Oxford Lane Capital Corp.
Form N-CSR
May 24, 2016

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

FORM N-CSR

CERTIFIED SHAREHOLDER REPORT OF REGISTERED MANAGEMENT INVESTMENT COMPANIES

Investment Company Act file number 811-22432

Oxford Lane Capital Corp.

(Exact name of registrant as specified in charter)

8 Sound Shore Drive, Suite 255
Greenwich, CT 06830

(Address of principal executive offices)

Jonathan H. Cohen
Chief Executive Officer
Oxford Lane Capital Corp.
8 Sound Shore Drive, Suite 255
Greenwich, CT 06830

(Name and address of agent for service)

Registrant s telephone number, including area code: (203) 983-5275

Date of fiscal year end: March 31

Date of reporting period: March 31, 2016

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Item 1. Reports to Shareholders.

The annual report to shareholders for the year ended March 31, 2016 is filed herewith pursuant to rule 30e-1 under the Investment Company Act of 1940.

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Oxford Lane Capital Corp.

Annual Report

March 31, 2016

oxfordlanecapital.com

OXFORD LANE CAPITAL CORP.

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Oxford Lane Capital Corp

May 23, 2016

To Our Shareholders:

We are pleased to submit to you the report of Oxford Lane Capital Corp. (we , us , our , the Fund or Oxford Lane the year ended March 31, 2016. The net asset value of our shares at that date was $7.04 per common share. The Fund s common stock is traded on the NASDAQ Global Select Market and its share price can differ from its net asset value. The Fund s closing price at March 31, 2016 was $8.45, down from $14.82 at March 31, 2015. The total return for Oxford Lane, for the year ended March 31, 2016, as reflected in the Fund s financial highlights, was (28.97%). This return reflects the change in market price for the period, as well as the positive impact of $2.40 per share in distributions declared and paid. On May 20, 2016, the last reported sale price of the Fund s common stock was $8.81.

We draw your attention to our distribution policy, which has been discussed in earlier reports, as we believe that the Fund s position deserves close attention. Oxford Lane s distribution policy is based upon its estimates of the ultimate taxable earnings for each respective period, which are based upon the cash flows for each investment. The final taxable amounts cannot be known until the tax return is filed, but the Fund s experience has been that cash flows have historically represented a reasonable estimate of taxable earnings; however, we can offer no assurance that will be the case in the future, particularly during periods of market disruption and volatility. There may be significant differences between Oxford Lane s GAAP earnings and its taxable earnings, particularly related to CLO equity investments where its taxable earnings are based upon the taxable reported earnings provided by the CLO equity positions in which we invest, while GAAP earnings are based are upon an effective yield calculation. In general, the Fund currently expects its taxable earnings to be higher than its reportable GAAP earnings. In addition, certain numbers may not tie to financial statements due to rounding.

While reportable GAAP revenue from our CLO equity investments for the year ended March 31, 2016 was approximately $57.2 million, we received or were entitled to receive approximately $87.1 million in distributions. In general, we currently expect our annual taxable income to be higher than our GAAP earnings on the basis of the difference between cash distributions actually received and the effective yield income. Our distribution policy is based upon our estimate of our taxable income.

We further report that as of March 31, 2016, we failed to maintain an asset coverage ratio of at least 200%. We are pursuing measures to cure the ratio within the parameters of the governing documents for our preferred stock and the Investment Company Act of 1940. Please refer to Note 7. Mandatorily Redeemable Preferred Stock in the notes to the financial statements for additional information.

Investment Review

The Fund s investment objective is to maximize its portfolio s risk adjusted total return over our investment horizon. Our current focus is to seek that return by investing in structured finance investments, specifically CLO vehicles which primarily own senior secured corporate loans. Our investment strategy also includes investing in warehouse facilities, which are financing structures intended to aggregate senior secured corporate loans that may be used to form the basis of a CLO vehicle. As of March 31, 2016, we held debt investments in 3 different CLO structures and equity investments in 31 different CLO structures. We may also invest, on an opportunistic basis, in corporate debt securities on a direct basis and in a variety of other corporate credits.

Structurally, CLO vehicles are entities formed to purchase and manage portfolios of primarily senior secured corporate loans. The loans within a CLO vehicle are limited to those which, on an aggregated basis, meet established credit criteria. They are subject to concentration limitations in order to limit a CLO vehicle s exposure to individual credits and industries. The CLO vehicles on which the Fund focuses are collateralized primarily by senior secured corporate loans, and generally have minimal or no exposure to real estate loans, mortgage loans or to pools of consumer-based debt, such as credit card receivables or auto loans.

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Investment Outlook

We believe that the market for CLO-related assets continues to provide us with the opportunities to generate attractive risk-adjusted returns within our strategies over the long term. We believe that a number of factors support this conclusion, including:

We believe that the long-term and relatively low-cost capital that many CLO vehicles have secured, compared with current asset spreads and associated LIBOR floors have created opportunities to purchase certain CLO equity and junior debt instruments that may produce attractive risk-adjusted returns. Although the senior secured corporate loan market has been volatile recently due in part to the oil and gas and commodities related sectors, this volatility may be beneficial as it has allowed some collateral managers of CLO vehicles to invest in loans at greater discounts to par and at wider loan spreads. Additionally, given that the CLO vehicles we invest in are cash flow-based vehicles, this term financing may be extremely beneficial in periods of market volatility.
We believe that the market to invest in warehouse facilities, which are short and medium-term facilities that are generally expected to form the basis of CLO vehicles (which the Fund may participate in or be repaid by), has created additional attractive risk-adjusted investment opportunities for us.
We believe that investing in CLO securities, and CLO equity instruments and warehouse facilities in particular, requires a high level of research and analysis. We believe that transactions in this market can only be adequately conducted by knowledgeable market participants since this market and these structures tend to be highly specialized.
We believe that the U.S. risk retention requirements imposed for CLO managers under Section 941 of the Dodd-Frank Act has created some uncertainty in the market in regards to future CLO issuances. Given that certain CLO managers may require capital provider partners to satisfy this requirement when it becomes effective on December 24, 2016, we believe that this may create additional opportunities (and additional risks) for us in the future.
We believe that the U.S. CLO market is relatively large with total assets under management of approximately $436 billion.[1] We estimate that the amount outstanding of the junior-most debt tranches (specifically the tranches originally rated BB and B) and equity tranches together are approximately $70 billion.[2]

An investment in our Fund carries with it a significant number of meaningful risks, certain of which are discussed in the notes to our financial statements. Investors should read Note 11. Risks and Uncertainties carefully.

We continue to review a large number of CLO investment vehicles in the current market environment, and we expect that the majority of our portfolio holdings, over the near to intermediate-term, will continue to be focused on CLO debt and equity securities, with the more significant focus over the near-term likely to be on CLO equity securities and warehouse facilities.

Jonathan H. Cohen
Chief Executive Officer

1. As of May 2, 2016. Source: Wells Fargo Securities, LLC.
2. Oxford Lane has estimated this amount based on Guggenheim CLO new issue summary, dated April 20, 2016.

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OXFORD LANE CAPITAL CORP.
TOP TEN HOLDINGS
AS OF MARCH 31, 2016

Investment	Maturity	Fair Value	% of Net Assets
Atrium XII Subordinated Notes	October 22, 2026	$42,762,500	32.41%
Catamaran CLO 2015-1 Ltd Subordinated Notes	April 22, 2027	16,135,320	12.23%
Windriver 2014-3 Subordinated Notes	January 22, 2027	14,082,800	10.67%
OFSI Fund VII CLO Subordinated Notes	October 18, 2026	13,234,972	10.03%
TICP CLO IV, Ltd. Subordinated Notes	July 20, 2027	12,245,000	9.28%
AIMCO CLO, Series 2014-A Subordinated Notes	July 20, 2026	11,629,090	8.81%
OZLM XIV, LTD Subordinated Notes	January 15, 2029	11,475,000	8.70%
Battalion VII Subordinated Notes	October 17, 2026	10,080,000	7.64%
Sound Point CLO IX, Ltd. Subordinated Notes	July 20, 2027	7,600,000	5.76%
Benefit Street Partners CLO V Preference Shares	October 20, 2026	7,200,000	5.46%

Portfolio Investment Breakdown
(Excludes cash and other assets)

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OXFORD LANE CAPITAL CORP.

STATEMENT OF ASSETS AND LIABILITIES

	March 31, 2016
ASSETS	
Investments, at fair value (cost: $334,176,542)	$239,643,865
Cash and cash equivalents	20,363,213
Distributions receivable	6,897,003
Deferred issuance costs on mandatorily redeemable preferred stock	4,951,612
Deferred offering costs on common stock	213,964
Interest receivable, including accrued interest purchased	167,583
Fee receivable	217,216
Prepaid expenses and other assets	58,875
Due from affiliate	20,259
Total assets	272,533,590
LIABILITIES	
Payable for securities purchased	39,500
Mandatorily redeemable preferred stock, net of discount (10,000,000 shares authorized, and 5,647,129 shares issued and outstanding)	137,032,136
Investment advisory fee payable to affiliate	1,341,677
Incentive fee payable to affiliate	1,658,984
Administrator expense payable	13,926
Directors fees payable	58,750
Accrued offering costs	88,336
Accrued expenses	350,399
Total liabilities	140,583,708
COMMITMENTS AND CONTINGENCIES (Note 9)	
NET ASSETS applicable to common stock, $0.01 par value, 90,000,000 shares authorized, and 18,751,696 shares issued and outstanding	$131,949,882
NET ASSETS consist of:	
Paid in capital	283,853,666
Accumulated net realized loss on investments	(45,980,013)
Net unrealized depreciation on investments	(94,532,677)
Distributions in excess of net investment income	(11,391,094)
Total net assets	$131,949,882
Net asset value per common share	$7.04
Market price per share	$8.45
Market price premium to net asset value per share	20.03 %

See Accompanying Notes

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OXFORD LANE CAPITAL CORP.

SCHEDULE OF INVESTMENTS MARCH 31, 2016

COMPANY[1]	INDUSTRY	INVESTMENT	PRINCIPAL AMOUNT	COST	FAIR VALUE[2]	% of Net Assets
Collateralized Loan Obligation Debt Investments						
Neuberger Berman CLO XIII, Ltd.	structured finance	CLO secured notes Class F[3][4][6] (LIBOR + 6.50%, due January 23, 2024)	$4,500,000	$3,970,960	$2,975,850	
OFSI Fund VII, Ltd.	structured finance	CLO secured notes Class F[3][4][6] (LIBOR + 5.65%, due October 18, 2026)	5,564,000	4,703,435	2,882,152	
Telos CLO 2013-3, Ltd.	structured finance	CLO secured notes Class F[3][4][6] (LIBOR + 5.50%, due January 17, 2024)	3,000,000	2,748,405	1,841,400	
Total Collateralized Loan Obligation Debt Investments				$11,422,800	$7,699,402	5.84%
Collateralized Loan Obligation Equity Investments						
AIMCO CLO, Series 2014-A	structured finance	CLO subordinated notes[5][7] (Estimated yield 10.65%, maturity July 20, 2026)	$26,000,000	$17,985,105	$11,629,090	
AMMC CLO XII, Ltd.	structured	CLO	7,178,571	3,949,991	3,015,000	

	finance	subordinated notes(5)(7) (Estimated yield 20.51%, maturity May 10, 2025)			
Ares XXV CLO Ltd.	structured finance	CLO subordinated notes(5)(7) (Estimated yield 7.95%, maturity January 17, 2024)	15,500,000	9,679,196	6,665,000
Ares XXVI CLO Ltd.	structured finance	CLO subordinated notes(5)(7) (Estimated yield 11.04%, maturity April 15, 2025)	3,750,000	2,176,723	1,531,982
Ares XXIX CLO Ltd.	structured finance	CLO subordinated notes(5)(7) (Estimated yield 6.96%, maturity April 17, 2026)	12,750,000	9,391,080	5,237,085
Atrium XII CLO	structured finance	CLO subordinated notes(5)(7)(9) (Estimated yield 16.70%, maturity October 22, 2026)	42,762,500	40,414,399	42,762,500
Battalion CLO VII Ltd.	structured finance	CLO subordinated notes(5)(7) (Estimated yield 12.03%, maturity October 17,	24,000,000	19,284,984	10,080,000

		2026)			
Benefit Street Partners CLO V Ltd.	structured finance	CLO preference shares(5)(7) (Estimated yield 10.59%, maturity October 20, 2026)	15,000,000	11,902,290	7,200,000
B&M CLO 2014-1 LTD	structured finance	CLO subordinated notes(5)(7) (Estimated yield 8.31%, maturity April 16, 2026)	2,000,000	1,183,727	740,000
Carlyle Global Market Strategies CLO 2013-2, Ltd.	structured finance	CLO subordinated notes(5)(7) (Estimated yield 30.78%, maturity April 18, 2025)	10,125,000	6,585,981	5,569,231
Cedar Funding III CLO, Ltd.	structured finance	CLO subordinated notes(5)(7) (Estimated yield 11.42%, maturity May 20, 2026)	10,500,000	7,780,427	5,775,000
Catamaran CLO 2015-1 Ltd	structured finance	CLO subordinated notes(5)(7) (Estimated yield 16.00%, maturity April 22, 2027)	27,348,000	21,399,837	16,135,320
Hull Street CLO Ltd.	structured finance	CLO subordinated notes(5)(7) (Estimated yield 4.30%, maturity	15,000,000	11,456,625	4,350,000

		October 18, 2026)			
Ivy Hill Middle Market Credit VII, Ltd.	structured finance	CLO subordinated notes(5)(7) (Estimated yield 16.52%, maturity October 20, 2025)	7,000,000	5,715,591	4,771,919
Longfellow Place CLO IX, Ltd.	structured finance	CLO subordinated notes(5)(7) (Estimated yield 18.34%, maturity January 15, 2024)	2,562,000	1,259,488	703,060
Mountain Hawk II CLO, Ltd.	structured finance	CLO subordinated notes(5)(7) (Estimated yield-9.53%, maturity July 20, 2024)	10,000,000	7,711,959	2,059,000

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See Accompanying Notes

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OXFORD LANE CAPITAL CORP.

SCHEDULE OF INVESTMENTS (Continued) MARCH 31, 2016

COMPANY[1]	INDUSTRY	INVESTMENT	PRINCIPAL AMOUNT	COST	FAIR VALUE[2]	% of Net Assets
Collateralized Loan Obligation Equity Investments (continued)						
Mountain Hawk III CLO, Ltd.	structured finance	CLO income notes[5][7] (Estimated yield 4.26%, maturity April 18, 2025)	$17,200,000	$11,707,956	$3,083,471	
	structured finance	CLO M notes[8] (Maturity April 18, 2025)	2,389,676		402,017	
Neuberger Berman CLO XIII, Ltd.	structured finance	CLO subordinated notes[5][7] (Estimated yield 10.24%, maturity January 23, 2024)	6,255,000	2,807,666	1,501,200	
OFSI Fund VII, Ltd.	structured finance	CLO subordinated notes[5][7] (Estimated yield 13.01%, maturity October 18, 2026)	28,840,000	21,518,720	13,234,972	
OZLM XIV, LTD	structured finance	CLO subordinated notes[5][7][9] (Estimated yield	13,500,000	11,928,265	11,475,000	

		16.68%, maturity January 15, 2029)			
Parallel 2015-1 Ltd.	structured finance	CLO subordinated notes(5)(7) (Estimated yield 19.50%, maturity July 20, 2027)	7,750,000	6,219,013	4,340,000
Shackleton II CLO, Ltd.	structured finance	CLO income notes(5)(7) (Estimated yield 8.17%, maturity October 20, 2023)	10,000,000	7,772,268	4,500,000
Sound Point CLO VIII, Ltd.	structured finance	CLO subordinated notes(5)(7) (Estimated yield 24.36%, maturity April 15, 2027)	5,000,000	3,579,429	3,108,827
	structured finance	CLO subordinated fee notes(8) (Maturity April 15, 2027)	224,719	202,247	197,291
Sound Point CLO IX, Ltd.	structured finance	CLO subordinated notes(5)(7)(9) (Estimated yield 20.74%, maturity July 20, 2027)	10,000,000	8,314,102	7,600,000
Telos CLO 2013-3, Ltd.	structured finance	CLO subordinated notes(5)(7) (Estimated yield 21.84%, maturity	10,333,334	7,108,394	4,210,834

		January 17, 2024)			
Telos CLO 2013-4, Ltd.	structured finance	CLO subordinated notes(5)(7) (Estimated yield 26.35%, maturity July 17, 2024)	8,700,000	5,696,048	3,435,974
TICP CLO IV, Ltd.	structured finance	CLO subordinated notes(5)(7) (Estimated yield 21.18%, maturity July 20, 2027)	19,750,000	15,694,505	12,245,000
Venture XVI CLO, Ltd.	structured finance	CLO subordinated notes(5)(7) (Estimated yield 16.71%, maturity April 15, 2026)	15,000,000	11,568,165	7,010,689
Venture XVII CLO, Ltd.	structured finance	CLO subordinated notes(5)(7) (Estimated yield 18.44%, maturity July 15, 2026)	13,000,000	9,566,336	6,282,012
Venture XVIII CLO, Ltd.	structured finance	CLO subordinated notes(5)(7) (Estimated yield 13.95%, maturity October 15, 2026)	7,000,000	5,448,649	3,400,021
	structured finance	CLO subordinated fee notes(8) (Maturity	357,055		295,810

		October 15, 2026)				
Wind River 2014-3 CLO Ltd.	structured finance	CLO subordinated notes(5)(7) (Estimated yield 15.53%, maturity January 22, 2027)	18,530,000	15,744,576	14,082,800	
Other CLO equity related investments	structured finance	CLO other(8)			3,314,358	
Total Collateralized Loan Obligation Equity Investments				$322,753,742	$231,944,463	175.78%
Total Investments				**$334,176,542**	**$239,643,865**	**181.62%**

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OXFORD LANE CAPITAL CORP.

SCHEDULE OF INVESTMENTS (Continued) MARCH 31, 2016

(1) We do not control and are not an affiliate of any of our portfolio companies, each as defined in the Investment Company Act of 1940 (the 1940 Act).

In general, under the 1940 Act, we would be presumed to control a portfolio company if we owned 25% or more of its voting securities and would be an affiliate of a portfolio company if we owned 5% or more of its voting securities.

(2) Fair value is determined in good faith by the Board of Directors of the Fund.

(3) Notes bear interest at variable rates.

(4) Cost value reflects accretion of original issue discount or market discount.

(5) Cost value reflects accretion of effective yield less any cash distributions received or entitled to be received from CLO equity investments.

(6) The CLO secured notes generally bear interest at a rate determined by reference to 90-day LIBOR which resets quarterly. For each CLO debt investment, the rate provided is as of March 31, 2016.

(7) The CLO subordinated notes and income notes are considered equity positions in the CLO funds. Equity investments are entitled to recurring distributions which are generally equal to the remaining cash flow of the payments made by the underlying fund s securities less contractual payments to debt holders and fund expenses. The estimated yield indicated is based upon a current projection of the amount and timing of these recurring distributions and the estimated amount of repayment of principal upon termination. Such projections are periodically reviewed and adjusted, and the estimated yield may not ultimately be realized.

(8) Fair value represents discounted cash flows associated with fees earned from CLO equity investments.

(9) Investment has not made inaugural distribution for relevant period end. See Note 2. Summary of Significant Accounting Policies Investment Income Recognition.

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OXFORD LANE CAPITAL CORP.

STATEMENT OF OPERATIONS

	Year Ended March 31, 2016
INVESTMENT INCOME	
Income from securitization vehicles and equity investments	$ 57,157,792
Interest income-debt investments	1,035,077
Other income	1,386,240
Total investment income	59,579,109
EXPENSES	
Interest expense on mandatorily redeemable preferred stock	14,810,804
Investment advisory fees	7,414,841
Incentive fees	7,007,478
Professional fees	791,949
Administrator expense	589,231
Directors fees	248,000
General and administrative	567,203
Insurance expense	36,099
Transfer agent and custodian fees	83,591
Total expenses	31,549,196
Net investment income	28,029,913
Net change in unrealized depreciation on investments	(89,787,744)
Net realized loss on investments	(24,021,500)
Net realized loss and net change in unrealized depreciation on investments	(113,809,244)
Net decrease in net assets resulting from operations	$ (85,779,331)

See Accompanying Notes

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OXFORD LANE CAPITAL CORP.

STATEMENTS OF CHANGES IN NET ASSETS

	Year Ended March 31, 2016	Year Ended March 31, 2015
(Decrease) increase in net assets from operations:		
Net investment income	$28,029,913	$21,274,028
Net realized (loss) gain on investments	(24,021,500)	9,154,457
Net change in unrealized depreciation on investments	(89,787,744)	(27,097,134)
Net (decrease) increase in net assets resulting from operations	(85,779,331)	3,331,351
Distributions from net investment income	(43,289,314)	(35,388,398)
Distributions from realized gain on investments		(2,159,379)
Total distributions to shareholders	(43,289,314)	(37,547,777)
Capital share transaction:		
Issuance of common stock (net of underwriting fees and offering costs $1,299,903 and $177,014, respectively)	30,531,781	7,374,103
Repurchase of common stock (including fees)	(430,278)	(1,048,584)
Reinvestment of distributions	5,984,192	4,994,538
Net increase in net assets from capital share transactions	36,085,695	11,320,057
Total decrease in net assets	(92,982,950)	(22,896,369)
Net assets at beginning of period	224,932,832	247,829,201
Net assets at end of period (including distributions in excess of net investment income of $11,391,094 and $9,159,935, respectively)	$131,949,882	$224,932,832
Capital share activity:		
Shares issued	2,219,275	462,727
Shares repurchased	(33,776)	(71,973)
Shares issued from reinvestment of distributions	593,816	340,898
Net increase in capital share activity	2,779,315	731,652

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OXFORD LANE CAPITAL CORP.

STATEMENT OF CASH FLOWS

	Year Ended March 31, 2016
CASH FLOWS FROM OPERATING ACTIVITIES	
Net decrease in net assets resulting from operations	$(85,779,331)
Adjustments to reconcile net decrease in net assets resulting from operations to net cash provided by operating activities:	
Amortization/accretion of discounts and premiums	(149,151)
Amortization of deferred issuance costs on mandatorily redeemable preferred stock	2,283,835
Accretion of discount on mandatorily redeemable preferred stock	530,696
Purchases of investments	(145,597,350)
Sales of investments	80,101,517
Repayments of principal and reductions to investment cost value	30,000,000
Net change in unrealized depreciation on investments	89,787,744
Expired deferred offering costs	324,896
Net realized loss on investments	24,021,500
Reductions to CLO equity cost value	29,950,095
Decrease in dividend receivable	6,401,652
Decrease in fee receivable	178,476
Decrease in interest receivable	157,395
Increase in prepaid expenses and other assets	(23,194)
Increase in due from affiliate	(20,259)
Decrease in investment advisory fee payable	(546,779)
Increase in incentive fee payable	15,844
Increase in directors fees payable	31,250
Decrease in administrator expense payable	(90,405)
Increase in accrued offering costs	60,497
Decrease in accrued expenses	(222,197)
Net cash provided by operating activities	31,416,731
CASH FLOWS FROM FINANCING ACTIVITIES	
Distributions paid (net distribution reinvestment plan of $5,984,192)	(37,305,122)
Proceeds from the issuance of common stock	31,831,684
Underwriting fees and offering costs for the issuance of common stock	(1,299,903)
Deferred offering costs	(177,909)
Repurchase of common stock (including fees)	(430,278)
Redemption of mandatorily redeemable preferred stock	(15,811,250)
Repurchase of mandatorily redeemable preferred stock	(28,582,600)
Proceeds from the issuance of mandatorily redeemable preferred stock, net discount of ($704,082)	34,499,993
Deferred issuance costs for the issuance of preferred stock	(1,509,880)
Net cash used in financing activities	(18,785,265)

Net increase in cash and cash equivalents	12,631,466
Cash and cash equivalents, beginning of period	7,731,747
Cash and cash equivalents, end of period	$20,363,213
SIGNIFICANT NON-CASH TRANSACTIONS	
Value of shares issued in connection with distribution reinvestment plan	$5,984,192
Securities purchased not settled	$39,500
SUPPLEMENTAL DISCLOSURES	
Cash paid for interest	$12,668,482

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OXFORD LANE CAPITAL CORP.

NOTES TO FINANCIAL STATEMENTS MARCH 31, 2016

NOTE 1. ORGANIZATION

Oxford Lane Capital Corp. (OXLC, we or the Fund) was incorporated under the General Corporation Laws of the State of Maryland on June 9, 2010. The Fund is a non-diversified closed-end management investment company that has registered under the Investment Company Act of 1940, as amended (the 1940 Act). In addition, the Fund has elected to be treated for tax purposes as a regulated investment company (RIC) under Subchapter M of the Internal Revenue Code of 1986, as amended (the Code). The Fund s investment objective is to maximize its portfolio s risk adjusted total return and seeks to achieve its investment objective by investing in structured finance investments, specifically collateralized loan obligation (CLO) vehicles which primarily own senior corporate debt securities.

OXLC s investment activities are managed by Oxford Lane Management, LLC (OXLC Management), a registered investment adviser under the Investment Advisers Act of 1940, as amended. BDC Partners, LLC (BDC Partners) is the managing member of OXLC Management and serves as the administrator of OXLC.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP), include the accounts of the Fund. The Fund follows the accounting and reporting requirements of ASC 946, *Financial Services Investment Companies* (ASC 946), for reporting on Form N-CSR and the Fund maintains its accounting records in U.S. dollars.

USE OF ESTIMATES

The presentation of the financial statements is in conformity with GAAP, which requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents consists of demand deposits and highly liquid investments, such as money market funds, with original maturities of three months or less at time of purchase. Cash and cash equivalents are carried at cost or amortized cost which approximates fair value. As of March 31, 2016, cash and cash equivalents consisted solely of demand deposits.

INVESTMENT VALUATION

The Fund fair values its investment portfolio in accordance with the provisions of ASC 820, *Fair Value Measurement and Disclosure*. A significant estimate made in the preparation of OXLC s financial statements is the valuation of investments and the related amounts of unrealized appreciation and depreciation of investments recorded. OXLC believes that there is no single definitive method for determining fair value in good faith. As a result, determining fair value requires that judgment be applied to the specific facts and circumstances of each portfolio investment while employing a consistently applied valuation process for the types of investments OXLC makes.

ASC 820-10 clarified the definition of fair value and requires companies to expand their disclosure about the use of fair value to measure assets and liabilities in interim and annual periods subsequent to initial recognition. ASC 820-10 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. ASC 820-10 also establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value. These tiers include: Level 1, defined as observable inputs such as quoted prices in active markets; Level 2, which includes inputs such as quoted prices for similar securities in active markets and quoted prices for identical securities in markets that are not active; and Level 3, defined as unobservable inputs for which little or no market data exists, therefore requiring an entity to develop its own assumptions. OXLC considers the

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OXFORD LANE CAPITAL CORP.

NOTES TO FINANCIAL STATEMENTS MARCH 31, 2016

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

attributes of current market conditions on an on-going basis and has determined that due to the general illiquidity of the market for its investment portfolio, whereby little or no market data exists, all of OXLC s investments are valued based upon Level 3 inputs as of March 31, 2016.

Collateralized Loan Obligations Debt and Equity

OXLC has acquired debt and equity positions in CLO investment vehicles and has purchased CLO warehouse facilities. These investments are special purpose financing vehicles. In valuing such investments, OXLC considers the operating metrics of the specific investment vehicle, including compliance with collateralization tests, defaulted and restructured securities, and payment defaults, if any. In addition, OXLC considers the indicative prices provided by a recognized industry pricing service as a primary source, and the implied yield of such prices, supplemented by actual trades executed in the market at or around period-end, as well as the indicative prices provided by the broker who arranges transactions in such investment vehicles. OXLC also considers those instances in which the record date for an equity distribution payment falls on the last day of the period, and the likelihood that a prospective purchaser would require a downward adjustment to the indicative price representing substantially all of the pending distribution. Additional factors include any available information on other relevant transactions including firm bids and offers in the market and information resulting from bids-wanted-in-competition. OXLC Management or the Board of Directors may request an additional analysis by a third-party firm to assist in the valuation process of CLO investment vehicles. All information is presented to the Board of Directors for its determination of fair value of these investments.

SHARE REPURCHASES

From time to time, the Fund s Board of Directors may authorize a share repurchase program under which shares of the Fund s common stock are purchased in open market transactions. Since the Fund is incorporated in the State of Maryland, state law requires share repurchases to be accounted for as a share retirement. The cost of repurchased shares is charged against capital on the settlement date. Refer to Note 14. Share Repurchase Program for further details.

PREFERRED STOCK

The Fund carries its mandatorily redeemable preferred stock at accreted cost on the Statement of Assets and Liabilities, and not fair value. Refer to Note 7. Mandatorily Redeemable Preferred Stock for further details.

PREPAID EXPENSES

Prepaid expenses consist primarily of insurance costs.

INVESTMENT INCOME

Income from securitization vehicles and equity investments

Income from securitization vehicles and equity investments in the equity class securities of CLO vehicles (typically income notes or subordinated notes) is recorded using the effective interest method in accordance with the provisions of ASC 325-40, *Beneficial Interests in Securitized Financial Assets*, based upon a calculation of the effective yield to the expected redemption date based on an estimate of future cash flows, including those CLO equity investments that have not made their inaugural distribution for the relevant period end. The Fund monitors the expected residual payments, and the effective yield is determined and updated quarterly, as needed. Accordingly, investment income recognized on CLO equity securities in the GAAP statement of operations differs from both the tax-basis investment income and from the cash distributions actually received by the Fund during the period.

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NOTES TO FINANCIAL STATEMENTS MARCH 31, 2016

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The Fund also records income on its investments in CLO warehouse facilities based on a stated rate as per the underlying note purchase agreement or an estimated rate.

Interest Income   Debt Investments

Interest income is recorded on an accrual basis using the contractual rate applicable to each debt investment and includes the accretion of discounts and amortization of premiums. Discounts from and premiums to par value on securities purchased are accreted/amortized into interest income over the life of the respective security using the effective interest method. The amortized cost of investments represents the original cost adjusted for the accretion of discounts and amortization of premiums, if any.

Generally, when interest and/or principal payments on a loan become past due, or if the Fund otherwise does not expect the borrower to be able to service its debt and other obligations, the Fund will place the loan on non-accrual status and will generally cease recognizing interest income on that loan for financial reporting purposes until all principal and interest have been brought current through payment or due to restructuring such that the interest income is deemed to be collectible. The Fund generally restores non-accrual loans to accrual status when past due principal and interest is paid and, in the Fund s judgment, the payments are likely to remain current. As of March 31, 2016, the Fund had no non-accrual assets in its portfolio.

Other Income

Other income includes distributions from fee letters and success fees associated with portfolio investments. Distributions from CLO equity fee letter investments are an enhancement to the return on a CLO equity investment and are based upon a percentage of the collateral manager s fees, and are recorded as other income when earned. The Fund may also earn success fees associated with its investments in CLO warehouse facilities, which are contingent upon a take-out of the warehouse by a permanent CLO structure; such fees are earned and recognized when the take-out is completed.

U.S. FEDERAL INCOME TAXES

The Fund intends to operate so as to continue to qualify to be taxed as a RIC under Subchapter M of the U.S. Tax Code and, as such, to not be subject to U.S. federal income tax on the portion of its taxable income and gains distributed to stockholders. To qualify for RIC tax treatment, OXLC is required to distribute at least 90% of its investment company taxable income, as defined by the Code.

Because U.S. federal income tax regulations differ from GAAP, distributions in accordance with tax regulations may differ from net investment income and realized gains recognized for financial reporting purposes. Differences may be permanent or temporary. Permanent differences are reclassified among capital accounts in the financial statement to reflect their tax character. Temporary differences arise when certain items of income, expense, gain or loss are recognized at some time in the future.

Differences between distributions and net investment income may also result from the treatment of short-term gains as ordinary income for tax purposes. Our distribution policy is based upon our estimate of our distributable net investment income, which includes actual distributions from our CLO equity class investments, with further consideration given to our realized gains or losses on a taxable basis.

Distributions

Distributions from net investment income and capital gain distributions are determined in accordance with U.S. federal income tax regulations, which differ from GAAP. Distributions from net investment income, if any, are expected to be declared and paid quarterly. Net realized capital gains, unless offset by any available capital loss carry-forward, are typically distributed to shareholders annually. Distributions to shareholders are recorded on the ex-dividend date and are automatically reinvested in full and fractional shares of the Fund in accordance with the Fund s distribution reinvestment plan, unless the shareholder has elected to have them paid in cash.

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NOTES TO FINANCIAL STATEMENTS MARCH 31, 2016

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Amounts required to be distributed reflect estimates made by the Fund. Distributions paid by the Fund in accordance with RIC requirements are subject to re-characterization for tax purposes.

SECURITIES TRANSACTIONS

Securities transactions are recorded on trade date. Realized gains and losses on investments sold are recorded on the basis of specific identification.

DEFERRED OFFERING COSTS ON COMMON STOCK

Deferred offering costs consist principally of legal, accounting, filing and underwriting fees incurred in relation to an offering proposed by the Fund. The deferred offering costs will be charged to capital when the offering takes place or as shares are issued. Costs related to shelf offerings are charged to capital as securities registered are issued. Deferred costs are periodically reviewed and expensed if the related registration statement is no longer active or if the offering is unsuccessful.

DEFERRED ISSUANCE COSTS ON MANDATORILY REDEEMABLE PREFERRED STOCK

Deferred debt issuance costs consist of fees and expenses incurred in connection with the closing of preferred stock offerings, and are capitalized when incurred. These costs are amortized using the straight line method over the term of the respective preferred stock series. This amortization expense is included in interest expense on mandatorily redeemable preferred stock in the Fund s financial statements. Upon early termination of preferred stock, the remaining balance of unaccreted fees related to such debt is accelerated into interest expense on mandatorily redeemable preferred stock.

NOTE 3. FAIR VALUE

The Fund s assets measured at fair value on a recurring basis subject to the disclosure requirements of ASC 820-10 at March 31, 2016, were as follows:

Total

Assets ($ in millions)	Fair Value Measurements at Reporting Date Using Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
CLO debt	$	$	$ 7.7	$ 7.7
CLO equity			231.9	231.9
Total	$	$	$ 239.6	$ 239.6

Financial Instruments Disclosed, But Not Carried, At Fair Value

The following table presents the carrying value and fair value of the Fund s financial liabilities disclosed, but not carried, at fair value as of March 31, 2016 and the level of each financial liability within the fair value hierarchy:

($ in millions)	Carrying Value	Fair Value	Level 1	Level 2	Level 3
Series 2023 Term Preferred Shares	$ 86.5	$ 89.8	$	$ 89.8	$
Series 2024 Term Preferred Shares	50.5	50.6		50.6	
Total	$ 137.0	$ 140.4	$	$ 140.4	$

Significant Unobservable Inputs for Level 3 Investments

In accordance with ASC 820-10, the following table provides quantitative information about the Fund s Level 3 fair value measurements as of March 31, 2016. The Fund s valuation policy, as described above, establishes parameters for the sources and types of valuation analysis, as well as the methodologies and inputs

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OXFORD LANE CAPITAL CORP.

NOTES TO FINANCIAL STATEMENTS MARCH 31, 2016

NOTE 3. FAIR VALUE (continued)

that the Fund uses in determining fair value. If the Board of Directors or OXLC Management determines that additional techniques, sources or inputs are appropriate or necessary in a given situation, such additional work may be undertaken. The weighted average calculations in the table below are based on the fair value within each respective valuation techniques and methodologies and asset category.

Quantitative Information about Level 3 Fair Value Measurements

Assets	Fair Value as of March 31, 2016 ($ in millions)	Valuation Techniques/Methodologies	Unobservable Input	Range/Weighted Average[5]	
CLO debt	$7.7	Market quotes	NBIB[1]	51.8%	66.1%/58.9%
CLO equity	211.2	Market quotes	NBIB[1]	17.9%	100.0%/56.3%
	10.1	Recent transactions	Actual trade[2]	40.8%	56.0%/46.2%
	6.4	Discounted cash flow[4]	Discount rate[4]	N/A[3]	
CLO equity side letters	4.2	Discounted cash flow[4]	Discount rate[4]	12.3%	19.0%/14.3%
Total Fair Value for Level 3 Investments	$239.6				

(1) The Fund generally uses non-binding indicative bid prices (NBIB) prices provided by an independent pricing service or broker on or near the valuation date as the primary basis for the fair value determinations for CLO debt and equity investments, which may be adjusted for pending equity distributions as of valuation date. These bid prices are non-binding, and may not be determinative of fair value. Each bid price is evaluated by the Board of Directors in conjunction with additional information compiled by OXLC Management, including performance and covenant compliance information as provided by the independent trustee.

(2) Prices provided by independent pricing service are evaluated in conjunction with actual trades, and in certain cases, the value represented by actual trades may be more representative of fair value as determined by the Board of Directors.

(3) Represents a single investment fair value position, and therefore the range/weighted average is not applicable.

(4)

The Fund will calculate the fair value of certain CLO equity investments based upon the net present value of expected contractual payment streams discounted using estimated market yields for the equity tranche of the respective CLO vehicle. Oxford Lane will also consider those investments in which the record date for an equity distribution payment falls on the last day of the period, and the likelihood that a prospective purchaser would require an adjustment to the transaction price representing substantially all of the pending distribution.

(5) Weighted averages are calculated based on fair value of investments.

Significant increases or decreases in any of the unobservable inputs in isolation may result in a significantly lower or higher fair value measurement.

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OXFORD LANE CAPITAL CORP.

NOTES TO FINANCIAL STATEMENTS MARCH 31, 2016

NOTE 3. FAIR VALUE (continued)

A reconciliation of the fair value of investments for the year ended March 31, 2016, utilizing significant unobservable inputs, is as follows:

($ in millions)	Collateralized Loan Obligation Debt Investments	Collateralized Loan Obligation Equity Investments	Total
Balance at March 31, 2015	$ 15.7	$ 353.9	$ 369.6
Realized gains included in earnings		(24.0)	(24.0)
Unrealized depreciation included in earnings	(3.3)	(86.4)	(89.7)
Amortization of discounts and premiums	0.1		0.1
Purchases		123.7	123.7
Repayments and sales[(1)]	(4.8)	(105.3)	(110.1)
Reductions to CLO equity cost value		(30.0)	(30.0)
Transfers in and/or out of level 3			
Balance at March 31, 2016	$ 7.7	$ 231.9	$ 239.6
The amount of total gains for the period included in earnings attributable to the change in unrealized gains or losses related to our Level 3 assets still held at the reporting date and reported within the net change in unrealized gains or losses on investments in our Statement of Operations	$ (3.5)	$ (86.8)	$ (90.3)

(1) Includes rounding adjustments to reconcile period balances.

The Fund s policy is to recognize transfers in and transfers out of valuation levels as of the beginning of the reporting period. There were no transfers between Level 1, Level 2 and Level 3 during the year ended March 31, 2016.

NOTE 4. RELATED PARTY TRANSACTIONS

Effective September 9, 2010, the Fund entered into an agreement (Investment Advisory Agreement) with OXLC Management, a registered investment adviser under the Investment Advisers Act of 1940, as amended. BDC Partners is the managing member of OXLC Management and serves as the administrator of OXLC.

Effective September 9, 2010, the Fund entered into an agreement (Administration Agreement) with BDC Partners to serve as its administrator. Under the Administration Agreement, BDC Partners performs, or oversees the performance of, the Fund s required administrative services, which include, among other things, being responsible for the financial records which the Fund is required to maintain and for preparation of the reports to the Fund s stockholders.

Pursuant to the Investment Advisory Agreement, the Fund has agreed to pay OXLC Management a fee for advisory and management services consisting of two components a base management fee and an incentive fee.

The base management fee is calculated at an annual rate of 2.00% of the Fund s gross assets. For services rendered under the Investment Advisory Agreement, the base management fee is payable quarterly in arrears. The base management fee is calculated based on the average value of the Fund s gross assets, at the

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OXFORD LANE CAPITAL CORP.

NOTES TO FINANCIAL STATEMENTS MARCH 31, 2016

NOTE 4. RELATED PARTY TRANSACTIONS (continued)

end of the two most recently completed calendar quarters, and appropriately adjusted for any share issuances or repurchases during the current calendar quarter. Base management fees for any partial month or quarter will be appropriately pro-rated.

The incentive fee is calculated and payable quarterly in arrears based on the pre-incentive fee net investment income for the immediately preceding calendar quarter. For this purpose, pre-incentive fee net investment income means income from securitization vehicles and investments, interest income from debt investments and any other income (including any other fees, such as commitment, origination, structuring, diligence and consulting fees or other fees that are received from an investment) accrued during the calendar quarter, minus the Fund s operating expenses for the quarter (including the base management fee, expenses payable under the Administration Agreement to BDC Partners, and any interest expense and dividends paid on any issued and outstanding preferred stock, but excluding the incentive fee). Pre-incentive fee net investment income includes accrued income that OXLC has not yet received in cash, such as the amount of any market discount it may accrete on debt instruments purchased below par value. Pre-incentive fee net investment income does not include any realized or unrealized capital gains or losses, and the Fund could incur incentive fees in periods when there is a net decrease in net assets from operations. Pre-incentive fee net investment income, expressed as a rate of return on the value of our net assets at the end of the immediately preceding calendar quarter, is compared to a hurdle of 1.75% per quarter (7.00% annualized). For such purposes, the Fund s quarterly rate of return is determined by dividing its pre-incentive net investment income by its reported net assets as of the prior period end. OXLC s net investment income used to calculate this part of the incentive fee is also included in the amount of it s gross assets used to calculate the 2.00% base management fee. The Fund pays Oxford Lane Management an incentive fee with respect to the Fund s pre-incentive fee net investment income in each calendar quarter as follows:

No incentive fee in any calendar quarter in which the Fund s pre-incentive fee net investment income does not exceed the hurdle of 1.75%;

100% of pre-incentive fee net investment income with respect to that portion of such pre-incentive fee net investment income, if any, that exceeds the hurdle but is less than 2.1875% in any calendar quarter (8.75% annualized). The Fund refers to this portion of the pre-incentive fee net investment income (which exceeds the hurdle but is less than 2.1875%) as the catch-up. The catch-up is meant to provide the investment adviser with 20% of the pre-incentive fee net investment income as if a hurdle did not apply if the net investment income exceeds 2.1875% in any calendar quarter; and

20% of the amount of pre-incentive fee net investment income, if any, that exceeds 2.1875% in any calendar quarter (8.75% annualized) is payable to OXLC Management (once the hurdle is reached and the catch-up is achieved, 20% of all pre-incentive fee net investment income thereafter is allocated to OXLC Management).

There is no offset in subsequent quarters for any quarter in which an incentive fee is not earned. For the year ended March 31, 2016, the Fund recognized incentive fee expense of approximately $7.0 million. At March 31, 2016, the Fund had an incentive fee payable of approximately $1.7 million.

In addition, BDC Partners assists the Fund in determining and publishing the Fund s net asset value, overseeing the preparation and filing of the Fund s tax returns and the printing and dissemination of reports to the Fund s stockholders, and generally overseeing the payment of the Fund s expenses and the performance of administrative and professional services rendered to the Fund by others. Payments under the Administration Agreement are equal to an amount based upon the Fund s allocable portion of BDC Partners overhead in performing its obligations under the Administration Agreement, including rent, and the Fund s allocable portion of the compensation of the Fund s chief financial officer and any administrative support staff, including accounting personnel. Other expenses that are paid by the Fund include legal, compliance, audit and tax services, market data services, excise taxes, if any, and miscellaneous office expenses. The Administration

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OXFORD LANE CAPITAL CORP.

NOTES TO FINANCIAL STATEMENTS MARCH 31, 2016

NOTE 4. RELATED PARTY TRANSACTIONS (continued)

Agreement may be terminated by either party without penalty upon 60 days written notice to the other party. The costs associated with the functions performed by OXLC s chief compliance officer are paid directly by the Fund pursuant to the terms of an agreement between the Fund and Alaric Compliance Services, LLC.

Prior to July 29, 2015, independent directors received an annual fee of $35,000, which was increased to $75,000 effective July 29, 2015. In addition, the independent directors receive $2,000 plus reimbursement of reasonable out-of-pocket expenses incurred in connection with attending each Board of Directors meeting, $1,500 plus reimbursement of reasonable out-of-pocket expenses incurred in connection with attending each Valuation Committee meeting and $1,000 plus reimbursement of reasonable out-of-pocket expenses incurred in connection with attending each Audit Committee meeting. Prior to July 29, 2015, the Chairman of the Audit Committee also received an additional annual fee of $5,000, which was increased to $10,000 effective July 29, 2015. No compensation will be paid to directors who are interested persons of the Fund as defined in the 1940 Act.

Certain directors, officers and other related parties, including members of OXLC Management, owned an aggregate 3.1% of the common stock of the Fund at March 31, 2016.

NOTE 5. CONCENTRATION OF CREDIT RISK

The Fund places its cash and cash equivalents with financial institutions and, at times, cash held in checking accounts may exceed the Federal Deposit Insurance Corporation insured limit. In addition, the Fund s portfolio may be concentrated in a limited number of investments, which will subject the Fund to a risk of significant loss if any of these investments defaults on its obligations under any of its debt securities that the Fund holds or if those sectors experience a market downturn.

NOTE 6. DISTRIBUTIONS

For the year ended March 31, 2016, the Fund declared and paid dividends on common stock of $2.40 per share or $43,289,314. The Fund declared and paid dividends on common stock of $2.40 per share or $37,547,777 for the year ended March 31, 2015. The tax character of distributions paid on common stock in 2016 represented ordinary income with no return of capital. The tax character of distributions paid in 2015 represented $35,390,921 of ordinary income and $2,156,856 of capital gains, with no return of capital.

For the years ended March 31, 2016 and March 31, 2015 the Fund also declared and paid dividends on preferred stock of $12,668,482 and $9,543,214, respectively. The tax character of distributions paid on preferred stock represents ordinary income.

In December 2010, the Regulated Investment Company Modernization Act of 2010 (the Act or RIC) was enacted which changed various technical rules governing the tax treatment of regulated investment companies. The changes are generally effective for taxable years beginning after the date of enactment. Under the Act, the Fund is permitted to carry forward capital losses incurred in taxable years beginning after the date of enactment for an unlimited period. However, any losses incurred during those future taxable years will be required to be utilized prior to the losses incurred in pre-enactment taxable years, which carry an expiration date. As a result of this ordering rule, pre-enactment capital loss carryforwards may be more likely to expire unused. Additionally, post-enactment capital losses that are carried forward will retain their character as either short-term or long-term losses rather than being considered all short-term as under previous law.

The Fund has available $17,727,584 of capital losses, which can be used to offset future capital gains. These losses, represent post-RIC modernization losses not subject to expiration, and are comprised of short term capital losses of $812,000 and long term capital losses of $16,915,584. Under the current law, capital losses related to securities realized after October 31 and prior to the Fund s fiscal year end may be deferred as

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NOTES TO FINANCIAL STATEMENTS MARCH 31, 2016

NOTE 6. DISTRIBUTIONS (continued)

occurring the first day of the following fiscal year. For the fiscal year ended March 31, 2016, the Fund has deferred such losses in the amount of $27,951,864, which is comprised of short term losses of $2,008,114 and long term losses of $25,943,750.

As of March 31, 2016, the estimated components of accumulated earnings on a tax basis were as follows:

Distributable ordinary income	$10,140,740
Distributable long-term capital gains (capital loss carry forward)	(17,727,584)
Unrealized depreciation on investments	(116,355,326)
Other timing differences	(27,961,614)

The tax basis components of accumulated earnings differ from the amounts reflected in the Statement of Assets and Liabilities due to temporary book/tax differences primarily arising from investments in equity CLOs and permanent book/tax differences attributable to non-deductible excise taxes. For the year ended March 31, 2016, the permanent differences between financial and tax reporting were due to basis adjustments on the sale of CLO equity investments and excise taxes, resulting in a decrease of distributions in excess of investment income of $13,028,242, an increase in accumulated net realized loss on investments of $13,055,742, and an increase of capital in excess of par value of $27,500. These amounts will be finalized before filing the federal tax return.

As of March 31, 2016, the aggregate gross unrealized appreciation for tax purposes was $9,769,568; and aggregate gross unrealized depreciation was $126,124,894. For tax purposes, the cost basis of the portfolio investments at March 31, 2016 was $355,999,191.

NOTE 7. MANDATORILY REDEEMABLE PREFERRED STOCK

The Fund has authorized 10 million shares of mandatorily redeemable preferred stock, at a par value of $0.01 per share, and had 5,647,129 shares issued and outstanding at March 31, 2016. Since 2012 and through March 31, 2016, the Fund completed underwritten public offerings of its 8.50% Series 2017 Term Preferred Shares (the Series 2017 Shares), 7.50% Series 2023 Term Preferred Shares (the Series 2023 Shares) and 8.125% Series 2024 Term Preferred Shares (the Series 2024 Shares), collectively the Term Preferred Shares or Term Shares. The Fund is required to redeem all of the outstanding Term Preferred Shares on their respective redemption dates, at a redemption price equal to $25 per share plus an amount equal to accumulated but unpaid dividends, if any, to the date of the redemption. OXLC cannot effect any amendment, alteration, or repeal of the Fund s obligation to redeem all of the Term Shares without the prior unanimous vote or consent of the holders of such Term Shares. At any time on or after the optional redemption date, at the Fund s sole option, the Fund may redeem the Term Shares at a redemption price per share equal to the sum of the $25 liquidation preference per share plus an amount equal to accumulated but unpaid dividends, if any, on such Term Shares. The Fund, with the authorization by the Board of Directors, may repurchase any of the Series 2023 Shares and/or Series 2024 Shares from time to time in the open market and effectively extinguish the debt.

On July 24, 2015 (the Redemption Date), the Fund redeemed all of the issued and outstanding 8.50% Series 2017 Shares. The Fund redeemed the Series 2017 Shares for a redemption price of $25 per share plus accrued but unpaid dividends to the Redemption Date. In connection with the redemption of the Series 2017 Shares, the Fund recognized as interest expense an extinguishment loss of approximately $485,000 consisting of previously unamortized deferred issuance costs.

On December 2, 2015, the Fund announced a Preferred Stock Repurchase Program for the purpose of repurchasing up to $25 million worth of its 7.50% Series 2023 and up to $25 million worth of its 8.125% Series 2024 Term Preferred Stock. Under this Repurchase Program, the Fund repurchased 737,395 shares of its Series 2023 Term Preferred Stock, at an average price of $24.23 per share, and 405,909 shares of its Series

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NOTES TO FINANCIAL STATEMENTS MARCH 31, 2016

NOTE 7. MANDATORILY REDEEMABLE PREFERRED STOCK (continued)

2024 Term Preferred Stock, at an average price of $24.67 per share for the year ended March 31, 2016. In aggregate, the Fund repurchased approximately $28.6 million of Preferred Stock for the year ended March 31, 2016. In connection with the repurchased Series 2023 Term Preferred Shares, the Fund recognized as interest expense a net extinguishment loss of approximately $51,000, consisting of previously unamortized deferred issuance costs of approximately $617,000, partially offset by repurchases at a net discount to par of approximately $566,000. In connection with the repurchased Series 2024 Term Preferred Shares, the Fund recognized as interest expense a net extinguishment loss of approximately $266,000, consisting of previously unamortized deferred issuance costs of approximately $401,000, partially offset by repurchases at a net discount to par of approximately $135,000.

On March 21, 2016, the Fund announced a new program for the purpose of repurchasing up to $25 million worth of the outstanding shares of the Fund s 7.50% Series 2023 Term Preferred Stock and up to $25 million worth of the outstanding shares of the Fund s 8.125% Series 2024 Term Preferred Stock. Under this new repurchase program, the Fund may, but is not obligated to, repurchase its outstanding Preferred Stock in the open market from time to time through August 1, 2016.

The Fund s Term Preferred Share activity for the year ended March 31, 2016, was as follows:

	Series 2017 Term Preferred Shares	Series 2023 Term Preferred Shares	Series 2024 Term Preferred Shares	Total
Shares outstanding at March 31, 2015	632,450	2,954,770	2,427,500	6,014,720
Shares issued		1,408,163		1,408,163
Shares redeemed	(632,450)			(632,450)
Shares repurchased		(737,395)	(405,909)	(1,143,304)
Shares outstanding at March 31, 2016		3,625,538	2,021,591	5,647,129
Net proceeds from issuance	$	$33,066,295	$	$33,066,295
Discount on issuance	$	$704,082	$	$704,082

The Fund s Term Preferred Share balances as of March 31, 2016, were as follows:

Series 2017 Term Preferred	Series 2023 Term Preferred	Series 2024 Term Preferred	Total

	Shares	Shares	Shares	
Principal value	$	$90,638,450	$50,539,775	$141,178,225
Discount at March 31, 2016		(4,146,089)		(4,146,089)
Carrying value[1]	$	$86,492,361	$50,539,775	$137,032,136
Fair value[1]	$ [2]	$89,804,576	$50,640,855	$140,445,431
Fair value price per share[1]	$ [2]	$24.77	$25.05	

The terms of the Fund s Term Preferred Share offerings are as set forth in the table below:

	Series 2017 Term Preferred Shares	Series 2023 Term Preferred Shares	Series 2024 Term Preferred Shares
Offering price per share	$25.00	$25.00	$25.00
Term redemption date	December 31, 2017[2]	June 30, 2023	June 30, 2024
Term redemption price per share	$25.00	$25.00	$25.00
Optional redemption date	December 31, 2014[2]	June 30, 2016	June 30, 2017
Stated interest rate	8.50%[2]	7.50%	8.13%

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OXFORD LANE CAPITAL CORP.

NOTES TO FINANCIAL STATEMENTS MARCH 31, 2016

NOTE 7. MANDATORILY REDEEMABLE PREFERRED STOCK (continued)

(1) Represents the March 31, 2016 closing market price per share of each respective series of Term Shares on the NASDAQ Global Select Market.

(2) On July 24, 2015, OXLC redeemed all issued and outstanding Series 2017 Term Shares at the term redemption price.

As of March 31, 2016, the Fund s asset coverage ratio stood at 191%, and, as a result, the Fund failed to maintain an asset coverage ratio of at least 200% as of the end of its fiscal quarter. The Fund may cure the failed asset coverage ratio as of the date that is 30 days after the filing date of its quarterly, semi-annual or annual report related to such fiscal quarter (the Cure Date). If the asset coverage ratio is not cured as of the Cure Date, then the Fund will be required to redeem, in accordance with the procedures specified in the governing document of the Term Preferred Shares, the minimum number of Term Preferred Shares that is legally available for such redemption in order to cure the failed asset coverage ratio.

The aggregate accrued interest payable on the Fund s Term Preferred stock at March 31, 2016 was $0. Deferred issuance costs represent underwriting fees and other direct costs incurred that are related to the Fund s Term Preferred stock offerings. As of March 31, 2016, OXLC had a deferred debt balance of approximately $5.0 million related to the Term Preferred Share issuances. This amount is being amortized and is included in interest expense on mandatorily redeemable preferred stock in the Statement of Operations over the term of the respective shares.

The table below summarizes the components of interest expense, effective interest rates and cash paid on the Term Shares for the year ended March 31, 2016:

	Series 2017 Term Preferred Shares[1]	Series 2023 Term Preferred Shares	Series 2024 Term Preferred Shares	Total
Stated interest expense[1]	$ 421,888	$ 7,412,490	$ 4,862,802	$ 12,697,180
Amortization of deferred issuance costs	60,732	440,109	280,037	780,878
Loss on extinguishment	484,763	50,870	266,419	802,052
Discount expense		530,694		530,694
Total interest expense	$ 967,383	$ 8,434,163	$ 5,409,258	$ 14,810,804
Effective interest rate[2]	19.94 %	8.45 %	9.25 %	9.06 %
Cash paid for interest	$ 421,888	$ 7,383,791	$ 4,862,802	$ 12,668,482

(1) On July 24, 2015, OXLC redeemed all of the 632,450 Series 2017 Term Preferred Shares issued by OXLC on

November 28, 2012.

(2) Stated interest is composed of distributions declared and paid of approximately $12.7 million and interest expense recorded of approximately $29,000 in connection with the July 17, 2015 issuance of additional shares of Series 2023 Preferred Stock.

(3) Represents the weighted average effective rate for each respective Series Term Preferred Shares.

NOTE 8. PURCHASES, SALES AND REPAYMENTS OF SECURITIES

Purchases of securities totaled approximately $145.6 million which comprised of approximately $123.7 million of purchases for the year ended March 31, 2016 and approximately $21.9 million of purchases unsettled as of March 31, 2015. The Fund s sales and repayments of securities totaled approximately $110.1 million, excluding short-term investments, for the year ended March 31, 2016.

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NOTE 9. COMMITMENTS AND CONTINGENCIES

In the normal course of business, the Fund enters into a variety of undertakings containing a variety of warranties and indemnifications that may expose the Fund to some risk of loss. The risk of future loss arising from such undertakings, while not quantifiable, is expected to be remote.

As of March 31, 2016, the Fund did not have any commitments to purchase additional debt or equity investments.

The Fund is not currently subject to any material legal proceedings. From time to time, the Fund may be a party to certain legal proceedings in the ordinary course of business, including proceedings relating to the enforcement of the Fund s rights under contracts with its portfolio companies. While the outcome of these legal proceedings cannot be predicted with certainty, the Fund does not expect that these proceedings will have a material effect upon its financial condition or results of operations.

NOTE 10. INDEMNIFICATION

Under the Fund s organizational documents, its officers and directors are indemnified against certain liabilities arising out of the performance of their duties to the Fund. In addition, in the normal course of business the Fund enters into contracts that contain a variety of representations which provide general indemnifications. The Fund s maximum exposure under these agreements cannot be known, however, the Fund expects any risk of loss to be remote.

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NOTE 11. FINANCIAL HIGHLIGHTS

Financial highlights for years ended March 31, 2016, 2015, 2014, 2013 and 2012 are as follows:

	Year Ended March 31, 2016	Year Ended March 31, 2015	Year Ended March 31, 2014	Year Ended March 31, 2013	Year Ended March 31, 2012
Per Share Data					
Net asset value at beginning of period	$14.08	$16.26	$16.20	$17.05	$18.19
Net investment income(1)	1.59	1.37	1.24	1.17	1.19
Net realized and unrealized capital gains (losses)(2)	(6.23)	(1.14)	1.56	3.54	0.83
Total from investment operations	(4.64)	0.23	2.80	4.71	2.02
Distributions per share from net investment income(3)	(2.44)	(2.26)	(1.97)	(2.13)	(2.05)
Distributions per share from realized gain on investments(3)		(0.14)	(0.38)	(0.07)	
Distributions per share based on weighted average share impact(3)	(0.06)	(0.02)	(0.51)	(0.28)	(0.10)
Total distributions(3)	(2.50)	(2.42)	(2.86)	(2.48)	(2.15)
Effect of shares issued/repurchased, net of underwriting expense(4)	0.11	0.02	0.16	(2.52)	(0.77)
Effect of offering costs(4)	(0.01)	(0.01)	(0.04)	(0.56)	(0.24)
Effect of shares issued/repurchased, net(4)	0.10	0.01	0.12	(3.08)	(1.01)
Net asset value at end of period	$7.04	$14.08	$16.26	$16.20	$17.05
Per share market value at beginning of period	$14.82	$16.70	$15.98	$14.60	$18.75
Per share market value at end of period	$8.45	$14.82	$16.70	$15.98	$14.60
Total return(5)	(28.97)%	3.34%	20.23%	26.21%	(10.75)%
Shares outstanding at end of period	18,751,696	15,972,381	15,240,729	7,602,719	2,456,511
Ratios/Supplemental Data					
Net assets at end of period (000 s)	$131,950	$224,933	$247,829	$123,140	$41,879

Average net assets (000 s)	$185,211		$239,703		$154,112		$100,481		$36,644	
Ratio of net investment income to average daily net assets	15.13	%	8.88	%	6.55	%	5.90	%	7.18	%
Ratio of expenses to average daily net assets	17.03	%	10.58	%	8.38	%	5.65	%	6.50	%
Portfolio turnover rate	32.02	%	69.05	%	28.81	%	12.29	%	0.22	%

(1) Represents net investment income per share for the period, based upon average shares outstanding.

(2) Net realized and unrealized capital gains and losses based upon average shares outstanding, include rounding adjustments to reconcile change in net asset value per share.

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NOTE 11. FINANCIAL HIGHLIGHTS (continued)

(3) Management monitors estimated taxable earnings, including net investment income and realized capital gains, to determine if a tax return of capital may occur for the year. To the extent the Fund s taxable earnings fall below the total amount of the Fund s distributions for that fiscal year, a portion of those distributions may be deemed a tax return of capital to the Fund s stockholders. The final determination of the nature of our distributions can only be made upon the filing of our tax return.

(4) Based on actual shares outstanding for the period end.

(5) Total return based on market value is calculated assuming that shares of the Fund s common stock were purchased at the market price as of the beginning of the period, and that distribution, capital gains and other distributions were reinvested as provided for in the Fund s distribution reinvestment plan, excluding any discounts, and that the total number of shares were sold at the closing market price per share on the last day of the period. The computation does not reflect any sales commission investors may incur in purchasing or selling shares of the Fund.

NOTE 12. RISKS AND UNCERTAINTIES

The U.S. capital markets have recently experienced periods of extreme volatility and disruption. Disruptions in the capital markets tend to increase the spread between the yields realized on risk-free and higher risk securities, resulting in illiquidity in parts of the capital markets. The Fund believes these conditions may reoccur in the future. A prolonged period of market illiquidity may have an adverse effect on the Fund s business, financial condition and results of operations. Adverse economic conditions could also limit the Fund s access to the capital markets or result in a decision by lenders not to extend credit to the Fund. These events could limit the Fund s investment purchases, limit the Fund s ability to grow and negatively impact the Fund s operating results.

OXLC Management s investment team also presently manages the portfolios of TICC Capital Corp., a publicly-traded business development company that invests principally in the debt of U.S.-based companies, and TICC CLO 2012-1 LLC, a direct subsidiary of TICC Capital Corp., the assets of which are included in the gross assets of TICC Capital Corp. Additionally, the OXLC Management s investment team also manages the portfolio of Oxford Bridge, LLC, a limited liability company that invests principally in the equity of CLOs. In certain instances, the Fund may co-invest on a concurrent basis with affiliates of its investment adviser, subject to compliance with applicable regulations and regulatory guidance and our written allocation procedures. Such co-investment may require exemptive relief from the SEC. If relief is sought, there can be no assurance when, or if, such relief may be obtained. No co-investments that would require exemptive relief have been made. The affiliated entities of the Fund are subject to a written policy with respect to the allocation of investment opportunities.

Given the structure of the Fund s Investment Advisory Agreement with OXLC Management, any general increase in interest rates will likely have the effect of making it easier for OXLC Management to meet the quarterly hurdle rate for payment of income incentive fees under the Investment Advisory Agreement without any additional increase in relative performance on the part of the Fund s investment adviser. In addition, in view of the catch-up provision applicable to income incentive fees under the Investment Advisory Agreement, the investment adviser could potentially receive a significant portion of the increase in the Fund s investment income attributable to such a general increase in interest rates. If that were to occur, the Fund s increase in net earnings, if any, would likely be significantly smaller than the relative increase in the investment adviser s income incentive fee resulting from such a general increase in interest rates.

The Fund s portfolio consists of equity and junior debt investments in CLO vehicles, which involve a number of significant risks. CLO vehicles are typically highly levered, and therefore the junior debt and equity tranches that the Fund invests in are subject to a higher degree of risk of total loss. As of March 31, 2016, the CLO vehicles in which we were invested had average leverage of 10.5 times and ranged from approximately 7.0 times to 14.0 times levered. In particular, investors in CLO vehicles indirectly bear risks of the underlying

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NOTE 12. RISKS AND UNCERTAINTIES (continued)

debt investments held by such CLO vehicles. The Fund generally has the right to receive payments only from the CLO vehicles, and generally does not have direct rights against the underlying borrowers or the entity that sponsored the CLO vehicle. While the CLO vehicles the Fund targets generally enable the investor to acquire interests in a pool of senior loans without the expenses associated with directly holding the same investments, the Fund generally pays a proportionate share of the CLO vehicles administrative and other expenses. Although it is difficult to predict whether the prices of indices and securities underlying CLO vehicles will rise or fall, these prices (and, therefore, the prices of the CLO vehicles) will be influenced by the same types of political and economic events that affect issuers of securities and capital markets generally. The failure by a CLO vehicle in which we invest to satisfy financial covenants, including with respect to adequate collateralization and/or interest coverage tests, could lead to a reduction in its payments to us. In the event that a CLO vehicle fails certain tests, holders of debt senior to us may be entitled to additional payments that would, in turn, reduce the payments we would otherwise be entitled to receive. Separately, OXLC may incur expenses to the extent necessary to seek recovery upon default or to negotiate new terms with a defaulting CLO vehicle or any other investment we may make. If any of these occur, it could materially and adversely affect the Fund s operating results and cash flows.

The interests the Fund has acquired in CLO vehicles are generally thinly traded or have only a limited trading market. CLO vehicles are typically privately offered and sold, even in the secondary market. As a result, investments in CLO vehicles may be characterized as illiquid securities. In addition to the general risks associated with investing in debt securities, CLO vehicles carry additional risks, including, but not limited to: (i) the possibility that distributions from collateral securities will not be adequate to make interest or other payments; (ii) the quality of the collateral may decline in value or default; (iii) the fact that the Fund s investments in CLO tranches will likely be subordinate to other senior classes of note tranches thereof; and (iv) the complex structure of the security may not be fully understood at the time of investment and may produce disputes with the CLO vehicle or unexpected investment results. The Fund s net asset value may also decline over time if the Fund s principal recovery with respect to CLO equity investments is less than the price that the Fund paid for those investments.

Section 941 of the Dodd-Frank Act added a provision to the Securities Exchange Act of 1934, as amended, requiring the seller, sponsor or securitizer of a securitization vehicle to retain no less than five percent of the credit risk in assets it sells into a securitization and prohibits such securitizer from directly or indirectly hedging or otherwise transferring the retained credit risk. The responsible federal agencies adopted final rules implementing these restrictions on October 22, 2014. The risk retention rules will become effective with respect to CLOs two years after publication in the Federal Register. Under the final rules, the asset manager of a CLO would be considered the sponsor of a securitization vehicle and would be required to retain five percent of the credit risk in the CLO, which may be retained horizontally in the equity tranche of the CLO or vertically as a five percent interest in each tranche of the securities issued by the CLO. Although the final rules contain an exemption from such requirements for the asset manager of a CLO if, among other things, the originator or lead arranger of all of the loans acquired by the CLO retain such risk at the asset level and, at origination of such asset, takes a loan tranche of at least 20% of the aggregate principal balance, it is possible that the originators and lead arrangers of loans in this market will not agree to assume this risk or provide such retention at origination of the asset in a manner that would provide meaningful relief from the risk retention requirements for CLO managers.

The Fund believes that the U.S. risk retention requirements imposed for CLO managers under Section 941 of the Dodd-Frank Act has created some uncertainty in the market in regard to future CLO issuance. Given that certain CLO managers may require capital provider partners to satisfy this requirement when it becomes effective on December 24, 2016, the Fund believes that this may create additional opportunities (and additional risks) for the Fund in the future.

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NOTE 12. RISKS AND UNCERTAINTIES (continued)

Further, to the extent income from the Fund s CLO equity investments (which the Fund expects to decline as those vehicles deleverage after the end of their respective reinvestment periods) declines or if the Fund transitions its portfolio into lower yielding investments, the Fund s ability to pay future distributions may be harmed.

An increase in LIBOR would materially increase the CLO vehicles financing costs. Since most of the collateral positions within the CLO investments have LIBOR floors, there may not be corresponding increases in investment income (if LIBOR increases but stays below the LIBOR floor rate of such investments) resulting in materially smaller distribution payments to the equity investors.

To illustrate the potential impact of a change in the underlying interest rate on our total estimated taxable income as it pertains to our CLO investments, we have assumed a 1% increase in the underlying three-month LIBOR, and no other change in our CLO portfolio, or to any of the credit, spread, default rate or other factors, as of March 31, 2016. Under this analysis, we currently estimate the effect on total estimated taxable income to equal a decrease of approximately $13.1 million on an annualized basis, reflecting the portfolio assets held within these CLO vehicles which have implied floors that would be unaffected by a 1% change in the underlying interest rate, compared to the debt carried by those CLO vehicles which are at variable rates and which would be affected by a change in three-month LIBOR. Although management believes that this analysis is broadly indicative of our existing LIBOR sensitivity, it does not adjust for changes in any of the other assumptions that could effect the return on CLO equity investments, both positively and negatively (and which could accompany changes to the three-month LIBOR rate), such as default rates, recovery rates, prepayment rates, reinvestment rates, and other factors that could affect the net increase (or decrease) in net assets resulting from operations. Accordingly, results could differ materially from the results under this hypothetical analysis.

OXLC Management anticipates that the CLO vehicles in which the Fund invests may constitute passive foreign investment companies (PFICs). If the Fund acquires shares in a PFIC (including equity tranche investments in CLO vehicles that are PFICs), the Fund may be subject to federal income tax on a portion of any excess distribution or gain from the disposition of such shares even if such income is distributed as a taxable dividend by the Fund to its stockholders. Certain elections may be available to mitigate or eliminate such tax on excess distributions, but such elections (if available) will generally require the Fund to recognize its share of the PFICs income for each year regardless of whether the Fund receives any distributions from such PFICs. The Fund must nonetheless distribute such income to maintain its tax treatment as a RIC.

If the Fund holds more than 10% of the shares in a foreign corporation that is treated as a controlled foreign corporation (CFC) (including equity tranche investments in a CLO vehicle treated as a CFC), the Fund may be treated as receiving a deemed distribution (taxable as ordinary income) each year from such foreign corporation in an amount equal to the Fund s pro rata share of the corporation s income for the tax year (including both ordinary earnings and capital gains). If the Fund is required to include such deemed distributions from a CFC in the Fund s income, it will be required to distribute such income to maintain its RIC tax treatment regardless of whether or not the CFC makes an actual distribution during such year.

Legislation commonly referred to as the FATCA imposes a withholding tax of 30% on payments of U.S. source interest and dividends, or gross proceeds from the disposition of an instrument that produces U.S. source interest or dividends paid after December 31, 2016, to certain non-U.S. entities, including certain non-U.S. financial institutions and investment funds, unless such non-U.S. entities comply with certain reporting requirements regarding its United States account holders and its United States owners or reside in jurisdictions that have entered into intergovernmental agreements with the U.S. to provide such information. Most CLO vehicles in which OXLC invests will be treated as non-U.S. financial entities for this purpose, and therefore will be required to comply with these reporting requirements to avoid the 30% withholding. If a CLO vehicle in which OXLC invests fails to properly comply with these reporting requirements, it could

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