

Edgar Filing: CAPITAL SOUTHWEST CORP - Form 10-K/A

CAPITAL SOUTHWEST CORP
Form 10-K/A
January 09, 2008

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

FORM 10-K/A

(Mark One)

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 fromto

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 (I.R.S. Employer
or organization) 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):

Edgar Filing: CAPITAL SOUTHWEST CORP - Form 10-K/A

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

	Page
EXPLANATORY NOTE.....	1
PART I	
Item 1. Business.....	1
Item 1A. Risk Factors.....	2
Item 1B. Unresolved Staff Comments.....	5
Item 2. Properties.....	6
Item 3. Legal Proceedings.....	6
Item 4. Submission of Matters to a Vote of Security Holders.....	6
PART II	
Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.....	6
Item 6. Selected Financial Data.....	7
Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.....	7
Item 7A. Quantitative and Qualitative Disclosures About Market Risk.....	7
Item 8. Financial Statements and Supplementary Data.....	7
Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure.....	8
Item 9A. Controls and Procedures.....	8
Item 9B. Other Information.....	10
PART III	
Item 10. Directors, Executive Officers and Corporate Governance..	10
Item 11. Executive Compensation.....	11
Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.....	11
Item 13. Certain Relationships and Related Transactions, and Director Independence.....	12
Item 14. Principal Accountant Fees and Services.....	12
PART IV	

Edgar Filing: CAPITAL SOUTHWEST CORP - Form 10-K/A

Item 15. Exhibits and Financial Statement Schedules.....12
Signatures13

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 than 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.

Edgar Filing: CAPITAL SOUTHWEST CORP - Form 10-K/A

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".

1

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

Edgar Filing: CAPITAL SOUTHWEST CORP - Form 10-K/A

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.

2

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

Edgar Filing: CAPITAL SOUTHWEST CORP - Form 10-K/A

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

3

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

Edgar Filing: CAPITAL SOUTHWEST CORP - Form 10-K/A

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

Edgar Filing: CAPITAL SOUTHWEST CORP - Form 10-K/A

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

5

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 Corp
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.

Edgar Filing: CAPITAL SOUTHWEST CORP - Form 10-K/A

Item 8. Financial Statements and Supplementary Data

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

7

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
(In thousands, except per			
2007			

Net investment income	\$ 492	\$ 1,170	\$ 1,617
Net realized gain (loss) on investments	397	9,219	19,531
Net increase (decrease) in unrealized appreciation of investments	(5,218)	(2,931)	132,210
Net increase (decrease) in net assets from operations	(4,329)	7,458	153,358
Net increase (decrease) in net assets from operations per share	(1.12)	1.92	39.46
2006			

Net investment income	\$ 574	\$ 666	\$ 893
Net realized gain on investments	5,261	5,915	6,317
Net increase in unrealized appreciation of investments	4,142	26,824	15,009
Net increase in net assets from operations	9,977	33,405	22,219
Net increase in net assets from operations per share	2.59	8.66	5.76

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

Edgar Filing: CAPITAL SOUTHWEST CORP - Form 10-K/A

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

8

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 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:

- o We did not maintain an adequate process to assess and determine the

Edgar Filing: CAPITAL SOUTHWEST CORP - Form 10-K/A

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

9

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

Edgar Filing: CAPITAL SOUTHWEST CORP - Form 10-K/A

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.

10

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,

Edgar Filing: CAPITAL SOUTHWEST CORP - Form 10-K/A

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 -----
	(a)	(b)
	---	---
Equity compensation plans approved by security holders(1)	52,500	\$86.184
Equity compensation plans not approved by security holders	-	-
Total	----- 52,500	----- \$86.184

(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.

Edgar Filing: CAPITAL SOUTHWEST CORP - Form 10-K/A

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.

12

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: _____

Edgar Filing: CAPITAL SOUTHWEST CORP - Form 10-K/A

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 <hr style="width: 200px; margin-left: 0;"/> Gary L. Martin	President (chief executive officer)	January 9, 2008
/s/ William R. Thomas <hr style="width: 200px; margin-left: 0;"/> William R. Thomas	Chairman of the Board	January 9, 2008
/s/ Donald W. Burton <hr style="width: 200px; margin-left: 0;"/> Donald W. Burton	Director	January 9, 2008
/s/ Graeme W. Henderson <hr style="width: 200px; margin-left: 0;"/> Graeme W. Henderson	Director	January 9, 2008
/s/ Gary L. Martin <hr style="width: 200px; margin-left: 0;"/> Gary L. Martin	Director	January 9, 2008
/s/ Samuel B. Ligon <hr style="width: 200px; margin-left: 0;"/> Samuel B. Ligon	Director	January 9, 2008
/s/ John H. Wilson <hr style="width: 200px; margin-left: 0;"/> John H. Wilson	Director	January 9, 2008
/s/ Tracy L. Morris <hr style="width: 200px; margin-left: 0;"/> Tracy L. Morris	Controller (chief financial/accounting officer)	January 9, 2008

13

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

Edgar Filing: CAPITAL SOUTHWEST CORP - Form 10-K/A

- 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).

Edgar Filing: CAPITAL SOUTHWEST CORP - Form 10-K/A

- 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.