Interest	Dividends	Other Income	Realized Gain (Loss) on Investments Before Income Taxes
Companies more than 25% owned	$ --	$ 3,449,558	$ 659,500	$ 31,070,149
Companies 5% to 25% owned	125,733	171,578	20,000	--
Companies less than 5% owned	938,761	333,739	29,400	(5,023,154)
Other sources, including temporary investments	1,244,166	--	--	--
	$ 2,308,660	$ 3,954,875	$ 708,900	$ 26,046,995

Years Ended March 31 2006	Investment Income Interest	Dividends	Other Income	Realized Gain (Loss) on Investments Before Income Taxes
Companies more than 25% owned	$ --	$ 2,926,964	$ 642,500	$ --
Companies 5% to 25% owned	(55,236)	188,233	10,000	--
Companies less than 5% owned	302,622	370,233	195,570	20,278,566
Other sources, including temporary investments	258,150	--	--	--
	$ 505,536	$ 3,485,430	$ 848,070	$ 20,278,566

2005
- ----

Companies more than 25% owned	$ --	$ 3,361,345	$ 637,000	$ --
Companies 5% to 25 owned	55,236	80,858	--	(12,097,124)
Companies less than 5% owned	346,396	335,987	--	1,985,104
Other sources, including temporary investments	36,121	--	--	--
	$ 437,753	$ 3,778,190	$ 637,000	$(10,112,020)

12. Subsequent Events

In July 2007, William R. Thomas, retired from his role as President and Chief Executive Officer, but has continued in capacity as Chairman of the Board. Gary L Martin was named President and Chief Executive Officer.

In August 2007, Susan K. Hodgson resigned from her position as Secretary-Treasurer and Chief Financial Officer. Tracy L. Morris was hired in September 2007, as Controller and Chief Financial Officer.

On August 27, 2007, Capital Southwest Corporation and Capital Southwest Venture Corporation, were named in a lawsuit filed in the United States District Court of the Northern District of Texas, Dallas Division, against Heelys, Inc and its Chief Executive Officer, Chief Financial Officer and the directors who signed its registration statement with the Securities and Exchange Commission in connection with its December 7, 2006 initial public offering ("IPO"), and its underwriters for the IPO. The complaint alleges violations of Sections 11 and 15 of the Securities Act of 1933 and the plaintiffs are seeking compensatory damages in an unspecified amount, as well as reasonable costs and expenses incurred in the action, including counsel fees and expert fees. We believe that the plaintiffs' claims are without merit, we deny the allegations in the complaints, and we intend to vigorously defend the lawsuits.

In September and October 2007 four similar suits were also filed in the United States District Court of the Northern District of Texas making substantially similar allegations under Sections 11, 12 and 15 of the Securities Act of 1933, and seeking substantially similar damages. These lawsuits have been transferred to a single judge, and we expect that all the cases will be consolidated into a single action, with a consolidated complaint filed shortly thereafter. We believe that the plaintiffs' claims are without merit, we deny the allegations in the complaints, and we intend to vigorously defend the lawsuits.

On November 15, 2007, the Company received a Staff Determination Letter from NASDAQ, stating that we were delinquent in our SEC filings for the quarter ended September 30, 2007 and in violation of NASDAQ rules. On November 20, 2007, the Company requested a written hearing with NASDAQ. The hearing date is set for January 10, 2008 at 4:00 PM.

Selected Per Share Data and Ratios

Per Share Data	2007 as restated	2006 as restated	2005 as restated	2004 as restated	2003 as restated
	Years Ended March				
Investment income	$ 1.79	$ 1.25	$ 1.26	$ 1.22	$ 1.06
Operating expenses	(.57)	(.51)	(.51)	(.39)	(.30)
Interest expense	(.12)	(.11)	(.11)	(.14)	(.12)
Income taxes	(.01)	(.01)	(.02)	(.02)	(.04)
Net investment income	1.09	.62	.62	.67	.60
Distributions from undistributed net investment income	(.60)	(.60)	(.60)	(.60)	(.60)
Net realized gain (loss) on investments	3.85	4.00	(2.62)	3.27	.52
Net increase (decrease) in unrealized appreciation of investments	38.00	32.22	7.21	29.57	(18.20)
Exercise of employee stock options*	(.49)	(.04)	--	(.25)	--
Stock option expense	.04	--	--	--	--
Adjustment to initially apply FASB No. 158, net of tax	.30	--	--	--	--
Increase (decrease) in net asset value	42.19	36.20	5.21	32.66	(17.68)
Net asset value					
Beginning of year	144.56	108.36	103.75	71.09	88.77
End of year	$ 186.75	$ 144.56	$ 108.36	$ 103.75	$ 71.09
Ratios and Supplemental Data					
Ratio of operating expenses to average net assets	.36%	.42%	.49%	.47%	.39%
Ratio of net investment income to average net assets	.68%	.51%	.60%	.81%	.78%
Portfolio turnover rate	0.13%	2.36%	.56%	3.74%	1.53%
Net asset value total return	29.85%	34.31%	5.25%	47.42%	(19.11)%
Shares outstanding at end of period (000s omitted)	3,886	3,860	3,857	3,857	3,829

- -------------

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

Management's Report on Internal Control Over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting ("ICFR"), as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934. The Company's internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States. With the participation of the Chief Executive Officer and the Chief Financial Officer, our management conducted an evaluation of the effectiveness of our internal control over financial reporting as of March 31, 2007 based on the criteria established in Internal Control - Integrated Framework, issued by the Committee of Sponsoring Organizations of the Treadway Commission.

In the company's Annual Report on Form 10-K for the year ended March 31, 2007 filed on May 15, 2007, management concluded that our internal control over financial reporting was effective as of March 31, 2007. Subsequently, management identified the following material weakness in internal control over financial reporting with respect to accounting for taxes:

Under the supervision and with the participation of our management, including our President and Controller, we conducted an evaluation of the effectiveness of our internal control over financial reporting in connection with preparation of the Amended Annual Report on Form 10-K/A for the year ended March 31, 2007. As a result of the assessments, a material weakness was identified. The following material weakness is the basis for our conclusion:

- We did not maintain an adequate process to assess and determine the probability of the Company maintaining its qualifying status as a RIC subject to subchapter M of the IRC over the next twelve months at any given quarter.

This material weakness has caused us to amend our Annual Report on Form 10-K for the year ended March 31, 2007, in order to restate the financial statements and our selected per share data and ratios for the years ended March 31, 2007, 2006 and 2005, and our selected per share data and ratios for the years ended March 31, 2004 and 2003. Additionally, we have amended our Form 10-Q for the quarter ended June 30, 2007.

As a result of this material weakness, our Management has revised its earlier assessment and has now concluded that our internal control over financial reporting was not effective as of March 31, 2007.

Grant Thornton LLP has issued its opinion that the Company had not maintained effective internal control over financial reporting as of March 31, 2007 based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organzations of the Treadway Commission. This opinion appears on the next page.

Date: January 9, 2008

/s/ Gary L. Martin
- ------------------
Gary L. Martin
President & Chief Executive Officer

/s/ Tracy L. Morris
- -------------------
Tracy L. Morris
Controller
(chief financial/accounting officer)

Report of Independent Registered Public Accounting Firm

Board of Directors and Shareholders
Capital Southwest Corporation

We have audited Capital Southwest Corporation (a Texas Corporation) and subsidiaries (the "Company") internal control over financial reporting as of March 31, 2007, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying management's report on internal control over financial reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

A material weakness is a deficiency, or combination of control deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company's annual or interim financial statements will not be prevented or detected on a timely basis. The following material weakness has been identified and included in management's assessment.

- The Company did not maintain an adequate process to assess and determine the probability of the Company maintaining its qualifying status as a RIC subject to subchapter M of the IRC over the next twelve months at any given quarter end.

In our opinion, because of the effect of the material weakness described above on the achievement of the objectives of the control criteria, the Company has not maintained effective internal control over financial reporting as of March 31, 2007, based on criteria established in Internal Control--Integrated Framework issued by COSO.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated statement of financial condition of the Company as of March 31, 2007 and 2006, including the portfolio of investments as of March 31, 2007, and the related consolidated statements of operations, changes in net assets, cash flows, and the selected per share data and ratios for each of the three years in the period ended March 31, 2007. The material weakness identified above was considered in determining the nature, timing, and extent of audit tests applied in our audit of the 2007 financial statements, and this report does not affect our report dated, January 9, 2008, which expressed an unqualified opinion on those financial statements and the selected per share data and ratios.

/s/ GRANT THORNTON LLP
Dallas, Texas
January 9, 2008

Report of Independent Registered Public Accounting Firm

Board of Directors and Shareholders
Capital Southwest Corporation

We have audited the accompanying consolidated statements of financial condition of Capital Southwest Corporation (a Texas Corporation) and subsidiaries (the "Company") as of March 31, 2007 and 2006, including the portfolio of investments as of March 31, 2007, and the related consolidated statements of operations, changes in net assets, cash flows, and the selected per share data and ratios for each of the three years in the period ended March 31, 2007. These financial statements and per share data and ratios are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and per share data and ratios based on our audits. The selected per share data and ratios for the year ended March 31, 2004, were audited by another independent registered public accounting firm whose report dated May 12, 2004, except for Note 2, which is as of January 9, 2008 expressed an unqualified opinion. The selected per share data and ratios for the year ended March 31, 2003, were audited by another independent registered public accounting firm whose report dated April 25, 2003, except for Note 2, which is as of January 9, 2008 expressed an unqualified opinion.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. Our procedures included verification by examination of securities held by the custodian as of March 31, 2007 and 2006, and confirmation of securities not held by the custodian by correspondence with others. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements and the selected per share data and ratios referred to above present fairly, in all material respects, the consolidated financial position of Capital Southwest Corporation and subsidiaries as of March 31, 2007 and 2006, and the consolidated results of operations, changes in net assets, cash flows, and the selected per share data and ratios for each of the three years in the period ended March 31, 2007, in conformity with accounting principles generally accepted in the United States of America.

As described in Note 6 to the consolidated financial statements, the Company adopted the provisions of Financial Accounting Standards Board (FASB) Statement of Financial Accounting Standards No. 123 (revised 2004), Share-Based Payment, effective April 1, 2006. As described in Note 8 to the consolidated financial statements, the Company also adopted the provisions of FASB Statement of Financial Accounting Standards No. 158, Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans: An Amendment of FASB Statements No. 87, 88, 106, and 132(R), effective March 31, 2007.

As described in Note 2 to the consolidated financial statements, the Company restated its consolidated financial statements and the selected per share data and ratios for each of the fiscal years ended March 31, 2007, 2006 and 2005 and the selected per share data and ratios for the years ended March 31, 2004 and 2003 by eliminating the accrual for deferred taxes on unrealized appreciation of investments, and income taxes payable and related tax carry forwards on realized gains, which increased the net asset value per share and net assets from operations for the periods restated, and reclassified return of capital contributions to "additional capital".

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Capital Southwest Corporation and subsidiaries' internal control over financial reporting as of March 31, 2007, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our accompanying report dated January 9, 2008, expressed an adverse opinion on the effective operation of the Company's internal control over financial reporting.

/s/ Grant Thornton LLP
Dallas, Texas
January 9, 2008

Results of Operations

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

Net Investment Income

The Company's principal objective is to achieve capital appreciation. Therefore, a significant portion of the investment portfolio is structured to maximize the potential return from equity participation and provides minimal current yield in the form of interest or dividends. The Company also earns interest income from the short-term investment of cash funds, and the annual amount of such income varies based upon the average level of funds invested during the year and fluctuations in short-term interest rates. During the three years ended March 31, the Company had interest income from temporary cash investments of $1,187,676 in 2007, $257,374 in 2006 and $35,048 in 2005. The Company also receives management fees primarily from its wholly-owned portfolio companies which aggregated $626,400 in 2007, $792,570 in 2006 and $597,000 in 2005. During the three years ended March 31, 2007, the Company recorded dividend income from the following sources:

	Years Ended March 31		
	2007	2006	2005
Alamo Group Inc.	$ 677,112	$ 677,112	$ 677,112
Balco, Inc.........................	-	252,960	252,960
Dennis Tool Company................	62,499	49,999	25,000
Kimberly-Clark Corporation..........	154,360	142,011	127,347
Lifemark Group.....................	600,000	600,000	600,000
PalletOne, Inc.....................	89,842	179,685	80,858
The RectorSeal Corporation..........	1,869,947	1,106,893	960,000
Sprint Nextel Corporation...........	9,000	18,000	45,000
TCI Holdings, Inc..................	81,270	81,270	81,270
The Whitmore Manufacturing Company..	240,000	240,000	846,273
Other..............................	170,845	137,500	82,370
	$3,954,875	$3,485,430	$3,778,190

Total operating expenses, excluding interest expense, increased by $270,833 or 13.9% during the year ended March 31, 2007. Due to the nature of its business, the majority of the Company's operating expenses are related to employee and director compensation, office expenses, legal and accounting fees and the net pension benefit.

Net Realized Gain (Loss) on Investments

Net realized gain on investments was $14,966,296 (after income tax expense of $11,080,699) during the year ended March 31, 2007, compared with a gain of $15,450,903 (after income tax expense of $4,827,663) during 2006 and a loss of $10,112,020 during 2005. Management does not attempt to maintain a comparable level of realized gains from year to year, but instead attempts to maximize total investment portfolio appreciation. This strategy often dictates the long-term holding of portfolio securities in pursuit of increased values and increased unrealized appreciation, but may at opportune times dictate realizing gains or losses through the disposition of certain portfolio investments.

Net Increase in Unrealized Appreciation of Investments

For the three years ended March 31, the Company recorded an increase in unrealized appreciation of investments of $147,681,609, $124,355,303 and $27,809,654 in 2007, 2006 and 2005, respectively. As explained in the first paragraph of this discussion and analysis, the realization of gains or losses results in a corresponding decrease or increase in unrealized appreciation of investments. Set forth in the following table are the significant increases and decreases in unrealized appreciation excluding the effect of gains or losses realized during the year) by portfolio company for securities held at the end of each year.

	Years Ended March 31 2007	2006	2005
Alamo Group Inc.	$2,821,000	$ (5,642,000)	$19,749,000
Encore Wire Corporation	(12,260,000)	49,041,000	(27,245,000)
Heelys, Inc	170,040,908	27,000,000	1,400,000
Hologic, Inc	715,086	12,472,883	1,836,760
Media Recovery, Inc	3,000,000	15,744,000	9,256,000
Palm Harbor Homes, Inc	(27,493,000)	27,493,000	(15,710,000)
The RectorSeal Corporation	10,500,000	15,000,000	12,500,000

On December 8, 2006, the Company realized a significant gain on the sale of a small fraction of its Heelys investment, and during the year ended March 31, 2007, the value of our remaining Heelys stock increased from the March 31, 2006 value by $170,040,908. This was attributable to the increases in Heelys sales and earnings during 2006 and the market interest in the initial public offering of Heelys common stock on December 8, 2006. The offering totaled 7,393,750 shares at $21.00 per share. A total of 4,268,750 shares were sold by selling stockholders including 1,591,790 shares sold by our Company.

Offsetting part of the major increase in Heelys' value during the year ended March 31, 2007 was a decrease of $27,493,000 in the value of the restricted stock of Palm Harbor Homes, Inc., which experienced an earnings decline in the face of unfavorable industry conditions.

A description of the investments listed above and other material components of the investment portfolio is included elsewhere in this report under the caption "Portfolio of Investments - March 31, 2007."

Portfolio Investments

During the year ended March 31, 2007, the Company invested $803,269 in various portfolio securities listed elsewhere in this report under the caption "Portfolio Changes During the Year," which also lists dispositions of portfolio securities. During the 2006 and 2005 fiscal years, the Company invested a total of $15,054,741 and $2,280,690, respectively.

Financial Liquidity and Capital Resources

At March 31, 2007, the Company had cash and cash equivalents of approximately $38.8 million. Pursuant to Small Business Administration (SBA) regulations, cash and cash equivalents of $3.1 million held by CSVC may not be transferred or advanced to CSC without the consent of the SBA. Under current SBA regulations and subject to SBA's approval of its credit application, CSVC would be entitled to borrow up to $16.4 million. The Company also has an unsecured $25.0 million revolving line of credit from a commercial bank, of which $25.0 million was available at March 31, 2007. With the exception of a capital gain distribution made in the form of a distribution of the stock of a portfolio company in the fiscal year ended March 31, 1996, the Company has elected to retain all gains realized during the past 39 years. Retention of future gains is viewed as an important source of funds to sustain the Company's investment activity. Approximately $61.9 million of the Company's investment portfolio is represented by unrestricted publicly-traded securities and represent a source of liquidity.

Funds to be used by the Company for operating or investment purposes may be transferred in the form of dividends, management fees or loans from Lifemark Group, The RectorSeal Corporation and The Whitmore Manufacturing Company, wholly-owned portfolio companies of the Company, to the extent of their available cash reserves and borrowing capacities.

Management believes that the Company's cash and cash equivalents and cash available from other sources described above are adequate to meet its expected requirements. Consistent with the long-term strategy of the Company, the disposition of investments from time to time may also be an important source of funds for future investment activities.

Contractual Obligations

As shown below, the Company had the following contractual obligations as of March 31, 2007. For further information see Note 5 and Note 9 of the Consolidated Financial Statements.

Contractual Obligations	Total	Less than 1 Year	1-3 Years	3-5 Years	More Than 5 Years
	Payments Due By Period ($ in Thousands)				
Long-term debt obligations	$ -	-	$ -	-	-
Capital lease obligations	-	-	-	-	-
Operating lease obligations	80	-	80	-	-
Purchase obligations	-	-	-	-	-
Other long-term liabilities reflected on the Company's balance sheet under GAAP	-	-	-	-	-
Total	$80	-	$ 80	-	-

Critical Accounting Policies

Valuation of Investments

In accordance with the Investment Company Act of 1940, investments in unrestricted securities (freely marketable securities having readily available market quotations) are valued at market and investments in restricted securities (securities subject to one or more resale restrictions) are valued at fair value determined in good faith by the Company's Board of Directors. Under the valuation policy of the Company, unrestricted securities are valued at the closing sale price for listed securities and at the lower of the closing bid price or the last sale price for Nasdaq securities on the valuation date. Restricted securities, including securities of publicly-owned companies which are subject to restrictions on resale, are valued at fair value, which is considered to be the amount the Company may reasonably expect to receive if such securities were sold on the valuation date. Valuations as of any particular date, however, are not necessarily indicative of amounts which may ultimately be realized as a result of future sales or other dispositions of securities.

Among the factors considered by the Board of Directors in determining the fair value of restricted securities are the financial condition and operating results of the issuer, the long-term potential of the business of the issuer, the market for and recent sales prices of the issuer's securities, the values of similar securities issued by companies in similar businesses, the proportion of the issuer's securities owned by the Company, the nature and duration of resale restrictions and the nature of any rights enabling the Company to require the issuer to register restricted securities under applicable securities laws.

Impact of Inflation

The Company does not believe that its business is materially affected by inflation, other than the impact which inflation may have on the securities markets, the valuations of business enterprises and the relationship of such valuations to underlying earnings, all of which will influence the value of the Company's investments.

Risks

Pursuant to Section 64(b)(1) of the Investment Company Act of 1940, a business development company is required to describe the risk factors involved in an investment in the securities of such company due to the nature of the company's investment portfolio. Accordingly the Company states that:

The Company's objective is to achieve capital appreciation through investments in businesses believed to have favorable growth potential. Such businesses are often undercapitalized small companies which lack management depth and have not yet attained profitability. The Company's venture investments often include securities which do not yield interest or dividends and are subject to legal or contractual restrictions on resale, which restrictions adversely affect the liquidity and marketability of such securities.

Because of the speculative nature of the Company's investments and the lack of any market for the securities initially purchased by the Company, there is a significantly greater risk of loss than is the case with traditional investment securities. The high-risk, long-term nature of the Company's venture investment activities may prevent shareholders of the Company from achieving price appreciation and dividend distributions.

Selected Consolidated Financial Data
(all figures in thousands except per share data)

Financial Position (as of March 31)	1997 as restated	1998 as restated	1999 as restated	2000 as restated	2001 as restated
Investments at cost	$ 59,908	$ 61,154	$ 73,580	$ 85,002	$ 87,602
Unrealized appreciation	233,383	340,132	276,698	238,627	228,316
Investments at market or fair value	293,291	401,286	350,278	323,629	315,918
Total assets	310,760	522,324	360,786	392,586	322,668
Notes payable *	5,000	5,000	5,000	10,000	16,000
Net assets	303,469	414,697	352,974	319,438	303,436
Shares outstanding	3,767	3,788	3,815	3,815	3,815
Changes in Net Assets (years ended March 31)					
Net investment income	$ 2,574	$ 2,726	$ 1,762	$ 1,663	$ 1,723
Net realized gain (loss) on investments	4,290	3,301	1,264	5,162	(5,126)
Net increase (decrease) in unrealized appreciation before distributions	34,996	106,749	(63,4334)	(38,072)	(10,311)
Increase (decrease) in net assets from operations before distributions	41,860	112,776	(60,408)	(31,247)	(13,714)
Cash dividends paid	(2,260)	(2,268)	(2,280)	(2,289)	(2,289)
Employee stock options exercised	--	720	965	--	--
Stock option expense	--	--	--	--	--
Adjustment to initially apply FASB Statement No. 158, net of tax	--	--	--	--	--
Increase (decrease) in net assets	39,600	111,228	(61,723)	(33,536)	(16,003)
Per Share Data (as of March 31)					
Net assets	$ 80.56	$ 109.48	$ 92.52	$ 83.73	$ 79.54
Closing market price	67.88	94.00	73.00	54.75	65.00
Cash dividends paid	.60	.60	.60	.60	.60

Financial Position (as of March 31)	2002 as restated	2003 as restated	2004 as restated	2005 as restated	2006 as restated	2007 as restated
Investments at cost	$ 82,194	$ 91,462	$ 97,283	$ 84,546	$ 88,597	$ 71,642
Unrealized appreciation	265,287	195,598	309,666	337,476	461,831	609,513
Investments at market or fair value	347,481	287,060	406,949	422,022	550,428	681,155
Total assets	357,183	298,490	423,979	434,384	569,368	729,507
Notes payable *	14,000	23,000	20,500	13,000	8,000	--
Net assets	339,891	272,211	400,157	417,947	558,036	725,732
Shares outstanding	3,829	3,829	3,857	3,857	3,860	3,886
Changes in Net Assets (years ended March 31)						
Net investment income	$ 2,042	$ 2,299	$ 2,587	$ 2,406	$ 2,389	$ 4,233
Net realized gain (loss) on investments	(762)	2,007	12,603	(10,112)	15,451	14,966
Net increase (decrease) in unrealized appreciation before distributions	36,971	(69,689)	114,068	27,810	124,355	147,682
Increase (decrease) in net assets from operations before distributions	38,251	(65,383)	129,257	20,104	142,195	166,881
Cash dividends paid	(2,295)	(2,297)	(2,309)	(2,314)	(2,314)	(2,323)
Employee stock options exercised	499	--	997	--	208	1,795
Stock option expense	--	--	--	--	--	169
Adjustment to initially apply FASB Statement No. 158, net of tax	--	--	--	--	--	1,173
Increase (decrease) in net assets	36,455	(67,680)	127,946	17,790	140,089	167,695
Per Share Data (as of March 31)						
Net assets	$ 88.77	$ 71.09	$ 103.75	$ 108.36	$ 144.56	$ 186.75
Closing market price	68.75	48.15	75.47	79.10	95.50	153.67
Cash dividends paid	.60	.60	.60	.60	.60	.60

o Excludes quarter-end borrowing which is repaid on the first business day after year end.

Shareholder Information

Stock Transfer Agent

American Stock Transfer & Trust Company, 59 Maiden Lane, New York, NY 10038 (telephone 800-937-5449) serves as transfer agent for the Company's common stock. Certificates to be transferred should be mailed directly to the transfer agent, preferably by registered mail.

Shareholders

The Company had approximately 700 record holders of its common stock at March 31, 2007. This total does not include an estimated 4,000 shareholders with shares held under beneficial ownership in nominee name or within clearinghouse positions of brokerage firms or banks.

Market Prices

The Company's common stock trades on The Nasdaq Global Market under the symbol CSWC. The following high and low selling prices for the shares during each quarter of the last two fiscal years were taken from quotations provided to the Company by Nasdaq:

Quarter Ended	High	Low
June 30, 2005	$89.68	$74.98
September 30, 2005	95.18	81.84
December 31, 2005	92.71	82.10
March 31, 2006	99.01	89.24

Quarter Ended	High	Low
June 30, 2006	$104.45	$ 90.65
September 30, 2006	121.00	96.47
December 31, 2006	154.36	115.33
March 31, 2007	155.99	122.05

Dividends

The payment dates and amounts of cash dividends per share since April 1, 2005 are as follows:

Payment Date	Cash Dividend
May 31, 2005	$0.20
November 30, 2005	0.40
May 31, 2006	0.20
November 30, 2006	0.40
May 31, 2007	0.20

The amounts and timing of cash dividend payments have generally been dictated by requirements of the Internal Revenue Code regarding the distribution of taxable net investment income (ordinary income) of regulated investment companies. Instead of distributing realized long-term capital gains to shareholders, the Company has ordinarily elected to retain such gains to fund future investments.

Automatic Dividend Reinvestment and Optional Cash Contribution Plan

As a service to its shareholders, the Company offers an Automatic Dividend Reinvestment and Optional Cash Contribution Plan for shareholders of record who own a minimum of 25 shares. The Company pays all costs of administration of the Plan except brokerage transaction fees. Upon request, shareholders may obtain information on the Plan from the Company, 12900 Preston Road, Suite 700, Dallas, Texas 75230. Telephone (972) 233-8242. Questions and answers about the Plan are on the next page.

Annual Meeting

The Annual Meeting of Shareholders of Capital Southwest Corporation was held on Monday, July 16, 2007, at 10:00 a.m. in the North Dallas Bank Tower Meeting Room (second floor), 12900 Preston Road, Dallas, Texas.

EXHIBIT 23.1

Consent of Registered Independent Public Accounting Firm

We have issued our reports dated January 9, 2008, accompanying the consolidated financial statements and management's assessment of the effectiveness of internal control over financial reporting included in the Form 10-K/A of Capital Southwest Corporation and subsidiaries for the year ended March 31, 2007. We hereby consent to the incorporation by reference of said reports in the Registration Statement of Capital Southwest Corporation and subsidiaries on Form S-8 (File No. 33-43881).

/s/ GRANT THORNTON LLP
January 9, 2008

Exhibit 31.1

CERTIFICATIONS

I, Gary L. Martin, President of Capital Southwest Corporation, certify that:

1. I have reviewed this annual report on Form 10-K/A of Capital Southwest Corporation (the "registrant");

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: January 9, 2008

By: /s/ Gary L. Martin
Gary L. Martin, President

Exhibit 31.2

CERTIFICATIONS

I, Tracy L. Morris, Controller of Capital Southwest Corporation, certify that:

1. I have reviewed this annual report on Form 10-K/A of Capital Southwest Corporation (the "registrant");

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

    a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

    a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: January 9, 2008 By: /s/Tracy L. Morris

Tracy L. Morris, Controller

Exhibit 32.1

Certification of President

Pursuant to Section 1350 of Chapter 63 of Title 18 of the United States Code

I, Gary L. Martin, President of Capital Southwest Corporation, certify that, to my knowledge:

1. the Form 10-K/A, filed with the Securities and Exchange Commission on January 9, 2008 ("accompanied report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. the information contained in the accompanied report fairly presents, in all material respects, the consolidated financial condition and results of operations of Capital Southwest Corporation.

Date: January 9, 2008

By: /s/ Gary L. Martin

Gary L. Martin, President

Exhibit 32.2

Certification of Controller

Pursuant to Section 1350 of Chapter 63 of Title 18 of the United States Code

I, Tracy L. Morris, Controller of Capital Southwest Corporation, certify that, to my knowledge:

1. the Form 10-K/A, filed with the Securities and Exchange Commission on January 9, 2008 ("accompanied report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. the information contained in the accompanied report fairly presents, in all material respects, the consolidated financial condition and results of operations of Capital Southwest Corporation.

Date: January 9, 2008

/s/ Tracy L. Morris

Tracy L. Morris, Controller