

Oxford Lane Capital Corp.
Form N-CSRS
November 19, 2014

**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: September 30, 2014

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Item 1. Reports to Shareholders.

The semi-annual report to shareholders for the six months ended September 30, 2014 is filed herewith pursuant to rule 30e-1 under the Investment Company Act of 1940.

Oxford Lane Capital Corp.

Semi-Annual Report

September 30, 2014

oxfordlanecapital.com

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Oxford Lane Capital Corp.

November 18, 2014

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) for the six months ended September 30, 2014. The net asset value of our shares at that date was \$15.54 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 September 30, 2014 was \$15.33, down from \$16.70 at March 31, 2014. The total return for Oxford Lane, for the six months ended September 30, 2014, as reflected in the Fund 's financial highlights, was (1.23%). This return reflects the change in market price for the period, as well as the positive impact of \$1.20 per share in dividends declared and paid. On November 17, 2014, the last reported sale price of the Fund 's common stock was \$16.41.

We draw your attention to our dividend policy, which has been discussed in earlier reports, as we believe that the Fund 's position deserves close attention. Oxford Lane is subject to significant and variable differences between its accounting income and its taxable income particularly as it relates to our collateralized loan obligation (CLO) equity investments. We invest in CLO entities which generally constitute passive foreign investment companies and which are subject to complex tax rules; the calculation of taxable income attributed to a CLO equity investment can be dramatically different from the calculation of income for financial reporting purposes. Taxable income is based upon the distributable share of earnings as determined under tax regulations for each CLO equity investment, which may be consistent with the cash flows generated by those investments, while accounting income is currently based upon an effective yield calculation. The Fund 's final taxable earnings for the fiscal year ending March 31, 2015 will not be known until our tax returns are filed but our experience has been that cash flows have historically represented a reasonable estimate of taxable earnings. In general, we currently expect our annual taxable income to be higher than our reportable accounting income on the basis of actual cash received, and our dividend policy will be based upon our expectations for that taxable income (as is required for a regulated investment company). While reportable accounting income from our CLO equity class investments for the six months ended September 30, 2014 was approximately \$20.1 million, we received or were entitled to receive approximately \$22.4 million in distributions. Our dividend policy is based upon our estimate of our taxable 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.

Investment Review

The Fund 's investment objective is to maximize its portfolio 's risk adjusted total return. Our current focus is to seek that return by investing in structured finance investments, specifically CLO vehicles which primarily own senior corporate debt securities. We may also seek to make direct investment in corporate debt securities. As of September 30, 2014, we held debt investments in 5 different CLO structures, and equity investments in 32 different CLO structures. Our investment strategy also includes warehouse facilities, which are financing structures intended to aggregate loans that may be used to form the basis of a CLO vehicle. We may also invest, on an opportunistic basis, in other corporate credits of a variety of types.

The Fund has thus far implemented its investment objective by purchasing in both the primary and secondary markets the income notes and subordinated notes (sometimes referred to as equity) and junior debt tranches of various CLO vehicles and the equity tranches of various warehouse facilities. Structurally, CLO vehicles are entities formed to

purchase and manage portfolios of loans. The loans within a CLO vehicle are limited to loans 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. The CLO vehicles which the Fund focuses on are collateralized primarily by senior loans, and generally have minimal or no exposure to real estate, mortgage loans or to pools of consumer-based debt, such as credit card receivables or auto loans. The Fund may increase its exposure to warehouse facilities over the coming year.

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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. 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 yields on senior loans have generally decreased since mid-2010, we believe that CLO equity and junior debt instruments continue to offer attractive risk-adjusted returns.

We believe that the recently developed market to invest in warehouse financings, which are short-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 financings in particular, requires a high level of research and analysis. We believe that typically this analysis can only be adequately conducted by knowledgeable market participants since that analysis tends to be highly specialized.

We believe that a stronger credit market for senior loans has reduced the risk of collateral coverage test violations across many CLO structures, thereby reducing the risk that current cash distributions otherwise payable to junior debt tranches and/or equity will be diverted under the priority of payments to pay down the more senior obligations in various CLO structures.

We believe that the US CLO market is relatively large with total assets under management of approximately \$328 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 \$58 billion.

An investment in our Fund carries with it a number of risks, certain of which are discussed in the footnotes to the financial statements. Investors should read the risk disclosures footnote 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 on CLO equity securities and warehouse facilities.

Jonathan H. Cohen
Chief Executive Officer

1. As of July 25, 2014. Source: RBS Securities Inc., Intex Solutions, Inc.

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OXFORD LANE CAPITAL CORP.

**TOP TEN HOLDINGS
AS OF SEPTEMBER 30, 2014
(Unaudited)**

Investment	Maturity	Fair Value	% of Net Assets
Seneca Park CLO, Ltd. Subordinated Notes	July 17, 2026	\$30,400,000	12.46 %
Battalion CLO VII Ltd. Preference Shares	January 1, 2015	28,000,000	11.48 %
OFSI Fund VII, Ltd. Income Notes	October 18, 2026	23,158,713	9.49 %
AIMCO CLO, Series 2014-A Subordinated Notes	July 20, 2026	22,880,000	9.38 %
OZLM VII Ltd. Subordinated Notes	July 17, 2026	19,980,500	8.19 %
Cedar Funding III CLO, Ltd. Subordinated Notes	May 20, 2026	19,750,000	8.10 %
Venture XVI CLO, Ltd. Subordinated Notes	April 15, 2026	16,200,000	6.64 %
Benefit Street Partners CLO IV Ltd. Preference Shares	July 20, 2026	15,810,000	6.48 %
Mountain Hawk III CLO, Ltd. Income Notes	April 18, 2025	13,650,000	5.60 %
Ares XXIX CLO Ltd. Subordinated Notes	April 17, 2026	12,240,000	5.02 %

Portfolio Investment Breakdown
(Excludes cash and other assets)

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(Unaudited)**

	September 30, 2014
ASSETS	
Investments, at fair value (identified cost: \$334,511,735)	\$346,290,230
Cash and cash equivalents	5,154,688
Dividend receivable	7,596,982
Deferred issuance costs on mandatorily redeemable preferred stock	4,745,170
Deferred offering costs on common stock	324,580
Interest receivable, including accrued interest purchased	178,857
Prepaid expenses and other assets	15,452
Total assets	364,305,959
LIABILITIES	
Mandatorily redeemable preferred stock, net of discount (5,000,000 shares authorized and 4,864,720 shares issued and outstanding)	117,416,295
Investment advisory fee payable to affiliate	1,828,407
Incentive fees payable to affiliate	473,275
Directors' fees payable	27,500
Administrator expense payable	27,044
Accrued offering costs	204,234
Accrued expenses	378,745
Total liabilities	120,355,500
COMMITMENTS AND CONTINGENCIES (NOTE 9)	
NET ASSETS applicable to common stock, \$0.01 par value, 95,000,000 shares authorized, and 15,703,275 shares issued and outstanding	\$243,950,459
NET ASSETS consist of:	
Paid in capital	\$244,023,003
Accumulated net realized gain on investments	9,571,390
Net unrealized appreciation on investments	11,778,495
Distribution in excess of net investment income	(21,422,429)
Total net assets	\$243,950,459
Net asset value per common share	\$15.54
Market price per share	\$15.33
Market price discount to net asset value per share	(1.35)%

See Accompanying Notes

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SEPTEMBER 30, 2014
(Unaudited)**

COMPANY ⁽¹⁾	INDUSTRY INVESTMENT	PRINCIPAL AMOUNT	COST	FAIR VALUE ⁽²⁾	% of Net Assets	
<u>Collateralized Loan Obligation</u>		<u>Debt Investments</u>				
AMMC CLO XII, Ltd.	structured finance	CLO secured notes Class F ⁽³⁾⁽⁴⁾⁽⁵⁾ (5.28%, due May 10, 2025)	\$2,500,000	\$2,181,610	\$2,076,500	
Carlyle Global Market Strategies CLO 2013-2, Ltd.	structured finance	CLO secured notes Class F ⁽³⁾⁽⁴⁾⁽⁵⁾ (5.63%, due April 18, 2025)	4,500,000	3,872,878	3,926,250	
Neuberger Berman CLO XIII, Ltd.	structured finance	CLO secured notes Class F ⁽³⁾⁽⁴⁾⁽⁵⁾ (6.73%, due January 23, 2024)	4,500,000	3,897,433	4,180,950	
OFSI Fund VII, Ltd.	structured finance	CLO secured notes Class F ⁽³⁾⁽⁴⁾⁽⁵⁾ (6.03%, due October 18, 2026)	5,564,000	4,619,760	4,618,120	
Telos CLO 2013-3, Ltd.	structured finance	CLO secured notes Class F ⁽³⁾⁽⁴⁾⁽⁵⁾ (5.73%, due January 17, 2024)	3,000,000	2,709,378	2,512,800	
Total Collateralized Loan Obligation				17,281,059	17,314,620	7.10%
<u>Collateralized Loan Obligation</u>		<u>Equity Investments</u>				
ACA CLO 2007-1, Ltd.	structured finance	CLO subordinated notes ⁽⁴⁾⁽⁶⁾	12,212,500	5,425,135	5,373,500	

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AIMCO CLO, Series 2014-A	structured finance	(Estimated yield 25.63%, maturity June 15, 2022) CLO subordinated notes ⁽⁴⁾⁽⁶⁾⁽⁹⁾ (Estimated yield 10.14%, maturity July 20, 2026) CLO subordinated notes ⁽⁴⁾⁽⁶⁾⁽⁹⁾	26,000,000	22,884,131	22,880,000
AMMC CLO XII, Ltd.	structured finance	(Estimated yield 12.98%, maturity May 10, 2025) CLO subordinated notes ⁽⁴⁾⁽⁶⁾	7,178,571	5,053,285	5,455,714
Apidos CLO XIV	structured finance	(Estimated yield 16.64%, maturity April 15, 2025) CLO subordinated notes ⁽⁴⁾⁽⁶⁾	2,272,500	1,866,565	2,227,050
Ares XXV CLO Ltd.	structured finance	(Estimated yield 10.63%, maturity January 17, 2024) CLO subordinated notes ⁽⁴⁾⁽⁶⁾	15,500,000	11,437,825	11,625,000
Ares XXVI CLO Ltd.	structured finance	(Estimated yield 14.89%, maturity April 15, 2025) CLO subordinated notes ⁽⁴⁾⁽⁶⁾	7,500,000	5,325,060	5,732,813
Ares XXIX CLO Ltd.					