TRACTOR SUPPLY CO /DE/
Form 10-Q
May 05, 2016
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q
(Mark One)
ý QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 26, 2016
or
o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to

Commission file number 000-23314
TRACTOR SUPPLY COMPANY
(Exact Name of Registrant as Specified in Its Charter)

Delaware	13-3139732
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)
5401 Virginia Way, Brentwood, Tennessee	37027
(Address of Principal Executive Offices)	(Zip Code)
Not Applicable	(615) 440-4000
(Former name, former address and former fiscal year, if changed since last report)	(Registrant’s Telephone Number, Including Area Code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
YES þ NO o
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
YES þ NO o
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer þ	Accelerated filer o
Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act.)
YES o NO þ
Indicate the number of shares outstanding of each of the issuer’s classes of common stock as of the latest practicable date.

Class	Outstanding at April 23, 2016
Common Stock, $.008 par value	133,426,962

TRACTOR SUPPLY COMPANY

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PART I. FINANCIAL INFORMATION
Item 1. Financial Statements
TRACTOR SUPPLY COMPANY
CONDENSED CONSOLIDATED BALANCE SHEETS
(in thousands, except per share amounts)
(Unaudited)

	March 26, 2016	December 26, 2015	March 28, 2015
ASSETS			
Current assets:			
Cash and cash equivalents	$74,501	$63,813	$57,133
Inventories	1,470,691	1,284,375	1,370,965
Prepaid expenses and other current assets	80,858	87,510	64,967
Income taxes receivable	—	3,763	—
Total current assets	1,626,050	1,439,461	1,493,065
Property and equipment:			
Land	87,005	86,991	80,705
Buildings and improvements	838,336	814,802	713,132
Furniture, fixtures and equipment	534,335	523,383	466,663
Computer software and hardware	187,477	180,020	161,884
Construction in progress	37,137	38,720	52,523
Property and equipment, gross	1,684,290	1,643,916	1,474,907
Accumulated depreciation and amortization	(828,789)	(796,340)	(725,155)
Property and equipment, net	855,501	847,576	749,752
Goodwill	10,258	10,258	10,258
Deferred income taxes	55,798	55,194	49,385
Other assets	16,921	18,337	19,550
Total assets	$2,564,528	$2,370,826	$2,322,010
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current liabilities:			
Accounts payable	$582,745	$427,249	$585,551
Accrued employee compensation	10,994	42,684	9,483
Other accrued expenses	178,747	195,024	180,829
Current portion of long-term debt	10,000	—	—
Current portion of capital lease obligations	1,081	878	441
Income taxes payable	29,830	5,449	28,684
Total current liabilities	813,397	671,284	804,988
Long-term debt	238,641	150,000	60,000
Capital lease obligations, less current maturities	21,761	16,992	8,761
Deferred rent	86,960	84,793	80,946
Other long-term liabilities	51,066	54,463	52,437
Total liabilities	1,211,825	977,532	1,007,132
Stockholders' equity:			
Preferred stock, $1.00 par value; 40 shares authorized; no shares issued	—	—	—
Common stock, $0.008 par value; 400,000 shares authorized at March 26, 2016, December 26, 2015 and March 28, 2015; 169,236, 168,974 and 168,347 shares issued; 133,302, 134,224 and 136,416 shares outstanding at	1,354	1,352	1,347

March 26, 2016, December 26, 2015 and March 28, 2015, respectively			
Additional paid-in capital	613,686	596,131	544,042
Treasury stock – at cost, 35,934, 34,750 and 31,931 shares at March 26, 2016, December 26, 2015 and March 28, 2015, respectively	(1,528,892)	(1,429,790)	(1,185,030)
Retained earnings	2,266,555	2,225,601	1,954,519
Total stockholders' equity	1,352,703	1,393,294	1,314,878
Total liabilities and stockholders' equity	$2,564,528	$2,370,826	$2,322,010

The accompanying notes are an integral part of these condensed consolidated financial statements.

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TRACTOR SUPPLY COMPANY
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(in thousands, except per share amounts)
(Unaudited)

	For the Fiscal Three Months Ended	
	March 26, 2016	March 28, 2015
Net sales	$1,467,797	$1,331,352
Cost of merchandise sold	973,353	886,747
Gross profit	494,444	444,605
Selling, general and administrative expenses	352,672	321,476
Depreciation and amortization	33,577	30,282
Operating income	108,195	92,847
Interest expense, net	1,125	866
Income before income taxes	107,070	91,981
Income tax expense	39,402	33,941
Net income	$67,668	$58,040
Net income per share – basic	$0.51	$0.43
Net income per share – diluted	$0.50	$0.42
Weighted average shares outstanding:		
Basic	133,630	136,347
Diluted	134,709	137,735
Dividends declared per common share outstanding	$0.20	$0.16

The accompanying notes are an integral part of these condensed consolidated financial statements.

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TRACTOR SUPPLY COMPANY
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)
(Unaudited)

	For the Fiscal Three Months Ended	
	March 26, 2016	March 28, 2015
Cash flows from operating activities:		
Net income	$67,668	$58,040
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	33,577	30,282
Loss (gain) on disposition of property and equipment	80	(47)
Share-based compensation expense	5,269	4,999
Excess tax benefit of stock options exercised	(3,090)	(8,181)
Deferred income taxes	(604)	359
Change in assets and liabilities:		
Inventories	(186,316)	(255,515)
Prepaid expenses and other current assets	6,652	1,477
Accounts payable	155,496	214,728
Accrued employee compensation	(31,690)	(27,573)
Other accrued expenses	(15,879)	(8,074)
Income taxes	31,234	24,429
Other	157	1,389
Net cash provided by operating activities	62,554	36,313
Cash flows from investing activities:		
Capital expenditures	(36,732)	(48,767)
Proceeds from sale of property and equipment	20	265
Net cash used in investing activities	(36,712)	(48,502)
Cash flows from financing activities:		
Borrowings under senior credit facility	475,000	110,000
Repayments under senior credit facility	(375,000)	(50,000)
Debt issuance costs	(1,380)	—
Excess tax benefit of stock options exercised	3,090	8,181
Principal payments under capital lease obligations	(246)	(90)
Repurchase of shares to satisfy tax obligations	(843)	(1,078)
Repurchase of common stock	(99,102)	(47,945)
Net proceeds from issuance of common stock	10,041	20,948
Cash dividends paid to stockholders	(26,714)	(21,828)
Net cash (used in) provided by financing activities	(15,154)	18,188
Net change in cash and cash equivalents	10,688	5,999
Cash and cash equivalents at beginning of period	63,813	51,134
Cash and cash equivalents at end of period	$74,501	$57,133
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Interest	$791	$464
Income taxes	8,642	8,979
Supplemental disclosures of non-cash activities:		

Property and equipment acquired through capital lease	$5,218	$4,122
Non-cash accruals for construction in progress	15,652	21,181

The accompanying notes are an integral part of these condensed consolidated financial statements.

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TRACTOR SUPPLY COMPANY

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Note 1 – General:

Basis of Presentation

The accompanying interim unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”) and the rules and regulations of the Securities and Exchange Commission. Accordingly, they do not include all of the information and notes required by U.S. GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. These statements should be read in conjunction with our Annual Report on Form 10-K for the fiscal year ended December 26, 2015. The results of operations for our interim periods are not necessarily indicative of results for the full fiscal year.

In the first quarter of fiscal 2016 the Company adopted accounting guidance which affected the presentation of deferred tax liabilities and assets as discussed in Note 11. This guidance was applied retrospectively for all periods presented and therefore the presentation of previously reported deferred tax assets has been changed to conform to the presentation used in the current period. The adoption of this guidance resulted in the reclassification of deferred tax assets of $46.0 million and $33.9 million from current assets to noncurrent assets in the Unaudited Condensed Consolidated Balance Sheets as of December 26, 2015 and March 28, 2015, respectively.

Nature of Business

Tractor Supply Company (the “Company”) is the largest operator of rural lifestyle retail stores in the United States. The Company is focused on supplying the needs of recreational farmers and ranchers and those who enjoy the rural lifestyle, as well as tradesmen and small businesses. Stores are located in towns outlying major metropolitan markets and in rural communities. At March 26, 2016, the Company operated a total of 1,521 retail stores in 49 states and also offered an expanded assortment of products online at TractorSupply.com.

Note 2 – Fair Value of Financial Instruments:

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (an exit price) in an orderly transaction between market participants on the measurement date. The Company uses 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, defined as inputs other than quoted prices in active markets that are either directly or indirectly observable; and Level 3, defined as unobservable inputs in which little or no market data exists, therefore requiring an entity to develop its own assumptions.

The Company’s financial instruments consist of cash and cash equivalents, short-term receivables, trade payables and debt instruments. Due to their short-term nature, the carrying values of cash and cash equivalents, short-term receivables and trade payables approximate current fair value at each balance sheet date. The Company had $250 million in borrowings under the Senior Credit Facility (as defined in Note 5) at March 26, 2016, $150 million in borrowings at December 26, 2015, and $60 million in borrowings at March 28, 2015. Based on current market interest rates (Level 2 inputs), the carrying value of our borrowings under the Senior Credit Facility approximates fair value.

Note 3 – Share-Based Compensation:

Share-based compensation includes stock option and restricted stock unit awards and certain transactions under our Employee Stock Purchase Plan (the "ESPP"). Share-based compensation expense is recognized based on grant date fair value of all options and restricted stock unit awards plus a discount on shares purchased by employees as a part of the ESPP.

There were no significant modifications to the Company's share-based compensation plans during the fiscal three months ended March 26, 2016.

For the first quarters of fiscal 2016 and 2015, share-based compensation expense was $5.3 million and $5.0 million, respectively.

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Stock Options

The following summarizes information concerning stock option grants during the first three months of fiscal 2016 and 2015:

	Fiscal three months ended	
	March 26, 2016	March 28, 2015
Stock options granted	1,085,225	995,508
Weighted average exercise price	$86.08	$ 83.11
Weighted average fair value per option	$19.60	$ 19.42

As of March 26, 2016, total unrecognized compensation expense related to non-vested stock options was approximately $36.5 million with a remaining weighted average expense recognition period of 1.6 years.

Restricted Stock Units

The following summarizes information concerning restricted stock unit grants during the first three months of fiscal 2016 and 2015:

	Fiscal three months ended	
	March 26, 2016	March 28, 2015
Restricted stock units granted	49,161	39,121
Weighted average fair value per share	$ 82.85	$ 83.11

As of March 26, 2016, total unrecognized compensation expense related to non-vested restricted stock units was approximately $8.1 million with a remaining weighted average expense recognition period of 2.4 years.

Note 4 - Net Income Per Share:

The Company presents both basic and diluted net income per share on the face of the unaudited condensed consolidated statements of income. Basic net income per share is calculated by dividing net income by the weighted average number of shares outstanding during the period. Diluted net income per share is calculated by dividing net income by the weighted average diluted shares outstanding. Dilutive shares are computed using the treasury stock method for stock options and restricted stock units. Net income per share is calculated as follows (in thousands, except per share amounts):

	Fiscal three months ended March 26, 2016			Fiscal three months ended March 28, 2015		
	Income	Shares	Per Share Amount	Income	Shares	Per Share Amount
Basic net income per share:	$67,668	133,630	$ 0.51	$58,040	136,347	$ 0.43
Dilutive stock options and restricted stock units outstanding	—	1,079	(0.01)	—	1,388	(0.01)
Diluted net income per share:	$67,668	134,709	$ 0.50	$58,040	137,735	$ 0.42

Anti-dilutive stock options excluded from the above calculations totaled approximately 1.3 million and 0.6 million shares for the three months ended March 26, 2016 and March 28, 2015, respectively.

Note 5 – Senior Credit Facility:

During the period of October 24, 2011 through February 19, 2016, the Company was party to a senior credit facility (the “2011 Senior Credit Facility”), which provided for borrowings up to $400 million (with a sublimit of $30 million for swingline loans) as of December 26, 2015 and March 28, 2015.

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On February 19, 2016, the Company replaced the 2011 Senior Credit Facility by entering into a new senior credit facility (the "2016 Senior Credit Facility") consisting of a $200 million term loan and a $500 million revolving credit facility (with a sublimit of $50 million for swingline loans). This agreement is unsecured and matures on February 19, 2021.

2011 Senior Credit Facility

Under the 2011 Senior Credit Facility, the Company had outstanding borrowings of $150 million and $60 million as of December 26, 2015 and March 28, 2015, respectively. In addition, there were $48.7 million and $50.5 million of outstanding letters of credit under the 2011 Senior Credit Facility as of December 26, 2015 and March 28, 2015, respectively.

2016 Senior Credit Facility

The 2016 Senior Credit Facility contains a $200 million term loan which requires quarterly payments totaling $10 million per
year in years one and two and $20 million per year in years three through five, with the remaining balance due in full on the maturity date of February 19, 2021. The 2016 Senior Credit Facility also contains a $500 million revolving credit facility (with a sublimit of $50 million for swingline loans).

As of March 26, 2016, the Company had outstanding total borrowings of $250 million under the 2016 Senior Credit Facility consisting of $200 million in borrowings under the term loan and $50 million in borrowings under the revolving credit facility. Unamortized debt issuance costs recorded as an offset to the outstanding borrowings were approximately $1.4 million at March 26, 2016. Additionally, there were $47.6 million of outstanding letters of credit under the 2016 Senior Credit Facility as of March 26, 2016.

Borrowings under both the term loan and the revolver bear interest at either the bank's base rate (3.500% at March 26, 2016) or the London Inter-Bank Offer Rate ("LIBOR") (0.435% at March 26, 2016) plus an additional amount ranging from 0.500% to 1.125% per annum (0.625% at March 26, 2016), adjusted quarterly based on our leverage ratio. The Company is also required to pay, quarterly in arrears, a commitment fee for unused capacity ranging from 0.075% to 0.200% per annum (0.100% at March 26, 2016), adjusted quarterly based on the Company's leverage ratio.

Proceeds from the 2016 Senior Credit Facility may be used for working capital, capital expenditures, dividends, share repurchases, and other matters. There are no compensating balance requirements associated with the 2016 Senior Credit Facility.

The 2016 Senior Credit Facility requires quarterly compliance with respect to two material covenants: a fixed charge coverage ratio and a leverage ratio. Both ratios are calculated on a trailing twelve-month basis at the end of each fiscal quarter. The fixed charge coverage ratio compares earnings before interest, taxes, depreciation, amortization, share-based compensation and rent expense ("consolidated EBITDAR") to the sum of interest paid and rental expense (excluding any straight-line rent adjustments). The fixed charge coverage ratio shall be greater than or equal to 2.00 as of the last day of each fiscal quarter. The leverage ratio compares rental expense (excluding any straight-line rent adjustments) multiplied by a factor of six plus total debt to consolidated EBITDAR. The leverage ratio shall be less than or equal to 4.00 as of the last day of each fiscal quarter. The 2016 Senior Credit Facility also contains certain other restrictions regarding additional indebtedness, capital expenditures, business operations, guarantees, investments, mergers, consolidations and sales of assets, transactions with subsidiaries or affiliates, and liens. As of March 26, 2016, the Company was in compliance with all debt covenants.

Interest Rate Swap

Subsequent to March 26, 2016, the Company entered into an interest rate swap agreement which became effective on March 31, 2016 with a maturity date of February 19, 2021. The objective of the interest rate swap is to mitigate interest rate risk associated with future changes in interest rates. To accomplish this objective, the interest rate swap is intended to hedge the variable cash flows associated with the variable rate term loan borrowings under the 2016 Senior Credit Facility. The notional amount of the interest rate swap will begin at $197.5 million (the principal amount of the term loan borrowings as of March 31, 2016) and will amortize at the same time and in the same amount as the term loan borrowings. The interest rate swap will entitle the Company to receive a variable rate of interest based on LIBOR in exchange for the payment of a fixed rate of interest throughout the life of the agreement without exchange of the underlying notional amount. The Company has designated this interest rate swap as a cash flow hedge and will account for the underlying activity in accordance with hedge accounting beginning in the second fiscal quarter of 2016.

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Note 6 – Treasury Stock:

The Company's Board of Directors has authorized common stock repurchases under a share repurchase program of up to $2 billion, exclusive of any fees, commissions, or other expenses related to such repurchases, through December 2017. The repurchases may be made from time to time on the open market or in privately negotiated transactions. The timing and amount of any shares repurchased under the program will depend on a variety of factors, including price, corporate and regulatory requirements, capital availability, and other market conditions. Repurchased shares are accounted for at cost and will be held in treasury for future issuance. The program may be limited or terminated at any time without prior notice.

The Company repurchased approximately 1.2 million and 0.6 million shares of common stock under the share repurchase program for a total cost of $99.1 million and $47.9 million during the first quarters of fiscal 2016 and fiscal 2015, respectively. As of March 26, 2016, the Company had remaining authorization under the share repurchase program of $471.6 million, exclusive of any fees, commissions, or other expenses.

Note 7 – Capital Stock and Dividends:

Capital Stock

The authorized capital stock of the Company consists of common stock and preferred stock. The Company is authorized to issue 400 million shares of common stock. The Company is also authorized to issue 40,000 shares of preferred stock, with such designations, rights and preferences as may be determined from time to time by the Board of Directors.

Dividends

During the first three months of fiscal 2016 and 2015, the Board of Directors declared the following cash dividends:

Date Declared	Dividend Amount Per Share	Record Date	Date Paid
February 3, 2016	$ 0.20	February 22, 2016	March 8, 2016
February 4, 2015	$ 0.16	February 23, 2015	March 10, 2015

It is the present intention of the Board of Directors to continue to pay a quarterly cash dividend; however, the declaration and payment of future dividends will be determined by the Board of Directors in its sole discretion and will depend upon the earnings, financial condition, and capital needs of the Company, along with other factors which the Board of Directors deems relevant.

On May 2, 2016, the Company's Board of Directors declared a quarterly cash dividend of $0.24 per share of the Company's common stock. The dividend will be paid on June 1, 2016 to stockholders of record as of the close of business on May 16, 2016.

Note 8 – Income Taxes:

The Company’s effective income tax rate decreased to 36.8% in the first quarter of fiscal 2016 compared to 36.9% for the first quarter of fiscal 2015 due principally to state tax incentives.

Note 9 – Commitments and Contingencies:

Construction and Real Estate Commitments

At March 26, 2016, the Company had no material commitments related to construction projects extending greater than twelve months.

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Letters of Credit

At March 26, 2016, there were $47.6 million of outstanding letters of credit under the 2016 Senior Credit Facility.

Litigation

The Company is involved in various litigation matters arising in the ordinary course of business. The Company believes that any estimated loss related to such matters has been adequately provided for in accrued liabilities to the extent probable and reasonably estimable. Accordingly, the Company currently expects these matters will be resolved without material adverse effect on its consolidated financial position, results of operations or cash flows.

Note 10 – Segment Reporting:

The Company has one reportable segment which is the retail sale of products that support the rural lifestyle. The Company manages the business on the basis of one operating segment. The following chart indicates the percentage of sales represented by each major product category during the fiscal three months ended March 26, 2016 and March 28, 2015:

	Fiscal three months ended	
	March 26, 2016	March 28, 2015
Product Category:		
Livestock and Pet	50 %	49 %
Hardware, Tools and Truck	21	22
Seasonal, Gift and Toy Products	17	17
Clothing and Footwear	9	9
Agriculture	3	3
Total	100 %	100 %

Note 11 – New Accounting Pronouncements:

In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2014-09, “Revenue from Contracts with Customers (Topic 606)” (“ASU 2014-09”). ASU 2014-09 amends the guidance for revenue recognition to replace numerous, industry-specific requirements and converges areas under this topic with those of the International Financial Reporting Standards. The ASU implements a five-step process for customer contract revenue recognition that focuses on transfer of control, as opposed to transfer of risk and rewards. The amendment also requires enhanced disclosures regarding the nature, amount, timing and uncertainty of revenues and cash flows from contracts with customers. Other major provisions include the capitalization and amortization of certain contract costs, ensuring the time value of money is considered in the transaction price, and allowing estimates of variable consideration to be recognized before contingencies are resolved in certain circumstances. In August 2015, the FASB issued ASU 2015-14, “Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date” which implemented a one-year deferral of ASU 2014-09. As a result of the deferral, the amendments in ASU 2014-09 are effective for reporting periods beginning after December 15, 2017. In March 2016, the FASB issued ASU 2016-08, “Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net)” (“ASU 2016-08”) which further clarifies the implementation guidance on principal versus agent considerations. In April 2016, the FASB issued ASU 2016-10, “Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing” (“ASU 2016-10”) which further clarifies the aspects of (a) identifying performance obligations and (b) the licensing implementation guidance. The effective date and transition requirements for both ASU 2016-08 and ASU 2016-10 are the same as the effective date and transition requirements of ASU 2014-09. Entities can transition to these standards either retrospectively or as a cumulative-effect adjustment as of the date of adoption. The Company is currently assessing the impact the adoption of these standards will have on our Consolidated Financial Statements and related disclosures, including which transition method it will adopt.

In April 2015, the FASB issued ASU 2015-03, "Interest - Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs" ("ASU 2015-03"). This update requires that debt issuance costs related to a recognized debt liability be presented in the consolidated balance sheet as a direct reduction from the carrying amount of that debt liability. ASU 2015-03 requires retrospective application and is effective for fiscal years beginning after December 15, 2015, and interim periods within

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those fiscal years. The Company adopted this guidance in the first quarter of fiscal 2016. The adoption of this guidance affected the presentation of debt issuance costs in our Consolidated Balance Sheet but did not have any other material impacts on our Consolidated Financial Statements and related disclosures.

In July 2015, the FASB issued ASU 2015-11, "Inventory (Topic 330): Simplifying the Measurement of Inventory" (“ASU 2015-11”). This update requires an entity that determines the cost of inventory by methods other than last-in, first-out and the retail inventory method to measure inventory at the lower of cost and net realizable value. ASU 2015-11 requires prospective application and is effective for fiscal years beginning after December 15, 2016, and interim periods within those fiscal years, with early adoption permitted. The Company does not expect that the adoption of this guidance will have a material impact on our Consolidated Financial Statements and related disclosures.

In November 2015, the FASB issued ASU 2015-17, “Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes” (“ASU 2015-17”). This update requires that deferred tax liabilities and assets be classified as noncurrent in the consolidated balance sheet. ASU 2015-17 may be applied either prospectively to all deferred tax liabilities and assets or retrospectively to all periods presented. The updated guidance is effective for fiscal years beginning after December 15, 2016, and interim periods within those fiscal years, with early adoption permitted. The Company adopted this guidance in the first quarter of fiscal 2016. The Company elected to apply this guidance retrospectively for all periods presented. The adoption of this guidance affected the presentation of the deferred tax liabilities and assets within the Company’s Consolidated Balance Sheet; however, the updated guidance did not affect the accounting for deferred tax liabilities and assets. Other than the change in presentation, the adoption of this guidance did not have any material impacts on our Consolidated Financial Statements and related disclosures.

In February 2016, the FASB issued ASU 2016-02, “Leases (Topic 842)” (“ASU 2016-02”). This update requires a dual approach for lessee accounting under which a lessee will account for leases as finance leases or operating leases. Both finance leases and operating leases will result in the lessee recognizing a right-of-use asset and a corresponding lease liability on its balance sheet, with differing methodology for income statement recognition. This guidance is effective for public business entities for fiscal years, and interim periods within those years, beginning after December 15, 2018, and early adoption is permitted. A modified retrospective approach is required for all leases existing or entered into after the beginning of the earliest comparative period in the consolidated financial statements. The Company is currently assessing the impact that adoption of this guidance will have on its Consolidated Financial Statements and related disclosures.

In March 2016, the FASB issued ASU 2016-04, “Liabilities - Extinguishments of Liabilities (Subtopic 405-20): Recognition of Breakage for Certain Prepaid Stored-Value Products” (“ASU 2016-04”). This update requires that liabilities related to the sale of prepaid stored-value products (gift cards) be adjusted periodically to reflect breakage. This guidance is effective for public business entities for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years, with early adoption permitted. The guidance can be applied using either a modified retrospective transition method or retrospectively to each period presented. The Company does not expect that the adoption of this guidance will have a material impact on our Consolidated Financial Statements and related disclosures.

In March 2016, the FASB issued ASU 2016-09, “Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting” (“ASU 2016-09”). The update addresses several aspects of the accounting for share-based compensation transactions including: (a) income tax consequences when awards vest or are settled, (b) classification of awards as either equity or liabilities, (c) a policy election to account for forfeitures as they occur rather than on an estimated basis and (d) classification of excess tax impacts on the statement of cash flows. The updated guidance is effective for fiscal years beginning after December 15, 2016, and interim periods within those fiscal years, with early adoption permitted. The Company is currently assessing the impact that adoption of this guidance will have on its Consolidated Financial Statements and related disclosures.

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Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations

General

The following discussion and analysis should be read in conjunction with our Annual Report on Form 10-K for the fiscal year ended December 26, 2015. This Form 10-Q also contains forward-looking information. The forward-looking statements included herein are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995 (the “Act”). All statements, other than statements of historical facts, which address activities, events or developments that we expect or anticipate will or may occur in the future, including sales and earnings growth, estimated results of operations in future periods, the declaration and payment of dividends, future capital expenditures (including their amount and nature), business strategy, expansion and growth of our business operations and other such matters are forward-looking statements. These forward-looking statements may be affected by certain risks and uncertainties, any one, or a combination of which, could materially affect the results of our operations. To take advantage of the safe harbor provided by the Act, we are identifying certain factors that could cause actual results to differ materially from those expressed in any forward-looking statements, whether oral or written.

As with any business, many aspects of our operations are subject to influences outside our control. These factors include, without limitation, general economic conditions affecting consumer spending, the timing and acceptance of new products in the stores, the timing and mix of goods sold, purchase price volatility (including inflationary and deflationary pressures), the ability to increase sales at existing stores, the ability to manage growth and identify suitable locations, failure of an acquisition to produce anticipated results, the ability to successfully manage expenses and execute our key gross margin enhancing initiatives, the availability of favorable credit sources, capital market conditions in general, the ability to open new stores in the manner and number currently contemplated, the impact of new stores on our business, competition, weather conditions, the seasonal nature of our business, effective merchandising initiatives and marketing emphasis, the ability to retain vendors, reliance on foreign suppliers, the ability to attract, train and retain qualified employees, product liability and other claims, changes in federal, state or local regulations, potential judgments, fines, legal fees and other costs, breach of information systems or theft of employee or customer data, ongoing and potential future legal or regulatory proceedings, management of our information systems, failure to develop and implement new technologies, the failure of customer-facing technology systems, business disruption including from the implementation of supply chain technologies, effective tax rate changes and results of examination by taxing authorities, the ability to maintain an effective system of internal control over financial reporting, and changes in accounting standards, assumptions and estimates. We discuss in greater detail risk factors relating to our business in Item 1A of our Annual Report on Form 10-K for the fiscal year ended December 26, 2015. Forward-looking statements are based on our knowledge of our business and the environment in which we operate, but because of the factors listed above or other factors, actual results could differ materially from those reflected by any forward-looking statements. Consequently, all of the forward-looking statements made are qualified by these cautionary statements and there can be no assurance that the actual results or developments anticipated will be realized or, even if substantially realized, that they will have the expected consequences to or effects on our business and operations. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof. We undertake no obligation to release publicly any revisions to these forward-looking statements to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events.

Seasonality and Weather

Our business is seasonal. Historically, our sales and profits are the highest in the second and fourth fiscal quarters due to the sale of seasonal products. We experience our highest inventory and accounts payable balances during our first fiscal quarter for purchases of seasonal products to support the higher sales volume of the spring selling season and again during our third fiscal quarter to support the higher sales volume of the cold-weather selling season.

Historically, weather conditions, including unseasonably warm weather in the fall and winter months and unseasonably cool weather in the spring and summer months, have affected the timing and volume of our sales and results of operations. In addition, extreme weather conditions, including snow and ice storms, flood and wind damage, hurricanes, tornadoes, extreme rain and droughts, have impacted operating results both negatively and positively, depending on the severity and length of these conditions. Our strategy is to manage product flow and adjust merchandise assortments and depth of inventory to capitalize on seasonal demand trends.

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Comparable Store Sales

Comparable store sales are calculated on an annual basis using sales generated from all stores open at least one year and all online sales and exclude certain adjustments to net sales. Beginning in fiscal 2015, stores closed during either of the years being compared are removed from our comparable store sales metrics calculations. Stores relocated during either of the years being compared are not removed from our comparable store sales metrics calculations. If the effect of relocated stores on our comparable store sales metrics calculations becomes material, we would remove relocated stores from the calculations.

Results of Operations

Fiscal Three Months (First Quarter) Ended March 26, 2016 and March 28, 2015
Net sales increased 10.2% to $1.47 billion for the first quarter of fiscal 2016 from $1.33 billion for the first quarter of fiscal 2015. Comparable store sales for the first quarter of fiscal 2016 were $1.39 billion, a 4.9% increase over the first quarter of fiscal 2015. Comparable store sales increased 5.7% for the first quarter of fiscal 2015.

The first quarter comparable store sales increase from the prior year's first quarter was driven by an increase in both traffic and ticket, with comparable store transaction count increasing 4.2% and average ticket increasing 0.7%. Sales were broad-based, with all of our major product categories and geographic regions generating positive comparable store sales. Sales benefited from solid performance in consumable, usable and edible (C.U.E.) products, specifically pet and livestock consumables. Spring seasonal products including lawn and garden, riding lawn mowers and fencing also performed very well, driven in part by early spring weather.

In addition to comparable store sales growth in the first quarter of fiscal 2016, sales from stores opened less than one year were $77.9 million in the first quarter of fiscal 2016, which represented 5.9 percentage points of the 10.2% increase over first quarter fiscal 2015 net sales. For the first quarter of fiscal 2015, sales from stores opened less than one year were $82.3 million, which represented 7.0 percentage points of the 12.5% increase over first quarter fiscal 2014 net sales.

The following chart summarizes our store growth for the fiscal three months ended March 26, 2016 and March 28, 2015:

	Fiscal three months ended	
	March 26, 2016	March 28, 2015
Store Count, Beginning of Period	1,488	1,382
New Stores Opened	36	41
Stores Closed	(3)	(1)
Store Count, End of Period	1,521	1,422
Stores Relocated	—	1

The following chart indicates the percentage of sales represented by each of our major product categories for the fiscal three months ended March 26, 2016 and March 28, 2015:

Fiscal three months ended	
March 26, 2016	March 28, 2015

Product Category:				
Livestock and Pet	50	%	49	%
Hardware, Tools and Truck	21		22	
Seasonal, Gift and Toy Products	17		17	
Clothing and Footwear	9		9	
Agriculture	3		3	
Total	100	%	100	%

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Gross profit increased 11.2% to $494.4 million for the first quarter of fiscal 2016 from $444.6 million in the first quarter of fiscal 2015. As a percent of net sales, gross margin increased 30 basis points to 33.7% from 33.4% in the prior year. The increase in gross margin was driven primarily by improved merchandise margin, partially offset by increased transportation costs. The improvement in merchandise margin resulted principally from our key margin initiatives of price management, imports and exclusive brands as well as strong cost negotiations and vendor support programs. The increase in transportation costs was the result of an increase in inbound miles to our new southwest distribution center and a higher mix of freight intensive product categories.

Selling, general and administrative (“SG&A”) expenses, including depreciation and amortization, increased 9.8% to $386.2 million from $351.8 million in the first quarter of fiscal 2015. As a percent of net sales, SG&A decreased to 26.3% in the first quarter of fiscal 2016 from 26.4% in the first quarter of fiscal 2015. SG&A benefited from the strong comparable store sales increase and effective expense control and payroll management. These favorable items were partially offset by start-up costs associated with the new southwest distribution center and the two new mixing centers in Texas which were not in operation in the first quarter of fiscal 2015.

The effective income tax rate decreased to 36.8% in the first quarter of fiscal 2016 compared to 36.9% for the first quarter of fiscal 2015 due principally to the availability of state tax incentives. The Company expects the full fiscal year 2016 effective tax rate will be approximately 36.9%.

As a result of the foregoing factors, net income for the first quarter of fiscal 2016 increased 16.6% to $67.7 million, or $0.50 per diluted share, as compared to net income of $58.0 million, or $0.42 per diluted share, for the first quarter of fiscal 2015.

Liquidity and Capital Resources

In addition to normal operating expenses, our primary ongoing cash requirements are for new store expansion, remodeling and relocation programs, distribution center capacity and improvements, information technology, inventory purchases, share repurchases and cash dividends. Our primary ongoing sources of liquidity are existing cash balances, funds provided from operations, borrowings available under our 2016 Senior Credit Facility, capital and operating leases and normal trade credit. Our inventory and accounts payable levels typically build in the first and third fiscal quarters to support the higher sales volume of the spring and cold-weather selling seasons, respectively.

The Company believes that its existing cash balances, expected cash flow from future operations, borrowings available under the 2016 Senior Credit Facility, operating and capital leases and normal trade credit will be sufficient to fund its operations and its capital expenditure needs, including new store openings, store acquisitions, relocations and renovations and distribution center capacity, through the end of fiscal 2016.

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Working Capital

At March 26, 2016, the Company had working capital of $812.7 million, which increased $44.5 million from December 26, 2015 and increased $124.6 million from March 28, 2015. The shifts in working capital were attributable to changes in the following components of current assets and current liabilities (in millions):

	March 26, 2016	December 26, 2015	Variance	March 28, 2015	Variance
Current assets:					
Cash and cash equivalents	$ 74.5	$ 63.8	$ 10.7	$ 57.1	$ 17.4
Inventories	1,470.7	1,284.4	186.3	1,371.0	99.7
Prepaid expenses and other current assets	80.9	87.5	(6.6)	65.0	15.9
Income taxes receivable	—	3.8	(3.8)	—	—
	1,626.1	1,439.5	186.6	1,493.1	133.0
Current liabilities:					
Accounts payable	582.8	427.2	155.6	585.6	(2.8)
Accrued employee compensation	11.0	42.7	(31.7)	9.5	1.5
Other accrued expenses	178.7	195.0	(16.3)	180.8	(2.1)
Current portion of long-term debt	10.0	—	10.0	—	10.0
Current portion of capital lease obligation	1.1	0.9	0.2	0.4	0.7
Income taxes payable	29.8	5.5	24.3	28.7	1.1
	813.4	671.3	142.1	805.0	8.4
Working capital	$ 812.7	$ 768.2	$ 44.5	$ 688.1	$ 124.6

In comparison to December 26, 2015, working capital as of March 26, 2016 was impacted most significantly by changes in our inventories, accounts payable and accrued employee compensation.

- The increase in inventories and accounts payable resulted primarily from the purchase of additional inventory to support new store growth as well as an increase in average inventory per store due to normal seasonal patterns.
- The decrease in accrued employee compensation is primarily due to the payment of annual incentive compensation.

In comparison to March 28, 2015, working capital as of March 26, 2016 was impacted most significantly by changes in our inventories.

- The increase in inventories resulted primarily from the purchase of additional inventory to support new store growth and to support the new southwest distribution center which began receiving product from our vendors in October 2015. Average inventory per store has increased 0.9% in comparison with the prior year period. Accounts payable did not fluctuate in line with the increase in inventory due principally to the timing of payments.

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Operating Activities

Operating activities provided net cash of $62.6 million and $36.3 million in the first three months of fiscal 2016 and fiscal 2015, respectively. The $26.3 million increase in net cash provided by operating activities in the first three months of fiscal 2016 compared to the first three months of fiscal 2015 is due to changes in the following operating activities (in millions):

	Fiscal three months ended		
	March 26, 2016	March 28, 2015	Variance
Net income	$67.7	$ 58.0	$ 9.7
Depreciation and amortization	33.6	30.3	3.3
Share-based compensation expense	5.3	5.0	0.3
Excess tax benefit of stock options exercised	(3.1)	(8.2)	5.1
Deferred income taxes	(0.6)	0.4	(1.0)
Inventories and accounts payable	(30.8)	(40.8)	10.0
Prepaid expenses and other current assets	6.7	1.5	5.2
Accrued expenses	(47.6)	(35.6)	(12.0)
Income taxes payable	31.2	24.4	6.8
Other, net	0.2	1.3	(1.1)
Net cash provided by operating activities	$62.6	$ 36.3	$ 26.3

The $26.3 million increase in net cash provided by operating activities in the first three months of fiscal 2016 compared with the first three months of fiscal 2015 resulted from incremental profitability as well as less cash required due to the timing of receipts and payments in relation to inventory and accounts payable. The increase in cash provided by operating activities from these items was partially offset by a use of cash for increased accrued expenses which relates principally to new store growth and the timing of payments.

Investing Activities

Investing activities used cash of $36.7 million and $48.5 million in the first three months of fiscal 2016 and fiscal 2015, respectively. The decrease in cash used for investing activities primarily reflects a decrease in capital expenditures. Capital expenditures for the first three months of fiscal 2016 and fiscal 2015 were as follows (in millions):

	Fiscal three months ended	
	March 26, 2016	March 28, 2015
New and relocated stores and stores not yet opened	$22.5	$ 20.7
Information technology	6.8	6.5
Existing stores	4.4	2.7
Distribution center capacity and improvements	3.0	18.4
Corporate and other	—	0.5
Total capital expenditures	$36.7	$ 48.8

The above table reflects 36 new stores in the first three months of fiscal 2016 compared to 41 new stores during the first three months of fiscal 2015. We expect to open approximately 115 to 120 new stores during fiscal 2016 compared to 114 new stores in fiscal 2015. The decrease in spending on distribution center capacity and improvements in the first three months of fiscal 2016 compared to the first three months of fiscal 2015 is primarily due to the construction of two mixing centers in Texas and our new southwest distribution center, all of which opened during fiscal 2015.

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Financing Activities

Financing activities used cash of $15.2 million and provided cash of $18.2 million in the first three months of fiscal 2016 and fiscal 2015, respectively. The $33.4 million change in net cash from financing activities in the first three months of fiscal 2016 compared to the first three months of fiscal 2015 is due to changes in the following financing activities (in millions):

	Fiscal three months ended		
	March 26, 2016	March 28, 2015	Variance
Net borrowings and repayments under senior credit facilities	$ 100.0	$ 60.0	$ 40.0
Excess tax benefit of stock options exercised	3.1	8.2	(5.1)
Repurchase of common stock	(99.1)	(47.9)	(51.2)
Net proceeds from issuance of common stock	10.0	20.9	(10.9)
Cash dividends paid to stockholders	(26.7)	(21.8)	(4.9)
Other, net	(2.5)	(1.2)	(1.3)
Net cash (used in) provided by financing activities	$ (15.2)	$ 18.2	$ (33.4)

The $33.4 million change in net cash from financing activities in the first three months of fiscal 2016 compared with the first three months of fiscal 2015 is due to an increase in borrowings, net of repayments, under our senior credit facilities offset by an increase in purchases of common stock and a decrease in proceeds from issuance of common stock.

Senior Credit Facility

During the period of October 24, 2011 through February 19, 2016, the Company was party to a senior credit facility (the “2011 Senior Credit Facility”), which provided for borrowings up to $400 million (with a sublimit of $30 million for swingline loans) as of December 26, 2015 and March 28, 2015.

On February 19, 2016, the Company replaced the 2011 Senior Credit Facility by entering into a new senior credit facility (the “2016 Senior Credit Facility”) consisting of a $200 million term loan and a $500 million revolving credit facility (with a sublimit of $50 million for swingline loans). This agreement is unsecured and matures on February 19, 2021.

2011 Senior Credit Facility

Under the 2011 Senior Credit Facility, the Company had outstanding borrowings of $150 million and $60 million as of December 26, 2015 and March 28, 2015, respectively. In addition, there were $48.7 million and $50.5 million of outstanding letters of credit under the 2011 Senior Credit Facility as of December 26, 2015 and March 28, 2015, respectively.

2016 Senior Credit Facility

The 2016 Senior Credit Facility contains a $200 million term loan which requires quarterly payments totaling $10 million per
year in years one and two and $20 million per year in years three through five, with the remaining balance due in full on the
maturity date of February 19, 2021. The 2016 Senior Credit Facility also contains a $500 million revolving credit facility (with
a sublimit of $50 million for swingline loans).

As of March 26, 2016, the Company had outstanding borrowings of $250 million under the 2016 Senior Credit Facility, consisting of $200 million in borrowings under the term loan and $50 million in borrowings under the revolving credit facility. Unamortized debt issuance costs recorded as an offset to the outstanding borrowings were approximately $1.4 million at March 26, 2016. Additionally, there were $47.6 million of outstanding letters of credit under the 2016 Senior Credit Facility as of March 26, 2016.

Borrowings under both the term loan and the revolver bear interest at either the bank's base rate (3.500% at March 26, 2016) or the London Inter-Bank Offer Rate ("LIBOR") (0.435% at March 26, 2016) plus an additional amount ranging from 0.500% to 1.125% per annum (0.625% at March 26, 2016), adjusted quarterly based on our leverage ratio. The Company is also required to pay, quarterly in arrears, a commitment fee for unused capacity ranging from 0.075% to 0.200% per annum (0.100% at March 26, 2016), adjusted quarterly based on the Company's leverage ratio.

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Proceeds from the 2016 Senior Credit Facility may be used for working capital, capital expenditures, dividends, share repurchases, and other matters. There are no compensating balance requirements associated with the 2016 Senior Credit Facility.

The 2016 Senior Credit Facility requires quarterly compliance with respect to two material covenants: a fixed charge coverage ratio and a leverage ratio. Both ratios are calculated on a trailing twelve-month basis at the end of each fiscal quarter. The fixed charge coverage ratio compares earnings before interest, taxes, depreciation, amortization, share-based compensation and rent expense (“consolidated EBITDAR”) to the sum of interest paid and rental expense (excluding any straight-line rent adjustments). The fixed charge coverage ratio shall be greater than or equal to 2.00 as of the last day of each fiscal quarter. The leverage ratio compares rental expense (excluding any straight-line rent adjustments) multiplied by a factor of six plus total debt to consolidated EBITDAR. The leverage ratio shall be less than or equal to 4.00 as of the last day of each fiscal quarter. The 2016 Senior Credit Facility also contains certain other restrictions regarding additional indebtedness, capital expenditures, business operations, guarantees, investments, mergers, consolidations and sales of assets, transactions with subsidiaries or affiliates, and liens. As of March 26, 2016, the Company was in compliance with all debt covenants.

Interest Rate Swap

Subsequent to March 26, 2016, the Company entered into an interest rate swap agreement which became effective on March 31, 2016 with a maturity date of February 19, 2021. The objective of the interest rate swap is to mitigate interest rate risk associated with future changes in interest rates. To accomplish this objective, the interest rate swap is intended to hedge the variable cash flows associated with the variable rate term loan borrowings under the 2016 Senior Credit Facility. The notional amount of the interest rate swap will begin at $197.5 million (the principal amount of the term loan borrowings as of March 31, 2016) and will amortize at the same time and in the same amount as the term loan borrowings. The interest rate swap will entitle the Company to receive a variable rate of interest based on LIBOR in exchange for the payment of a fixed rate of interest throughout the life of the agreement without exchange of the underlying notional amount. The Company has designated this interest rate swap as a cash flow hedge and will account for the underlying activity in accordance with hedge accounting beginning in the second fiscal quarter of 2016.

Share Repurchase Program

The Company’s Board of Directors has authorized common stock repurchases under a share repurchase program of up to $2 billion, exclusive of any fees, commissions, or other expenses related to such repurchases, through December 2017. The repurchases may be made from time to time on the open market or in privately negotiated transactions. The timing and amount of any shares repurchased under the program will depend on a variety of factors, including price, corporate and regulatory requirements, capital availability, and other market conditions. Repurchased shares are accounted for at cost and will be held in treasury for future issuance. The program may be limited or terminated at any time without prior notice.

The Company repurchased 1.2 million and 0.6 million shares of common stock under the share repurchase program for a total cost of $99.1 million and $47.9 million during the first quarters of fiscal 2016 and fiscal 2015, respectively. As of March 26, 2016, the Company had remaining authorization under the share repurchase program of $471.6 million, exclusive of any fees, commissions, or other expenses.

Dividends

During the first three months of fiscal 2016 and 2015, the Board of Directors declared the following cash dividends:

Date Declared	Record Date	Date Paid

	Dividend Amount Per Share		
February 3, 2016	$ 0.20	February 22, 2016	March 8, 2016
February 4, 2015	$ 0.16	February 23, 2015	March 10, 2015

It is the present intention of the Board of Directors to continue to pay a quarterly cash dividend; however, the declaration and payment of future dividends will be determined by the Board of Directors in its sole discretion and will depend upon the earnings, financial condition, and capital needs of the Company, along with other factors which the Board of Directors deems relevant.

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On May 2, 2016, the Company's Board of Directors declared a quarterly cash dividend of $0.24 per share of the Company's common stock. The dividend will be paid on June 1, 2016 to stockholders of record as of the close of business on May 16, 2016.

Off-Balance Sheet Arrangements

The Company's off-balance sheet arrangements are limited to operating leases and outstanding letters of credit. The Company typically leases buildings for retail stores rather than acquiring these assets which allows the Company to utilize financial capital to operate the business rather than invest in fixed assets. Letters of credit allow the Company to purchase inventory, primarily sourced overseas, in a timely manner and support certain risk management programs.

Significant Contractual Obligations and Commercial Commitments

At March 26, 2016, the Company had no material commitments related to construction projects extending greater than twelve months.

There have been no other material changes in our contractual obligations and commercial commitments other than in the ordinary course of business since the end of fiscal 2015.

At March 26, 2016, there were $47.6 million of outstanding letters of credit under the 2016 Senior Credit Facility.

Significant Accounting Policies and Estimates

Management's discussion and analysis of the Company's financial position and results of operations are based upon its consolidated financial statements, which have been prepared in accordance with U.S. GAAP. The preparation of these financial statements requires management to make informed estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses and related disclosure of contingent assets and liabilities. The Company's significant accounting policies, including areas of critical management judgments and estimates, have primary impact on the following financial statement areas:

- Inventory valuation
- Self-insurance reserves
- Sales tax audit reserve
- Income tax contingencies
- Long-lived assets

See the Notes to the Consolidated Financial Statements in our Annual Report on Form 10-K for the fiscal year ended December 26, 2015 for a discussion of the Company's critical accounting policies. The Company's financial position and/or results of operations may be materially different when reported under different conditions or when using different assumptions in the application of such policies. In the event estimates or assumptions prove to be different from actual amounts, adjustments are made in subsequent periods to reflect more current information.

New Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-09, "Revenue from Contracts with Customers (Topic 606)" ("ASU 2014-09"). ASU 2014-09 amends the guidance for revenue recognition to replace numerous, industry-specific requirements and converges areas under this topic with those of the International Financial Reporting Standards. The ASU implements a five-step process for customer contract revenue recognition that focuses on transfer of control, as opposed to transfer of risk and rewards. The amendment also requires enhanced disclosures regarding the nature, amount, timing and uncertainty of revenues and cash flows from contracts with customers. Other major provisions include the capitalization and amortization of certain contract costs, ensuring the time value of money is considered in the transaction price, and allowing estimates of variable consideration to be recognized before contingencies are resolved in certain circumstances. In August 2015, the FASB issued ASU 2015-14, “Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date” which implemented a one-year deferral of ASU 2014-09. As a result of the deferral, the amendments in ASU 2014-09 are effective for reporting periods beginning after December 15, 2017. In March 2016, the FASB issued ASU 2016-08, “Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net)” (“ASU 2016-08”) which further clarifies the implementation guidance on principal versus agent considerations. In April 2016, the FASB issued ASU 2016-10, “Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing” (“ASU 2016-10”) which further clarifies the aspects of (a) identifying performance obligations and (b) the licensing implementation guidance. The effective date and transition requirements for both ASU 2016-08 and ASU 2016-10 are the same as the effective date and transition requirements of ASU 2014-09. Entities can transition to these standards either retrospectively or as a cumulative-effect adjustment as of the date of adoption. The Company is currently assessing the impact the adoption of these standards will have on our Consolidated Financial Statements and related disclosures, including which transition method it will adopt.

In April 2015, the FASB issued ASU 2015-03, “Interest - Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs” (“ASU 2015-03”). This update requires that debt issuance costs related to a recognized debt liability be presented in the consolidated balance sheet as a direct reduction from the carrying amount of that debt liability. ASU 2015-03 requires retrospective application and is effective for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. The Company adopted this guidance in the first quarter of fiscal 2016. The adoption of this guidance affected the presentation of debt issuance costs in our Consolidated Balance Sheet but did not have any other material impacts on our Consolidated Financial Statements and related disclosures.

In July 2015, the FASB issued ASU 2015-11, "Inventory (Topic 330): Simplifying the Measurement of Inventory" (“ASU 2015-11”). This update requires an entity that determines the cost of inventory by methods other than last-in, first-out and the retail inventory method to measure inventory at the lower of cost and net realizable value. ASU 2015-11 requires prospective application and is effective for fiscal years beginning after December 15, 2016, and interim periods within those fiscal years, with early adoption permitted. The Company does not expect that the adoption of this guidance will have a material impact on our Consolidated Financial Statements and related disclosures.

In November 2015, the FASB issued ASU 2015-17, “Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes” (“ASU 2015-17”). This update requires that deferred tax liabilities and assets be classified as noncurrent in the consolidated balance sheet. ASU 2015-17 may be applied either prospectively to all deferred tax liabilities and assets or retrospectively to all periods presented. The updated guidance is effective for fiscal years beginning after December 15, 2016, and interim periods within those fiscal years, with early adoption permitted. The Company adopted this guidance in the first quarter of fiscal 2016. The Company elected to apply this guidance retrospectively for all periods presented. The adoption of this guidance affected the presentation of the deferred tax liabilities and assets within the Company’s Consolidated Balance Sheet; however, the updated guidance did not affect the accounting for deferred tax liabilities and assets. Other than the change in presentation, the adoption of this guidance did not have any material impacts on our Consolidated Financial Statements and related disclosures.

In February 2016, the FASB issued ASU 2016-02, “Leases (Topic 842)” (“ASU 2016-02”). This update requires a dual approach for lessee accounting under which a lessee will account for leases as finance leases or operating leases. Both finance leases and operating leases will result in the lessee recognizing a right-of-use asset and a corresponding lease liability on its balance sheet, with differing methodology for income statement recognition. This guidance is effective for public business entities for fiscal years, and interim periods within those years, beginning after December 15, 2018, and early adoption is permitted. A modified retrospective approach is required for all leases existing or entered into after the beginning of the earliest comparative period in the consolidated financial statements. The Company is currently assessing the impact that adoption of this guidance will have on its Consolidated Financial Statements and related disclosures.

In March 2016, the FASB issued ASU 2016-04, “Liabilities - Extinguishments of Liabilities (Subtopic 405-20): Recognition of Breakage for Certain Prepaid Stored-Value Products” (“ASU 2016-04”). This update requires that liabilities related to the sale of prepaid stored-value products (gift cards) be adjusted periodically to reflect breakage. This guidance is effective for public business entities for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years, with early adoption permitted. The guidance can be applied using either a modified retrospective transition method or retrospectively to each period presented. The Company does not expect that the adoption of this guidance will have a material impact on our Consolidated Financial Statements and related disclosures.

In March 2016, the FASB issued ASU 2016-09, “Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting” (“ASU 2016-09”). The update addresses several aspects of the accounting for share-based compensation transactions including: (a) income tax consequences when awards vest or are settled, (b) classification of awards as either equity or liabilities, (c) a policy election to account for forfeitures as they occur rather than on an estimated basis and (d) classification of excess tax impacts on the statement of cash flows. The updated guidance is effective for fiscal years beginning after December 15, 2016, and interim periods within those fiscal years, with early adoption permitted. The Company is currently assessing the impact that adoption of this guidance will have on its Consolidated Financial Statements and related disclosures.

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Item 3. Quantitative and Qualitative Disclosures About Market Risk

Interest Rate Risk

We are exposed to interest rate changes, primarily as a result of borrowings under our senior credit facilities (as discussed in Note 5 to the Unaudited Condensed Consolidated Financial Statements) which bear interest based on variable rates.

A 1% change in interest rates on our variable rate debt would have affected interest expense by approximately $0.6 million and $0.2 million in the three months ended March 26, 2016 and March 28, 2015, respectively.

As discussed in Note 5 to the Unaudited Condensed Consolidated Financial Statements, we entered into an interest rate swap effective March 31, 2016 which is intended to mitigate interest rate risk associated with future changes in interest rates for the term loan borrowings under the 2016 Senior Credit Facility. Our exposure to interest rate volatility will be minimized beginning in the second fiscal quarter of 2016 as a result of this interest rate swap. The interest rate swap agreement has been executed for risk management purposes and is not held for trading purposes.

Purchase Price Volatility

Although we cannot determine the full effect of inflation and deflation on our operations, we believe our sales and results of operations are affected by both. We are subject to market risk with respect to the pricing of certain products and services, which include, among other items, grain, corn, steel, petroleum, cotton and other commodities as well as transportation services. Therefore, we may experience both inflationary and deflationary pressure on product cost, which may impact consumer demand and, as a result, sales and gross margin. Our strategy is to reduce or mitigate the effects of purchase price volatility principally by taking advantage of vendor incentive programs, growing economies of scale from increased volume of purchases, adjusting retail prices and selectively buying from the most competitive vendors without sacrificing quality.

Item 4. Controls and Procedures

Disclosure Controls and Procedures

We carried out an evaluation required by the Securities Exchange Act of 1934, as amended (the “1934 Act”), under the supervision and with the participation of our principal executive officer and principal financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) under the 1934 Act) as of March 26, 2016. Based on this evaluation, our principal executive officer and principal financial officer concluded that, as of March 26, 2016, our disclosure controls and procedures were effective.

Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting that occurred during our last fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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PART II. OTHER INFORMATION

Item 1. Legal Proceedings

The Company is involved in various litigation matters arising in the ordinary course of business. The Company believes that any estimated loss related to such matters has been adequately provided for in accrued liabilities to the extent probable and reasonably estimable. Accordingly, the Company currently expects these matters will be resolved without material adverse effect on its consolidated financial position, results of operations or cash flows.

Item 1A. Risk Factors

There have been no material changes to our risk factors as previously disclosed in our Annual Report on Form 10-K for the fiscal year ended December 26, 2015.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Issuer Purchases of Equity Securities

Stock repurchase activity during the first quarter of fiscal 2016 was as follows:

Period	Total Number of Shares Purchased		Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Dollar Value of Shares That May Yet Be Purchased Under the Plans or Programs
December 27, 2015 - January 23, 2016	523,959		$ 83.16	523,959	$527,122,335
January 24, 2016 - February 20, 2016	477,316	(a)	83.21	467,080	488,253,435
February 21, 2016 - March 26, 2016	193,048		86.27	193,048	471,601,257
Total	1,194,323		$ 83.68	1,184,087	$471,601,257

[a] The total number of shares purchased and average price paid per share include 10,236 shares withheld from vested restricted stock units to satisfy employees' minimum statutory tax withholding requirements.

Share repurchases were made pursuant to the share repurchase program described under Item 2. Management's Discussion and Analysis of Financial Conditions and Results of Operations. We expect to implement the balance of the repurchase program through purchases made from time to time either in the open market or through private transactions, in accordance with regulations of the Securities and Exchange Commission and other applicable legal requirements.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits

Exhibit	
31.1*	Certification of Chief Executive Officer under Section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	Certification of Chief Financial Officer under Section 302 of the Sarbanes-Oxley Act of 2002.
32.1*	Certification of Chief Executive Officer and Chief Financial Officer under Section 906 of the Sarbanes-Oxley Act of 2002.

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101	The following financial information from our Quarterly Report on Form 10-Q for the first quarter of fiscal 2016, filed with the Securities and Exchange Commission on May 5, 2016, formatted in Extensible Business Reporting Language (XBRL): (i) the Condensed Consolidated Balance Sheets at March 26, 2016, December 26, 2015 and March 28, 2015, (ii) the Condensed Consolidated Statements of Income for the fiscal three months ended March 26, 2016 and March 28, 2015, (iii) the Condensed Consolidated Statements of Cash Flows for the fiscal three months ended March 26, 2016 and March 28, 2015, and (iv) the Notes to Unaudited Condensed Consolidated Financial Statements.

* Filed herewith

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SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

			TRACTOR SUPPLY COMPANY
Date:	May 5, 2016	By:	/s/ Anthony F. Crudele
			Anthony F. Crudele
			Executive Vice President - Chief Financial Officer and Treasurer
			(Duly Authorized Officer and Principal Financial Officer)

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paid in shares of Common Stock) in respect of the Common Stock, (y) call for redemption, redeem, purchase or otherwise acquire for consideration any Common Stock, or (z) pay any proceeds of the liquidation of the Corporation in respect of the Common Stock, unless, in each case, (A) immediately thereafter, the Corporation shall have 1940 Act Asset Coverage after deducting the amount of such dividend or distribution or redemption or purchase price or liquidation proceeds, (B) all cumulative dividends and distributions on all Term Preferred Shares and all other Preferred Stock ranking on a parity with the Term Preferred Shares due on or prior to the earlier of the declaration, record or payment date, as applicable, of the applicable dividend, distribution, redemption, purchase or acquisition shall have been declared and paid (or shall have been declared and Deposit Securities or sufficient funds (in accordance with the terms of such Preferred Stock) for the payment thereof shall have been deposited irrevocably with the paying agent for such Preferred Stock) and (C) the Corporation shall have deposited Deposit Securities pursuant to and in accordance with the requirements of Section 2.5(d)(ii) hereof with respect to Outstanding Term Preferred Shares of any Series to be redeemed pursuant to Section 2.5(a) or

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Section 2.5(b) hereof for which a Notice of Redemption shall have been given or shall have been required to be given in accordance with the terms hereof on or prior to the date of the applicable dividend, distribution, redemption, purchase or acquisition.

(iii) Any dividend payment made on shares of a Series of Term Preferred Shares shall be credited against the dividends and distributions accumulated with respect to the Dividend Period or Dividend Periods for such Series for which dividends and distributions have not been paid, in chronological order.

(d) Not later than 12:00 noon, New York City time, on the Dividend Payment Date for a Series of Term Preferred Shares, the Corporation shall deposit with the Redemption and Paying Agent Deposit Securities having an aggregate Market Value on such date sufficient to pay the dividends and distributions that are payable on such Dividend Payment Date in respect of such Series. The Corporation may direct the Redemption and Paying Agent with respect to the investment or reinvestment of any such Deposit Securities prior to the Dividend Payment Date, provided that such investment or reinvestment consists exclusively of Deposit Securities and provided further that the proceeds of any such investment will be available as same day funds at the opening of business on such Dividend Payment Date.

(e) All Deposit Securities paid to the Redemption and Paying Agent for the payment of dividends payable on a Series of Term Preferred Shares shall be held in trust for the payment of such dividends by the Redemption and Paying Agent for the benefit of the Holders of such Series entitled to the payment of such dividends pursuant to Section 2.2(f). Any moneys paid to the Redemption and Paying Agent in accordance with the foregoing but not applied by the Redemption and Paying Agent to the payment of dividends, including interest earned on such moneys while so held, will, to the extent permitted by law, be repaid to the Corporation as soon as possible after the date on which such moneys were to have been so applied, upon request of the Corporation.

(f) Dividends on shares of a Series of Term Preferred Shares shall be paid on each Dividend Payment Date for such Series to the Holders of shares of such Series as their names appear on the registration books of the Corporation at the close of business on the applicable record date for such dividend, which record date shall be determined as set forth in Section 2.2(b). Dividends in arrears on shares of a Series of Term Preferred Shares for any past Dividend Period may be declared and paid at any time, without reference to any regular Dividend Payment Date, to the Holders of shares of such Series as their names appear on the registration books of the Corporation on such date, not exceeding twenty (20) nor less than ten (10) calendar days preceding the payment date thereof, as may be fixed by the Board of Directors. No interest or sum of money in lieu of interest will be payable in respect of any dividend payment or payments on shares of any Series of Term Preferred Shares which may be in arrears.

(g) (i) The Dividend Rate on a Series of Term Preferred Shares shall be adjusted to the Default Rate (as defined below) in the following circumstances. Subject to the cure provisions below, a Default Period with respect to a Series of Term Preferred Shares shall commence on any date the Corporation fails to deposit with the Redemption and Paying Agent by 12:00 noon, New York City time, on (A) a Dividend Payment Date for such Series, Deposit Securities that will provide funds available to the Redemption and Paying Agent on such Dividend Payment Date sufficient to pay the full amount of any dividend on such Series payable on such Dividend Payment Date (a Dividend Default) or (B) an applicable Redemption Date for such Series, Deposit Securities that will provide funds available to the Redemption and Paying Agent on such Redemption Date sufficient to pay the full amount of the Redemption Price payable in respect of such Series on such Redemption Date (a Redemption Default and together with a Dividend Default, hereinafter referred to as Default). Subject to the cure provisions of Section 2.2(g)(ii) below, a Default Period with respect to a Dividend Default or a Redemption Default on a Series of Term Preferred Shares shall end on the Business Day on which, by 12:00 noon, New York City time, an amount equal to all unpaid dividends on such Series and any unpaid Redemption Price on such Series shall have been deposited irrevocably in trust in same-day funds with the Redemption and Paying Agent. In the case of any Default on a Series of Term Preferred Shares, the Dividend

Rate for such Series for each calendar day during the Default Period will be equal to the Default Rate. The Default Rate on a Series of Term Preferred Shares for any calendar day shall be equal to the Fixed Dividend Rate for such Series plus two percent (2%) per annum.

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(ii) No Default Period for a Series of Term Preferred Shares with respect to any Default on such Series shall be deemed to commence if the amount of any dividend or any Redemption Price due in respect of such Series (if such Default is not solely due to the willful failure of the Corporation) is deposited irrevocably in trust, in same-day funds, with the Redemption and Paying Agent by 12:00 noon, New York City time, on a Business Day that is not later than three (3) Business Days after the applicable Dividend Payment Date or Redemption Date for such Series with respect to which such Default occurred, together with an amount equal to the Default Rate on such Series applied to the amount and period of such non-payment on such Series, based on the actual number of calendar days comprising such period divided by 360.

2.3 *Liquidation Rights.*

(a) In the event of any liquidation, dissolution or winding up of the affairs of the Corporation, whether voluntary or involuntary, the Holders of Term Preferred Shares shall be entitled to receive out of the assets of the Corporation available for distribution to shareholders, after satisfying claims of creditors but before any distribution or payment shall be made in respect of the Common Stock, a liquidation distribution equal to the Liquidation Preference for such shares, plus an amount equal to all unpaid dividends and distributions on such shares accumulated to (but excluding) the date fixed for such distribution or payment on such shares (whether or not earned or declared by the Corporation, but excluding interest thereon), and such Holders shall be entitled to no further participation in any distribution or payment in connection with any such liquidation, dissolution or winding up.

(b) If, upon any liquidation, dissolution or winding up of the affairs of the Corporation, whether voluntary or involuntary, the assets of the Corporation available for distribution among the Holders of all Outstanding Term Preferred Shares and any other outstanding Preferred Stock shall be insufficient to permit the payment in full to such Holders of the Liquidation Preference of such Term Preferred Shares plus accumulated and unpaid dividends and distributions on such shares as provided in Section 2.3(a) above and the amounts due upon liquidation with respect to such other Preferred Stock, then such available assets shall be distributed among the Holders of such Term Preferred Shares and such other Preferred Stock ratably in proportion to the respective preferential liquidation amounts to which they are entitled. In connection with any liquidation, dissolution or winding up of the affairs of the Corporation, whether voluntary or involuntary, unless and until the Liquidation Preference on each Outstanding Term Preferred Share plus accumulated and unpaid dividends and distributions on such shares as provided in Section 2.3(a) above have been paid in full to the Holders of such shares, no dividends, distributions or other payments will be made on, and no redemption, purchase or other acquisition by the Corporation will be made by the Corporation in respect of, shares of the Common Stock.

(c) Neither the sale of all or substantially all of the property or business of the Corporation, nor the merger, consolidation or reorganization of the Corporation into or with any other business or statutory trust, corporation or other entity, nor the merger, consolidation or reorganization of any other business or statutory trust, corporation or other entity into or with the Corporation shall be a dissolution, liquidation or winding up, whether voluntary or involuntary, for the purpose of this Section 2.3.

2.4 *Coverage Test.*

(a) *Asset Coverage Requirement.* For so long as any shares of a Series of Term Preferred Shares are Outstanding, the Corporation shall have Asset Coverage of at least 200% as of the close of business on the last Business Day of each Calendar Quarter. If the Corporation shall fail to maintain such Asset Coverage as of any time as of which such compliance is required to be determined as aforesaid, the provisions of Section 2.5(b)(i) shall be applicable, which provisions shall constitute the sole remedy for the Corporation s failure to comply with the provisions of this Section 2.4(a).

(b) *Calculation of Asset Coverage.* For purposes of determining whether the requirements of Section 2.4(a) are satisfied, (i) no Term Preferred Shares of any Series or other Preferred Stock shall be deemed to be Outstanding for purposes of any computation required by Section 2.4(a) if, prior to or concurrently with such determination, either (x) sufficient Deposit Securities or other sufficient funds (in accordance with the terms of such Series or other Preferred Stock) to pay the full redemption price for such Series or other Preferred Stock (or the portion thereof to be redeemed) shall have been deposited in trust with the paying agent for such Series or other Preferred Stock and the requisite notice of redemption for such Series or other Preferred Stock (or the portion thereof to be redeemed) shall have been given or (y) sufficient Deposit Securities or other sufficient funds (in accordance with the terms of such Series or other Preferred Stock) to pay the full redemption price for such Series or other Preferred Stock (or the portion thereof to be redeemed) shall have been segregated by the Custodian and the Corporation from the assets of the Corporation, by means of appropriate identification on the Custodian s books and records or otherwise in accordance with the Custodian s normal procedures, and (ii) the Deposit Securities or other sufficient funds that shall have been deposited with the applicable paying agent and/or segregated by the Custodian, as applicable, as provided in clause (i) of this sentence shall not be included as assets of the Corporation for purposes of such computation.

2.5 *Redemption.* Each Series of Term Preferred Shares shall be subject to redemption by the Corporation as provided below:

(a) *Term Redemption.* The Corporation shall redeem all shares of a Series of Term Preferred Shares on the Term Redemption Date for such Series, at a price per share equal to the Liquidation Preference per share of such Series plus an amount equal to all unpaid dividends and distributions on such share of such Series accumulated to (but excluding) the Term Redemption Date for such Series (whether or not earned or declared by the Corporation, but excluding interest thereon) (the Term Redemption Price).

(b) *Asset Coverage Mandatory Redemption.*

(i) If the Corporation fails to comply with the Asset Coverage requirement as provided in Section 2.4(a) as of the last Business Day of any Calendar Quarter and such failure is not cured as of the Asset Coverage Cure Date, the Corporation shall, to the extent permitted by the 1940 Act and Maryland law, by the close of business on such Asset Coverage Cure Date, fix a redemption date and proceed to redeem in accordance with the terms of such Preferred Stock, a sufficient number of shares of Preferred Stock, which at the Corporation s sole option (to the extent permitted by the 1940 Act and Maryland law) may include any number or proportion of Term Preferred Shares of any Series, to enable it to meet the requirements of Section 2.5(b)(ii). In the event that any shares of a Series of Term Preferred Shares then Outstanding are to be redeemed pursuant to this Section 2.5(b)(i), the Corporation shall redeem such shares at a price per share equal to the Liquidation Preference per share of such Series plus an amount equal to all unpaid dividends and distributions on such share of such Series accumulated to (but excluding) the date fixed for such redemption by the Board of Directors (whether or not earned or declared by the Corporation, but excluding interest thereon) (the Mandatory Redemption Price).

(ii) On the Redemption Date for a redemption contemplated by Section 2.5(b)(i), the Corporation shall redeem, out of funds legally available therefor, such number of shares of Preferred Stock (which may include at the sole option of the Corporation any number or proportion of Term Preferred Shares of any Series) as shall be equal to the lesser of (x) the minimum number of shares of Preferred Stock, the redemption of which, if deemed to have occurred immediately prior to the opening of business on the Asset Coverage Cure Date, would result in the Corporation having Asset Coverage on such Asset Coverage Cure Date of at least 200% (provided, however, that if there is no such minimum number of Term Preferred Shares and other shares of Preferred Stock the redemption or retirement of which would have such result, all Term Preferred Shares and other shares of Preferred Stock then outstanding shall be redeemed), and (y) the maximum number of shares of Preferred Stock that can be redeemed out of funds expected to be legally available therefor in accordance with the Articles and applicable law. Notwithstanding the foregoing, in the event that shares of Preferred Stock are redeemed pursuant to this Section 2.5(b), the Corporation may at its sole option, but is not required to, redeem a sufficient number of shares of any Series of Term Preferred Shares pursuant to this Section 2.5(b) that, when aggregated with other shares of Preferred Stock redeemed by the Corporation, would result, if deemed to have occurred immediately prior to the opening of business on the Asset Coverage Cure Date, in the

Corporation having Asset Coverage on such Asset Coverage Cure Date of up to and including 285%. The Corporation shall effect such redemption on the date fixed by the Corporation therefor, which date shall not be later than ninety (90) calendar days after such Asset Coverage Cure Date, except that if the Corporation does not have funds legally available for the redemption of all of the required number of Term Preferred Shares and other shares of Preferred Stock which have been designated to be redeemed or the Corporation otherwise

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is unable to effect such redemption on or prior to ninety (90) calendar days after such Asset Coverage Cure Date, the Corporation shall redeem those Term Preferred Shares and other shares of Preferred Stock which it was unable to redeem on the earliest practicable date on which it is able to effect such redemption. If fewer than all of the Outstanding Term Preferred Shares of a Series are to be redeemed pursuant to this Section 2.5(b), the number of Term Preferred Shares of such Series to be redeemed shall be redeemed (A) from each Holder pro rata based upon the number of Outstanding shares of such Series held by such Holder, (B) by lot or (C) in such other manner as the Board of Directors may determine to be fair and equitable.

(c) *Optional Redemption.*

(i) Subject to the provisions of Section 2.5(c)(ii), on any Business Day following the expiration of the Non-Call Period (if any) for a Series of Term Preferred Shares (any such Business Day referred to in this sentence, an Optional Redemption Date), the Corporation may redeem in whole or from time to time in part the Outstanding Term Preferred Shares of such Series, at a redemption price per Term Preferred Share (the Optional Redemption Price) equal to (x) the Liquidation Preference per Term Preferred Share of such Series plus (y) an amount equal to all unpaid dividends and distributions on such Term Preferred Share of such Series accumulated to (but excluding) the Optional Redemption Date (whether or not earned or declared by the Corporation, but excluding interest thereon) plus (z) the Optional Redemption Premium per share (if any) with respect to an optional redemption of Term Preferred Shares of such Series that is effected on such Optional Redemption Date.

(ii) If fewer than all of the outstanding shares of a Series of Term Preferred Shares are to be redeemed pursuant to Section 2.5(c)(i), the shares of such Series to be redeemed shall be selected either (A) from each Holder pro rata based upon the number of Outstanding shares of such Series held by such Holder, (B) by lot or (C) in such other manner as the Board of Directors may determine to be fair and equitable. Subject to the provisions of these Articles Supplementary and applicable law, the Board of Directors will have the full power and authority to prescribe the terms and conditions upon which Term Preferred Shares will be redeemed pursuant to this Section 2.5(c) from time to time.

(iii) The Corporation may not on any date deliver a Notice of Redemption pursuant to Section 2.5(d) in respect of a redemption contemplated to be effected pursuant to this Section 2.5(c) unless on such date the Corporation has available Deposit Securities for the Optional Redemption Date contemplated by such Notice of Redemption having a Market Value not less than the amount (including any applicable premium) due to Holders of Term Preferred Shares by reason of the redemption of such Term Preferred Shares on such Optional Redemption Date.

(d) *Procedures for Redemption.*

(i) If the Corporation shall determine or be required to redeem, in whole or in part, Term Preferred Shares of a Series pursuant to Section 2.5(a), (b) or (c), the Corporation shall deliver a notice of redemption (the Notice of Redemption), by overnight delivery, by first class mail, postage prepaid or by Electronic Means to Holders thereof, or request the Redemption and Paying Agent, on behalf of the Corporation, to promptly do so by overnight delivery, by first class mail, postage prepaid or by Electronic Means. A Notice of Redemption shall be provided not more than forty-five (45) calendar days prior to the date fixed for redemption in such Notice of Redemption (the Redemption Date). Each such Notice of Redemption shall state: (A) the Redemption Date; (B) the Series and number of Term Preferred Shares to be redeemed; (C) the CUSIP number for Term Preferred Shares of such Series; (D) the applicable Redemption Price on a per share basis; (E) if applicable, the place or places where the certificate(s) for such shares (properly endorsed or assigned for transfer, if the Board of Directors requires and the Notice of Redemption states) are to be surrendered for payment of the Redemption Price; (F) that dividends on the Term Preferred Shares to be redeemed will cease to accumulate from and after such Redemption Date; and (G) the provisions of these Articles Supplementary under which such redemption is made. If fewer than all Term Preferred Shares held by any Holder are to be redeemed, the

Notice of Redemption delivered to such Holder shall also specify the number of Term Preferred Shares to be redeemed from such Holder or the method of determining such number. The Corporation may provide in any Notice of Redemption relating to a redemption contemplated to be effected pursuant to these Articles Supplementary that such redemption is subject to one or more conditions precedent and that the Corporation shall not be required to effect such redemption unless each such condition has been satisfied at the time or times and in the manner specified in such Notice of Redemption. No defect in the Notice of Redemption or delivery thereof shall affect the validity of redemption proceedings, except as required by applicable law.

(ii) If the Corporation shall give a Notice of Redemption, then at any time from and after the giving of such Notice of Redemption and prior to 12:00 noon, New York City time, on the Redemption Date (so long as any conditions precedent to such redemption have been met or waived by the Corporation), the Corporation shall (A) deposit with the Redemption and Paying Agent Deposit Securities having an aggregate Market Value on the date thereof no less than the Redemption Price of the Term Preferred Shares to be redeemed on the Redemption Date and (B) give the Redemption and Paying Agent irrevocable instructions and authority to pay the applicable Redemption Price to the Holders of the Term Preferred Shares called for redemption on the Redemption Date. The Corporation may direct the Redemption and Paying Agent with respect to the investment or reinvestment of any Deposit Securities prior to the Redemption Date, provided that such investment or reinvestment consists exclusively of Deposit Securities and provided further that the proceeds of any such investment shall be available at the opening of business on the Redemption Date as same day funds.

(iii) Upon the date of the deposit of such Deposit Securities, all rights of the Holders of the Term Preferred Shares so called for redemption shall cease and terminate except the right of the Holders thereof to receive the Redemption Price thereof and such Term Preferred Shares shall no longer be deemed Outstanding for any purpose whatsoever (other than (A) the transfer thereof prior to the applicable Redemption Date and (B) the accumulation of dividends thereon in accordance with the terms hereof up to (but excluding) the applicable Redemption Date, which accumulated dividends shall be payable only as part of the applicable Redemption Price on the Redemption Date). The Corporation shall be entitled to receive, promptly after the Redemption Date, any Deposit Securities in excess of the aggregate Redemption Price of the Term Preferred Shares called for redemption on the Redemption Date. Any Deposit Securities so deposited that are unclaimed at the end of ninety (90) calendar days from the Redemption Date shall, to the extent permitted by law, be repaid to the Corporation, after which the Holders of the Term Preferred Shares so called for redemption shall look only to the Corporation for payment of the Redemption Price thereof. The Corporation shall be entitled to receive, from time to time after the Redemption Date, any interest on the Deposit Securities so deposited.

(iv) On or after the Redemption Date, each Holder of Term Preferred Shares in certificated form (if any) that are subject to redemption shall surrender the certificate(s) evidencing such Term Preferred Shares to the Corporation at the place designated in the Notice of Redemption and shall then be entitled to receive the Redemption Price for such Term Preferred Shares, without interest, and in the case of a redemption of fewer than all the Term Preferred Shares represented by such certificate(s), a new certificate representing the Term Preferred Shares that were not redeemed.

(v) Notwithstanding the other provisions of this Section 2.5, except as otherwise required by law, the Corporation shall not redeem any Term Preferred Shares unless all accumulated and unpaid dividends and distributions on all Outstanding Term Preferred Shares and other series of Preferred Shares ranking on a parity with the Term Preferred Shares with respect to dividends and distributions for all applicable past dividend periods (whether or not earned or declared by the Corporation) (x) shall have been or are contemporaneously paid or (y) shall have been or are contemporaneously declared and Deposit Securities or sufficient funds (in accordance with the terms of such Preferred Stock) for the payment of such dividends and distributions shall have been or are contemporaneously deposited with the Redemption and Paying Agent or other applicable paying agent for such Preferred Stock in accordance with the terms of such Preferred Stock, provided, however, that the foregoing shall not prevent the purchase or acquisition of Outstanding Term Preferred Shares pursuant to an otherwise lawful purchase or exchange offer made on the same terms to Holders of all Outstanding Term Preferred Shares and any other series of Preferred Stock for which all accumulated and unpaid dividends and distributions have not been paid.

(vi) To the extent that any redemption for which Notice of Redemption has been provided is not made by reason of the absence of legally available funds therefor in accordance with the Articles and applicable law, such redemption shall be made as soon as practicable to the extent such funds become available. No Redemption Default shall be deemed to have occurred if the Corporation shall fail to deposit in trust with the Redemption and Paying Agent the Redemption Price with respect to any shares where (1) the Notice of

Redemption relating to such redemption provided that such redemption was subject to one or more conditions precedent and (2) any such condition precedent shall not have been satisfied at the time or times and in the manner specified in such Notice of Redemption. Notwithstanding the fact that a Notice of Redemption has been provided with respect to any Term Preferred Shares, dividends may be declared and paid on such Term Preferred Shares in accordance with their terms if Deposit Securities for the payment of the Redemption Price of such Term Preferred Shares shall not have been deposited in trust with the Redemption and Paying Agent for that purpose.

(e) *Redemption and Paying Agent as Trustee of Redemption Payments by Corporation.* All Deposit Securities transferred to the Redemption and Paying Agent for payment of the Redemption Price of Term Preferred Shares called for redemption shall be held in trust by the Redemption and Paying Agent for the benefit of Holders of Term Preferred Shares so to be redeemed until paid to such Holders in accordance with the terms hereof or returned to the Corporation in accordance with the provisions of Section 2.5(d)(iii) above.

(f) *Compliance With Applicable Law.* In effecting any redemption pursuant to this Section 2.5, the Corporation shall use its best efforts to comply with all applicable conditions precedent to effecting such redemption under the 1940 Act and any applicable Maryland law, but shall effect no redemption except in accordance with the 1940 Act and any applicable Maryland law.

(g) *Modification of Redemption Procedures.* Notwithstanding the foregoing provisions of this Section 2.5, the Corporation may, in its sole discretion and without a shareholder vote, modify the procedures set forth above with respect to notification of redemption for the Term Preferred Shares, provided that such modification does not materially and adversely affect the Holders of the Term Preferred Shares or cause the Corporation to violate any applicable law, rule or regulation; and provided further that no such modification shall in any way alter the rights or obligations of the Redemption and Paying Agent without its prior consent.

2.6 *Voting Rights.*

(a) *One Vote Per Term Preferred Share.* Except as otherwise provided in the Articles or as otherwise required by law, (i) each Holder of Term Preferred Shares shall be entitled to one vote for each Term Preferred Share held by such Holder on each matter submitted to a vote of shareholders of the Corporation, and (ii) the holders of outstanding shares of Preferred Stock, including Outstanding Term Preferred Shares, and of outstanding shares of Common Stock shall vote together as a single class; provided, however, that the holders of outstanding shares of Preferred Stock, including Outstanding Term Preferred Shares, shall be entitled, voting as a separate class on a one-vote-per-share basis (to the exclusion of the Holders of all other securities and classes of Capital Stock of the Corporation), to elect two Directors of the Corporation at all times. Subject to Section 2.6(b), the Holders of outstanding shares of Common Stock and Preferred Stock, including Term Preferred Shares, voting together as a single class, shall elect the balance of the Directors.

(b) *Voting For Additional Directors.*

(i) *Voting Period.* During any period in which any one or more of the conditions described in clauses (A) or (B) of this Section 2.6(b)(i) shall exist (such period being referred to herein as a Voting Period), the number of Directors constituting the Board of Directors shall be automatically increased by the smallest number that, when added to the two Directors elected by the Holders of Preferred Stock, including Term Preferred Shares, would constitute a majority of the Board of Directors as so increased by such smallest number; and the Holders of Preferred Shares, including Term Preferred Shares, shall be entitled, voting as a separate class on a one-vote-per-share basis (to the exclusion of the Holders of all other securities and classes of Capital Stock of the Corporation), to elect such smallest number of additional Directors, together with the two Directors that such Holders are in any event entitled to elect. A Voting

Period shall commence:

(A) if, at the close of business on any dividend payment date for any outstanding Preferred Share including any Outstanding Term Preferred Share, accumulated dividends (whether or not earned or declared) on such outstanding share of Preferred Stock equal to at least two (2) full years dividends shall be due and unpaid and sufficient cash or specified securities shall not have been deposited with the Redemption and Paying Agent or other applicable paying agent for the payment of such accumulated dividends; or

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(B) if at any time Holders of shares of Preferred Stock are otherwise entitled under the 1940 Act to elect a majority of the Board of Directors.

Upon the termination of a Voting Period, the voting rights described in this Section 2.6(b)(i) shall cease, subject always, however, to the revesting of such voting rights in the Holders of shares of Preferred Stock upon the further occurrence of any of the events described in this Section 2.6(b)(i).

(ii) *Notice of Special Meeting.* As soon as practicable after the accrual of any right of the Holders of shares of Preferred Stock to elect additional Directors as described in Section 2.6(b)(i), the Corporation shall call a special meeting of such Holders and notify the Redemption and Paying Agent and/or such other Person as is specified in the terms of such Preferred Stock to receive notice (i) by mailing or delivery by Electronic Means or (ii) in such other manner and by such other means as are specified in the terms of such Preferred Stock, a notice of such special meeting to such Holders, such meeting to be held not less than ten (10) nor more than thirty (30) calendar days after the date of the delivery by Electronic Means or mailing of such notice. If the Corporation fails to call such a special meeting, it may be called at the expense of the Corporation by any such Holder on like notice. The record date for determining the Holders of shares of Preferred Stock entitled to notice of and to vote at such special meeting shall be the close of business on the fifth (5^{th}) Business Day preceding the calendar day on which such notice is mailed. At any such special meeting and at each meeting of Holders of shares of Preferred Stock held during a Voting Period at which Directors are to be elected, such Holders, voting together as a class (to the exclusion of the Holders of all other securities and classes of capital stock of the Corporation), shall be entitled to elect the number of Directors prescribed in Section 2.6(b)(i) on a one-vote-per-share basis.

(iii) *Terms of Office of Existing Directors.* The terms of office of the incumbent Directors of the Corporation at the time of a special meeting of Holders of the shares of Preferred Stock to elect additional Directors in accordance with Section 2.6(b)(i) shall not be affected by the election at such meeting by the Holders of Term Preferred Shares and such other Holders of shares of Preferred Stock of the number of Directors that they are entitled to elect, and the Directors so elected by the Holders of Term Preferred Shares and such other Holders of shares of Preferred Stock, together with the two (2) Directors elected by the Holders of shares of Preferred Stock in accordance with Section 2.6(a) hereof and the remaining Directors elected by the holders of the shares of Common Stock and Preferred Stock, voting together as a single class, shall constitute the duly elected Directors of the Corporation.

(iv) *Terms of Office of Certain Directors to Terminate Upon Termination of Voting Period.* Simultaneously with the termination of a Voting Period, the terms of office of the additional Directors elected by the Holders of the shares of Preferred Stock pursuant to Section 2.6(b)(i) shall terminate, the remaining Directors shall constitute the Directors of the Corporation and the voting rights of the Holders of shares of Preferred Stock to elect additional Directors pursuant to Section 2.6(b)(i) shall cease, subject to the provisions of the last sentence of Section 2.6(b)(i).

(c) *Holders of Term Preferred Shares to Vote on Certain Matters.*

(i) *Certain Amendments Requiring Approval of Term Preferred Shares.* Except as otherwise permitted by the terms of these Articles Supplementary, so long as any Term Preferred Shares are Outstanding, the Corporation shall not, without the affirmative vote or consent of the Holders of at least two-thirds (2/3) of the Term Preferred Shares of all Series Outstanding at the time, voting together as a separate class, amend, alter or repeal the provisions of the Articles, or these Articles Supplementary, whether by merger, consolidation or otherwise, so as to materially and adversely affect any preference, right or power of such Term Preferred Shares or the Holders thereof; provided, however, that (i) a change in the capitalization of the Corporation in accordance with Section 2.7 hereof shall not be considered to materially and adversely affect the rights and preferences of the Term Preferred Shares, and (ii) a division of a Term Preferred Share shall be deemed to affect such preferences, rights or powers only if the terms of such division materially and adversely affect the Holders of the Term Preferred Shares. For purposes of the foregoing, no matter shall be deemed to adversely affect any preference, right or power of a Term Preferred Share of such Series or the Holder thereof unless such matter (i) alters or abolishes any preferential right of such Term Preferred Share, or (ii) creates, alters or abolishes any right in respect of redemption of such Term Preferred Share (other than as a result of a division of a Term Preferred Share). So long as any Term Preferred Shares are Outstanding, the Corporation shall not,

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without the affirmative vote or consent of at least two-thirds (2/3) of the Holders of the Term Preferred Shares Outstanding at the time, voting as a separate class, file a voluntary application for relief under Federal bankruptcy law or any similar application under state law for so long as the Corporation is solvent and does not foresee becoming insolvent.

(ii) *1940 Act Matters.* Unless a higher percentage is provided for in the Articles, the affirmative vote of the Holders of at least a majority of the outstanding shares of Preferred Stock, as determined in accordance with Section 2(a)(42) of the 1940 Act, including Term Preferred Shares Outstanding at the time, voting as a separate class, shall be required to approve (A) any plan of reorganization (as such terms is used in the 1940 Act) adversely affecting such shares, or (B) any action requiring a vote of security holders of the Corporation pursuant to Section 13(a) of the 1940 Act.

(iii) *Certain Amendments Requiring Approval of Specific Series of Term Preferred Shares.* Except as otherwise permitted by the terms of these Articles Supplementary, so long as any Term Preferred Shares of a Series are Outstanding, the Corporation shall not, without the affirmative vote or consent of the Holders of at least two-thirds (2/3) of the Term Preferred Shares of such Series, Outstanding at the time, voting as a separate class, amend, alter or repeal the provisions of the Appendix relating to such Series, whether by merger, consolidation or otherwise, so as to materially and adversely affect any preference, right or power set forth in such Appendix of the Term Preferred Shares of such Series or the Holders thereof; provided, however, that (i) a change in the capitalization of the Corporation in accordance with Section 2.7 hereof shall not be considered to materially and adversely affect the rights and preferences of the Term Preferred Shares of such Series, and (ii) a division of a Term Preferred Share shall be deemed to affect such preferences, rights or powers only if the terms of such division materially and adversely affect the Holders of the Term Preferred Shares of such Series; and provided, further, that no amendment, alteration or repeal of the obligation of the Corporation to (x) pay the Term Redemption Price on the Term Redemption Date for a Series, or (y) accumulate dividends at the Dividend Rate (as set forth in these Articles Supplementary and the applicable Appendix hereto) for a Series shall be effected without, in each case, the prior unanimous vote or consent of the Holders of such Series of Term Preferred Shares. For purposes of the foregoing, no matter shall be deemed to adversely affect any preference, right or power of a Term Preferred Share of a Series or the Holder thereof unless such matter (i) alters or abolishes any preferential right of such Term Preferred Share, or (ii) creates, alters or abolishes any right in respect of redemption of such Term Preferred Share.

(d) *Voting Rights Set Forth Herein Are Sole Voting Rights.* Unless otherwise required by law or the Articles, the Holders of Term Preferred Shares shall not have any relative voting rights or preferences or other special rights with respect to voting other than those expressly set forth in this Section 2.6.

(e) *No Cumulative Voting.* The Holders of Term Preferred Shares shall have no rights to cumulative voting.

(f) *Voting for Directors Sole Remedy for Corporation s Failure to Declare or Pay Dividends.* In the event that the Corporation fails to declare or pay any dividends on any Series of Term Preferred Shares on the Dividend Payment Date therefor, the exclusive remedy of the Holders of the Term Preferred Shares shall be the right to vote for Directors pursuant to the provisions of this Section 2.6. Nothing in this Section 2.6(f) shall be deemed to affect the obligation of the Corporation to accumulate and, if permitted by applicable law, the Articles and these Articles Supplementary, pay dividends at the Default Rate in the circumstances contemplated by Section 2.2(g) hereof.

(g) *Holders Entitled to Vote.* For purposes of determining any rights of the Holders of Term Preferred Shares to vote on any matter, whether such right is created by these Articles Supplementary, by the Articles, by statute or otherwise, no Holder of Term Preferred Shares shall be entitled to vote any Term Preferred Share and no Term Preferred Share shall be deemed to be Outstanding for the purpose of voting or determining the number of shares required to constitute a quorum if, prior to or concurrently with the time of determination of shares entitled to vote or the time of the actual vote on the matter, as the case may be, the requisite Notice of Redemption with respect to such Term Preferred Share shall have been given in accordance with these Articles Supplementary and Deposit Securities for the payment of the Redemption Price of such Term Preferred Share shall have been deposited in trust with the Redemption and Paying Agent for that purpose. No Term Preferred Share held by the Corporation shall have any voting rights or be deemed to be outstanding for voting or for calculating the voting percentage required on any other matter or other purposes.

(h) *Maryland General Corporation Law Matters*. The Corporation shall take such actions as may be necessary to effect the provisions of this Section 2.6 in accordance with Maryland General Corporation Law.

2.7 *Issuance of Additional Preferred Stock.*

So long as any Term Preferred Shares are Outstanding, the Corporation may, without the vote or consent of the Holders thereof, authorize, establish and create and issue and sell shares of one or more series of a class of senior securities of the Corporation representing stock under Section 18 of the 1940 Act, ranking on a parity with Term Preferred Shares as to the payment of dividends and the distribution of assets upon dissolution, liquidation or the winding up of the affairs of the Corporation, in addition to then Outstanding Series of Term Preferred Shares, including additional Series of Term Preferred Shares, and authorize, issue and sell additional shares of any such series of Preferred Stock then outstanding or so established and created, including additional Term Preferred Shares of any Series, in each case in accordance with applicable law, provided that the Corporation shall, immediately after giving effect to the issuance of such additional shares of Preferred Stock and to its receipt and application of the proceeds thereof, including to the redemption of shares of Preferred Stock with such proceeds, have Asset Coverage (calculated in the same manner as is contemplated by Section 2.4(b) hereof) of at least 200%.

2.8 *Status of Redeemed or Repurchased Term Preferred Shares.*

Term Preferred Shares that at any time have been redeemed or purchased by the Corporation shall, after such redemption or purchase, have the status of authorized but unissued shares of Capital Stock.

2.9 *Global Certificate.*

For so long as any Term Preferred Shares are Outstanding (i) all shares of any Series of Term Preferred Shares Outstanding from time to time shall be represented by one global certificate for such Series registered in the name of the Securities Depository or its nominee and (ii) no registration of transfer of shares of such Series of Term Preferred Shares shall be made on the books of the Corporation to any Person other than the Securities Depository or its nominee. The foregoing restriction on registration of transfer shall be conspicuously noted on the face or back of the global certificates.

2.10 *Notice.*

All notices or communications hereunder, unless otherwise specified in these Articles Supplementary, shall be sufficiently given if in writing and delivered in person, by telecopier, by Electronic Means or by overnight mail or delivery or mailed by first-class mail, postage prepaid. Notices delivered pursuant to this Section 2.10 shall be deemed given on the date received or, if mailed by first class mail, on the date five (5) calendar days after which such notice is mailed.

2.11 *Termination.*

In the event that no shares of a Series of Term Preferred Shares are Outstanding, all rights and preferences of the shares of such Series established and designated hereunder shall cease and terminate, and all obligations of the Corporation under these Articles Supplementary with respect to such Series shall terminate.

2.12 *Appendices.*

The designation of each Series of Term Preferred Shares shall be set forth in an Appendix to these Articles Supplementary. The Board of Directors may, by resolution duly adopted, without shareholder approval (except as otherwise provided by these Articles Supplementary or required by applicable law) (1) amend the Appendix to these Articles Supplementary relating to a Series so as to reflect any amendments to the terms applicable to such Series including an increase in the number of authorized shares of such Series and (2) add additional Series of Term Preferred Shares by including a new Appendix to these Articles Supplementary relating to such Series.

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2.13 *Actions on Other than Business Days.*

Unless otherwise provided herein, if the date for making any payment, performing any act or exercising any right, in each case as provided for in these Articles Supplementary, is not a Business Day, such payment shall be made, act performed or right exercised on the next succeeding Business Day, with the same force and effect as if made or done on the nominal date provided therefor, and, with respect to any payment so made, no dividends, interest or other amount shall accrue for the period between such nominal date and the date of payment.

2.14 *Modification.*

The Board of Directors, without the vote of the Holders of Term Preferred Shares, may interpret, supplement or amend the provisions of these Articles Supplementary or any Appendix hereto to supply any omission, resolve any inconsistency or ambiguity or to cure, correct or supplement any defective or inconsistent provision, including any provision that is inconsistent or otherwise conflicts with any provision of the 1940 Act, the rules and regulations promulgated thereunder, any order issued thereunder by the Commission, or any interpretive position of the staff of the Commission pertaining thereto, in each case, that is applicable to the Corporation, or any provision that becomes defective after the date hereof because of impossibility of performance or any provision that is inconsistent with any provision of any other Capital Stock of the Corporation.

2.15 *No Additional Rights.*

Unless otherwise required by law or the Articles, the Holders of Term Preferred Shares shall not have any relative rights or preferences or other special rights other than those specifically set forth in these Articles Supplementary.

[Signature Page Begins on the Following Page]

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In Witness Whereof, Oxford Lane Capital Corp. has caused these presents to be signed as of November 20, 2012 in its name and on its behalf by its President or a Vice President and witnessed by its Secretary or Assistant Secretary.

Oxford Lane Capital Corp.

Name:	Saul B. Rosenthal
Title:	President

Witness:

Name:	Patrick F. Conroy
Title:	Chief Financial Officer, Chief Compliance Officer and Corporate Secretary

The undersigned President or a Vice President of Oxford Lane Capital Corp., who executed on behalf of the Corporation the foregoing Articles Supplementary of which this Certificate is made a part, hereby acknowledges in the name and on behalf of said Corporation the foregoing Articles Supplementary to be the corporate act of the Corporation, and states under penalties of perjury that to the best of his knowledge, information and belief the matters and facts set forth therein with respect to the authorization and approval thereof are true in all material respects.

Name:	Saul B. Rosenthal
Title:	President

[Signature Page to the Articles Supplementary Establishing and Fixing the Rights and Preferences of Term Preferred Shares]

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APPENDIX A

OXFORD LANE CAPITAL CORP.

CUMULATIVE TERM PREFERRED SHARES, 8.50% SERIES 2017 TERM PREFERRED SHARES

This Appendix establishes a Series of Cumulative Term Preferred Shares of Oxford Lane Capital Corp. Except as set forth below, this Appendix incorporates by reference the terms set forth with respect to all Series of such Cumulative Term Preferred Shares in those Articles Supplementary Establishing and Fixing the Rights and Preferences of Term Preferred Shares dated November 20, 2012 (the TP Articles Supplementary). This Appendix has been adopted by resolution of the Board of Directors of Oxford Lane Capital Corp. Capitalized terms used herein but not defined herein have the respective meanings therefor set forth in the TP Articles Supplementary.

Section 1. *Designation as to Series.*

Cumulative Term Preferred Shares, 8.50% Series 2017 Term Preferred Shares: A series of 690,000 shares of Capital Stock classified as Term Preferred Shares is hereby designated as the Series 2017 Term Preferred Shares. Each share of such Series shall have such preferences, voting powers, restrictions, limitations as to dividends and distributions, qualifications and terms and conditions of redemption, in addition to those required by applicable law and those that are expressly set forth in the Articles and the TP Articles Supplementary (except as the TP Articles Supplementary may be expressly modified by this Appendix), as are set forth in this Appendix A. The Series 2017 Term Preferred Shares shall constitute a separate series of Capital Stock and of the Cumulative Term Preferred Shares and each Series 2017 Term Preferred Share shall be identical. The following terms and conditions shall apply solely to the Series 2017 Term Preferred Shares:

Section 2. *Number of Authorized Shares of Series.*

The number of authorized shares is 690,000.

Section 3. *Date of Original Issue with respect to Series.*

The Date of Original Issue is November 28, 2012.

Section 4. *Fixed Dividend Rate Applicable to Series.*

The Fixed Dividend Rate is 8.50%.

Section 5. *Liquidation Preference Applicable to Series.*

The Liquidation Preference is $25.00 per share.

Section 6. *Term Redemption Date Applicable to Series.*

The Term Redemption Date is December 31, 2017.

Section 7. *Dividend Payment Dates Applicable to Series.*

The Dividend Payment Dates are the last Business Day of the month of the Dividend Period.

Section 8. *Non-Call Period Applicable to Series.*

The Non-Call Period is the period beginning on the Date of Original of Issue and ending at the close of business on December 31, 2014.

Section 9. *Exceptions to Certain Definitions Applicable to the Series.*

The following definitions contained under the heading Definitions in the TP Articles Supplementary are hereby amended as follows:

Not applicable.

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Section 10. *Additional Definitions Applicable to the Series.*

The following terms shall have the following meanings (with terms defined in the singular having comparable meanings when used in the plural and vice versa), unless the context otherwise requires:

Dividend Period means, with respect to each Series 2017 Term Preferred Share, in the case of the first Dividend Period, the period beginning on the Date of Original Issue for such Series and ending on and including December 31, 2012 and for each subsequent Dividend Period, the period beginning on and including the first calendar day of the month following the month in which the previous Dividend Period ended and ending on and including the last calendar day of such month.

Section 11. *Amendments to Terms of Term Preferred Shares Applicable to the Series.*

The following provisions contained under the heading Terms of the Term Preferred Shares in the TP Articles Supplementary are hereby amended as follows:

Not applicable.

Section 12. *Additional Terms and Provisions Applicable to the Series.*

The following provisions shall be incorporated into and be deemed part of the TP Articles Supplementary:

Not applicable.

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IN WITNESS WHEREOF, Oxford Lane Capital Corp. has caused this Appendix to the Corporation s TP Articles Supplementary to be signed on November 20, 2012 in its name and on its behalf by a duly authorized officer. The Articles and the TP Articles Supplementary are on file with the Secretary of State of the State of Maryland.

Oxford Lane Capital Corp.

Name:	Saul B. Rosenthal
Title:	President

Witness:

Name:	Patrick F. Conroy
Title:	Chief Financial Officer, Chief Compliance Officer and Corporate Secretary

The undersigned duly authorized officer of Oxford Lane Capital Corp., who executed on behalf of the Corporation the foregoing Appendix to the Corporation s TP Articles Supplementary of which this Certificate is made a part, hereby acknowledges in the name and on behalf of said Corporation the foregoing Appendix to the Articles Supplementary to be the corporate act of the Corporation, and states under penalties of perjury that to the best of his knowledge, information and belief the matters and facts set forth therein with respect to the authorization and approval thereof are true in all material respects.

Oxford Lane Capital Corp.

Name:	Saul B. Rosenthal
Title:	President

[Signature Page to the Appendix Establishing and Fixing the Rights and Preferences of Series 2017 Term Preferred Shares]

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APPENDIX B

OXFORD LANE CAPITAL CORP.

CUMULATIVE TERM PREFERRED SHARES, [ ]% SERIES 2023 TERM PREFERRED SHARES

This Appendix establishes a Series of Cumulative Term Preferred Shares of Oxford Lane Capital Corp. Except as set forth below, this Appendix incorporates by reference the terms set forth with respect to all Series of such Cumulative Term Preferred Shares in those Articles Supplementary Establishing and Fixing the Rights and Preferences of Term Preferred Shares dated November 20, 2012 (the TP Articles Supplementary). This Appendix has been adopted by resolution of the Board of Directors of Oxford Lane Capital Corp. Capitalized terms used herein but not defined herein have the respective meanings set forth in the TP Articles Supplementary.

Section 1. *Designation as to Series.*

Cumulative Term Preferred Shares, [ ]% Series 2023 Term Preferred Shares: A series of [ ] shares of Capital Stock classified as Term Preferred Shares is hereby designated as the Series 2023 Term Preferred Shares. Each share of such Series shall have such preferences, voting powers, restrictions, limitations as to dividends and distributions, qualifications and terms and conditions of redemption, in addition to those required by applicable law and those that are expressly set forth in the Articles and the TP Articles Supplementary (except as the TP Articles Supplementary may be expressly modified by this Appendix), as are set forth in this Appendix B. The Series 2023 Term Preferred Shares shall constitute a separate series of Capital Stock and of the Cumulative Term Preferred Shares and each Series 2023 Term Preferred Share shall be identical. The following terms and conditions shall apply solely to the Series 2023 Term Preferred Shares:

Section 2. *Number of Authorized Shares of Series.*

The number of authorized shares is [ ].

Section 3. *Date of Original Issue with respect to Series.*

The Date of Original Issue is June [ ], 2013.

Section 4. *Fixed Dividend Rate Applicable to Series.*

The Fixed Dividend Rate is [ ]%.

Section 5. *Liquidation Preference Applicable to Series.*

The Liquidation Preference is $25.00 per share.

Section 6. *Term Redemption Date Applicable to Series.*

The Term Redemption Date is June 30, 2023.

Section 7. *Dividend Payment Dates Applicable to Series.*

The Dividend Payment Dates are the last Business Day of the month of the Dividend Period.

Section 8. *Non-Call Period Applicable to Series.*

The Non-Call Period is the period beginning on the Date of Original of Issue and ending at the close of business on June 30, 2016.

Section 9. *Exceptions to Certain Definitions Applicable to the Series.*

The following definitions contained under the heading Definitions in the TP Articles Supplementary are hereby amended as follows:

Not applicable.

Section 10. *Additional Definitions Applicable to the Series.*

The following terms shall have the following meanings (with terms defined in the singular having comparable meanings when used in the plural and vice versa), unless the context otherwise requires:

Dividend Period means, with respect to each Series 2023 Term Preferred Share, in the case of the first Dividend Period, the period beginning on the Date of Original Issue for such Series and ending on and including July 31, 2013 and for each subsequent Dividend Period, the period beginning on and including the first calendar day of the month following the month in which the previous Dividend Period ended and ending on and including the last calendar day of such month.

Section 11. *Amendments to Terms of Term Preferred Shares Applicable to the Series.*

The following provisions contained under the heading Terms of the Term Preferred Shares in the TP Articles Supplementary are hereby amended as follows:

Not applicable.

Section 12. *Additional Terms and Provisions Applicable to the Series.*

The following provisions shall be incorporated into and be deemed part of the TP Articles Supplementary:

Not applicable.

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IN WITNESS WHEREOF, Oxford Lane Capital Corp. has caused this Appendix to the Corporation s TP Articles Supplementary to be signed on June [ ], 2013 in its name and on its behalf by a duly authorized officer. The Articles and the TP Articles Supplementary are on file with the Secretary of State of the State of Maryland.

Oxford Lane Capital Corp.

Name:	Saul B. Rosenthal
Title:	President

Witness:

Name:	Patrick F. Conroy
Title:	Chief Financial Officer, Chief Compliance Officer and Corporate Secretary

The undersigned duly authorized officer of Oxford Lane Capital Corp., who executed on behalf of the Corporation the foregoing Appendix to the Corporation s TP Articles Supplementary of which this Certificate is made a part, hereby acknowledges in the name and on behalf of said Corporation the foregoing Appendix to the Articles Supplementary to be the corporate act of the Corporation, and states under penalties of perjury that to the best of his knowledge, information and belief the matters and facts set forth therein with respect to the authorization and approval thereof are true in all material respects.

Oxford Lane Capital Corp.

Name:	Saul B. Rosenthal
Title:	President

[Signature Page to the Appendix Establishing and Fixing the Rights and Preferences of Series 2023 Term Preferred Shares]

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INDEX TO FINANCIAL STATEMENTS

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OXFORD LANE CAPITAL CORP.

STATEMENT OF ASSETS AND LIABILITIES

	March 31, 2013
ASSETS	
Investments, at fair value (identified cost: $109,470,026)	$127,230,107
Cash and cash equivalents	16,172,516
Receivable from investments	1,131,844
Deferred issuance costs on Preferred Stock	941,331
Interest receivable, including accrued interest purchased	351,837
Prepaid expenses and other assets	31,947
Deferred offering costs	27,707
Total assets	145,887,289
LIABILITIES	
Securities purchased not settled	5,527,500
Mandatorily redeemable Preferred Stock	15,811,250
Investment advisory fee payable to affiliate	594,222
Incentive fees payable to affiliate	464,696
Directors' fees payable	27,500
Administrator expense payable	11,928
Accrued offering costs	63,792
Accrued expenses	246,678
Total liabilities	22,747,566
NET ASSETS applicable to 7,602,719 shares of $0.01 par value common stock outstanding	$123,139,723
NET ASSETS consist of:	
Paid in capital	111,742,848
Net realized gain on investments	2,025,556
Net unrealized appreciation on investments	17,760,081
Distribution in excess of net investment income	(8,388,762)
Total net assets	$123,139,723
Net asset value per common share	$16.20
Market price per share	$15.98
Market price discount to net asset value per share	(1.36)%

See Accompanying Notes

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OXFORD LANE CAPITAL CORP.

SCHEDULE OF INVESTMENTS
MARCH 31, 2013

COMPANY[1]	INDUSTRY	INVESTMENT	PRINCIPAL AMOUNT	COST	FAIR VALUE[2]	% of Net Assets
Collateralized Loan Obligation Debt Investments						
ACA CLO 2007-1A	structured finance	CLO secured notes Class E[3][4][5] (5.05%, due June 15, 2022)	$5,090,786	$3,696,205	$4,492,619	
Canaras Summit CLO 2007-1A	structured finance	CLO secured notes Class E[3][4][5] (4.63%, due June 19, 2021)	750,000	531,194	683,775	
Carlyle Global Market Strategies CLO 2013-2, Ltd.	structured finance	CLO secured notes Class F[3][4][5] (5.68%, due April 18, 2025)	6,000,000	5,100,000	5,100,000	
Colts 2007-1X	structured finance	CLO secured notes Class E[3][4][5] (3.93%, due March 20, 2021)	3,000,000	2,002,259	2,670,000	
Emporia III, Ltd. 2007-3A	structured finance	CLO secured notes Class E[3][4][5] (4.00%, due April 23,	3,594,000	2,841,000	2,973,316	

		2021)			
GSC VIII	structured finance	CLO secured notes Class D(3)(4)(5) (3.70%, due April 17, 2021)	2,112,137	1,412,691	1,746,737
Hewett's Island CLO III	structured finance	CLO secured notes Class D(3)(4)(5) (6.04%, due August 09, 2017)	3,472,621	2,878,594	3,359,761
Hewett's Island CLO IV	structured finance	CLO secured notes Class E(3)(4)(5) (4.86%, due May 09, 2018)	1,500,000	1,340,165	1,368,300
Kingsland V, Ltd. 2007-5X	structured finance	CLO secured notes Class E(3)(4)(5) (4.56%, due July 14, 2021)	4,000,000	2,914,999	3,380,000
Mountain Capital CLO IV, Ltd 2005-4X	structured finance	CLO secured notes Class B2L(3)(4)(5) (5.06%, due March 15, 2018)	4,230,373	3,219,930	3,981,627
Neuberger Berman CLO Ltd. 2012-13A	structured finance	CLO secured notes Class F(3)(4)(5) (6.86%, due January 23, 2024)	4,500,000	3,861,833	4,066,200
PPM Grayhawk CLO 2007	structured finance	CLO secured notes Class D(3)(4)(5) (3.90%, due April 18, 2021)	1,869,138	1,433,072	1,528,768

Sargas CLO I Ltd	structured finance	CLO secured notes Class D(3)(4)(5) (4.29%, due August 27, 2020)	4,500,000	3,313,030	3,985,200	
Waterfront CLO 2007	structured finance	CLO secured notes Class D(3)(4)(5) (5.05%, due August 02, 2020)	3,500,000	2,611,019	3,193,750	
Total Collateralized Loan Obligation Debt Investments				$37,155,991	$42,530,053	34.54%
Collateralized Loan Obligation Equity Investments						
ACA CLO 2007-1A	structured finance	CLO income notes(4)(6) (Estimated yield 31.29%, maturity June 15, 2022)	12,212,500	8,363,031	10,991,250	
ACAS CLO 2013-1A, Ltd.	structured finance	CLO income notes(4)(6) (Estimated yield 15.60%, maturity April 20, 2025)	4,000,000	3,507,321	3,460,000	
AMMC CLO XII, Ltd.	structured finance	CLO income notes(4)(6) (Estimated yield 17.10%, maturity May 10, 2025)	7,178,571	5,574,113	5,527,500	
Ares XXVI CLO Ltd.	structured finance	CLO income notes(4)(6) (Estimated yield 13.00%,	7,500,000	6,164,072	6,093,750	

		maturity April 15, 2025)			
Canaras Summit CLO 2007-1X	structured finance	CLO income notes(4)(6) (Estimated yield 60.12%, maturity June 19, 2021)	1,500,000	789,575	1,650,000
Carlyle Global Market Strategies CLO 2011-1X	structured finance	CLO income notes(4)(6) (Estimated yield 24.52%, maturity August 10, 2021)	6,000,000	4,885,016	7,440,000
Carlyle Global Market Strategies CLO 2013-2, Ltd.	structured finance	CLO income notes(4)(6) (Estimated yield 16.70%, maturity April 18, 2025)	9,250,000	8,010,400	7,955,000
Gale Force 4 CLO 2007-4A	structured finance	CLO income notes(4)(6) (Estimated yield 47.44%, maturity August 20, 2021)	1,500,000	733,270	1,395,000
Harbourview CLO 2006-1	structured finance	CLO income notes(4)(6) (Estimated yield 47.84%, maturity December 27, 2019)	4,380,000	2,151,626	3,854,400
Hillmark Funding Ltd. 2006-1A	structured finance	CLO income notes(4)(6)	2,000,000	1,033,294	1,300,000

		(Estimated yield 25.70%, maturity May 21, 2021)			
Jersey Street CLO 2006-1A	structured finance	CLO income notes[(4)(6)] (Estimated yield 35.28%, maturity October 20, 2018)	3,185,000	1,734,601	2,747,063

(Continued on next page)

See Accompanying Notes

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OXFORD LANE CAPITAL CORP.

SCHEDULE OF INVESTMENTS (continued) MARCH 31, 2013

COMPANY[1]	INDUSTRY	INVESTMENT	PRINCIPAL AMOUNT	COST	FAIR VALUE[2]	% of Net Assets
Kingsland IV, Ltd. 2007-4A	structured finance	CLO income notes[4][6] (Estimated yield 46.70%, maturity April 16, 2021)	$2,350,000	$1,597,476	$2,531,185	
Lightpoint CLO VII, Ltd. 2007-7X	structured finance	CLO income notes[4][6] (Estimated yield 45.00%, maturity May 15, 2021)	2,000,000	896,602	1,331,000	
Neuberger Berman CLO Ltd. 2012-13A	structured finance	CLO income notes[4][6] (Estimated yield 15.40%, maturity January 23, 2024)	6,255,000	4,964,437	5,316,750	
Octagon XI CLO 2007-1A	structured finance	CLO income notes[4][6] (Estimated yield 48.63%, maturity August 25, 2021)	2,025,000	1,266,668	2,328,750	

Octagon XV CLO 2013-1A	structured finance	CLO income notes(4)(6) (Estimated yield 10.70%, maturity January 19, 2025)	2,000,000	1,951,800	1,920,000		
Rampart CLO 2007-1A	structured finance	CLO income notes(4)(6) (Estimated yield 37.17%, maturity October 25, 2021)	1,500,000	876,228	1,230,000		
Sheridan Square CLO Ltd.	structured finance	CLO income notes(4)(6) (Estimated yield 10.10%, maturity April 15, 2025)	1,279,070	1,227,162	1,253,489		
Telos CLO 2013-3, Ltd.	structured finance	CLO income notes(4)(6) (Estimated yield 12.50%, maturity January 17, 2024)	4,666,667	4,432,652	4,316,667		
Venture 2013-3A CLO, Limited	structured finance	CLO income notes(4)(6) (Estimated yield 17.20%, maturity June 10, 2025)	13,900,000	12,154,691	12,058,250		
Total Collateralized Loan Obligation Equity Investments				$72,314,035	$84,700,054	68.78	%
Total Investments				**$109,470,026**	**$127,230,107**	**103.32**	**%**

(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 amount reflects accretion of original issue discount or market discount, and amortization of premium.

(5) The CLO secured notes generally bear interest at a rate determined by reference to LIBOR which resets quarterly. For each CLO debt investment, the rate provided is as of March 31, 2013.

(6) 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.

See Accompanying Notes

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OXFORD LANE CAPITAL CORP.

STATEMENT OF OPERATIONS

	Year Ended March 31, 2013
INVESTMENT INCOME	
Interest income	$ 11,597,887
EXPENSES	
Investment advisory fees	1,792,711
Incentive fees	1,481,241
Professional fees	459,590
Administrator expense	670,337
Directors' fees	179,000
General and administrative	453,066
Interest expense on mandatorily redeemable Preferred Stock	524,723
Insurance expense	36,500
Transfer agent and custodian fees	75,755
Total expenses	5,672,923
Net investment income	5,924,964
Net change in unrealized appreciation on investments	16,015,666
Net realized gain on investments	2,374,224
Net realized and unrealized gain on investments	18,389,890
Net increase in net assets resulting from operations	$ 24,314,854

See Accompanying Notes

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OXFORD LANE CAPITAL CORP.

STATEMENTS OF CHANGES IN NET ASSETS

	Year Ended March 31, 2013	Year Ended March 31, 2012
Increase in net assets from operations:		
Net investment income	$5,924,964	$2,630,828
Net realized gain on investments	2,374,224	
Net change in unrealized appreciation on investments	16,015,666	1,786,915
Net increase in net assets resulting from operations	24,314,854	4,417,743
Distributions from net investment income	(12,066,726)	(4,736,315)
Distributions from realized gain on investments	(348,668)	
Distributions to shareholders	(12,415,394)	(4,736,315)
Capital share transaction:		
Issuance of common stock (net of underwriting fees and offering costs)	67,695,160	8,283,284
Reinvestment of dividends	1,665,902	51,693
Net increase in net assets from capital share transactions	69,361,062	8,334,977
Total increase in net assets	81,260,522	8,016,405
Net assets at beginning of period	41,879,201	33,862,796
Net assets at end of period (including distributions in excess of net investment income of $8,388,762 and $2,426,205)	$123,139,723	$41,879,201

See Accompanying Notes

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OXFORD LANE CAPITAL CORP.

STATEMENT OF CASH FLOWS

	Year Ended March 31, 2013
CASH FLOWS FROM OPERATING ACTIVITIES	
Net increase in net assets resulting from operations	$24,314,854
Adjustments to reconcile net increase in net assets resulting from operations to net cash used in operating activities:	
Amortization of discounts and premiums	(9,055,919)
Amortization of deferred issuance costs on Preferred Stock	65,501
Purchases of investments.	(81,645,675)
Sales of investments	12,310,148
Repayments of principal and reductions to investment cost value	13,228,872
Net change in unrealized appreciation on investments	(16,015,666)
Decrease in deferred offering costs	121,332
Increase in receivable from investments	(1,131,844)
Increase in interest receivable	(93,282)
Decrease in prepaid expenses and other assets	16,655
Increase in investment advisory fee payable	406,660
Increase in incentive fee payable	259,908
Decrease in directors' fees payable	(13,500)
Increase in administrator expense payable	5,540
Decrease in accrued offering costs	(44,189)
Increase in accrued expenses	77,426
Net cash used in operating activities	(57,193,179)
CASH FLOWS FROM FINANCING ACTIVITIES	
Distributions paid (net of common stock issued under dividend reinvestment plan of $1,665,902)	(10,749,492)
Proceeds from the issuance of common stock	71,058,829
Underwriting fees and offering costs for the issuance of common stock	(3,363,669)
Proceeds from the issuance of Preferred Stock	15,811,250
Deferred issuance costs for the issuance of Preferred Stock	(1,006,832)
Net cash provided by financing activities	71,750,086
Net increase in cash and cash equivalents	14,556,907
Cash and cash equivalents, beginning of period	1,615,609
Cash and cash equivalents, end of period	$16,172,516
SUPPLEMENTAL DISCLOSURES	
Securities purchased not settled	$5,527,500

See Accompanying Notes

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OXFORD LANE CAPITAL CORP.

NOTES TO FINANCIAL STATEMENTS MARCH 31, 2013

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 as a non-diversified closed-end management investment company that has registered as an investment company 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, or 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 total return and seeks to achieve its investment objective by investing primarily in senior secured loans and the equity and junior debt tranches of collateralized loan obligation (CLO) vehicles.

OXLC s investment activities are managed by Oxford Lane Management LLC, (OXLC Management), a registered investment adviser under the Investment Advisors 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

USE OF ESTIMATES

The financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America, which require 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.

In the normal course of business, the Fund may enter into contracts that contain a variety of representations and provide indemnifications. The Fund s maximum exposure under these arrangements is unknown as this would involve future claims that may be made against the Fund that have not yet occurred. However, based upon experience, the Fund expects the risk of loss to be remote.

CASH AND CASH EQUIVALENTS

The Fund considers all highly liquid debt instruments with a maturity of three months or less at the time of purchase to be cash equivalents.

INVESTMENT VALUATION

The most significant estimates made in the preparation of the Fund s financial statements are 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. The Fund is required to specifically fair value each individual investment on a quarterly basis.

In May 2011, the FASB issued ASU 2011-04, *Fair Value Measurement: Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRs*. The amendments are of two types: (i) those that clarify the FASB s intent about the application of existing fair value measurement and disclosure requirements and (ii) those that change a particular principle or requirement for measuring fair value or for disclosing information about fair value measurements. The amendments that change a particular principle or requirement for measuring fair value or disclosing information about fair value measurements relate to (i) measuring the fair value of the financial instruments that are managed within a portfolio; (ii) application of premium and discount in a fair value measurement; and (iii) additional disclosures about fair value measurements. The update is effective for interim and annual periods beginning after December 15, 2011 and as such OXLC has adopted this ASU beginning with the year ended March 31, 2013. OXLC has increased its disclosures related to Level 3 fair value measurements, in addition to other required disclosures. There were no related impacts on OXLC s financial position or results of operations.

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OXFORD LANE CAPITAL CORP.

NOTES TO FINANCIAL STATEMENTS MARCH 31, 2013

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The Fund complies with ASC 820-10, *Fair Value Measurements and Disclosure*, which establishes a three-level valuation hierarchy for disclosure of fair value measurements. 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. The Fund has determined that due to the general illiquidity of the market for the Fund s investment portfolio, whereby little or no market data exists, all of the Fund s investments are valued based upon Level 3 inputs as of March 31, 2013. The Fund s Board of Directors determines the value of OXLC s investment portfolio each quarter. The prices used by the Fund to value securities may differ from the value that would be realized if the securities were sold, and these differences could be material to the Fund s financial statements.

OXLC has acquired a number of debt and equity positions in CLO investment vehicles, which are special purpose financing vehicles. In valuing such investments, OXLC considers indicative prices provided by a recognized industry pricing service as well as the indicative prices provided by the broker who arranges transactions in such investment vehicles, to the extent available, as well as any available information on other relevant transactions including trades, if any, and firm bids and offers in the market. In addition, OXLC considers the range of yields for such investments across the market, the operating metrics of the specific investment vehicle, including net asset value, projected cash flows, compliance with collateralization tests, and defaulted and CCC-rated securities, if any. Using the pricing service s indicative price as a starting point, if the implied yield is outside the market range, the valuation may be adjusted to a point within the market range. However, the impact of other market information, such as broker prices, actual trades and firm bids and offers as well as operating metrics of such investment, may also affect the valuation. On occasion, an indicative price that results in an implied yield that is within the market range may also be adjusted, depending upon the reliability and volume of other market information. OXLC Management or the Valuation Committee may request an additional analysis by a third-party firm to assist in the valuation process of CLO investment vehicles. This information is presented to the Board for its determination of fair value of these investments.

The Fund may also invest directly in senior secured loans (either in the primary or secondary markets). In valuing such investments, OXLC Management will prepare an analysis of each loan, including a financial summary, covenant compliance review, recent trading activity in the security, if known, and other business developments related to the portfolio company. Any available information, including non-binding indicative bids obtained from a recognized industry pricing service and large agent banks which may not be considered reliable, will be presented to the Valuation Committee of the Board to consider in its determination of fair value. In some instances, there may be limited trading activity in a security even though the market for the security is considered not active. In such cases the Board will consider the number of trades, the size and timing of each trade and other circumstances around such trades, to the extent such information is available, in its determination of fair value. At March 31, 2013, the Fund did not have any direct investments in senior secured loans.

ASC 820-10-35, *Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly*, provides guidance on factors that should be considered in determining when a previously active market becomes inactive and whether a transaction is orderly. In accordance with ASC 820-10-35, the Fund s valuation procedures specifically provide for the review of indicative quotes supplied by the brokers or large agent banks that make a market for each security.

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OXFORD LANE CAPITAL CORP.

NOTES TO FINANCIAL STATEMENTS MARCH 31, 2013

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The Fund s assets measured at fair value on a recurring basis subject to the disclosure requirements of ASC 820-10-35 at March 31, 2013, were as follows:

($ in millions)	Fair Value Measurements at Reporting Date Using			
Assets	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
CLO debt	$	$	$ 42.5	$ 42.5
CLO equity			84.7	84.7
Total	$	$	$ 127.2	$ 127.2

Significant Unobservable Inputs for Level 3 Investments

In accordance with ASU 2011-04, the following table provides quantitative information about the Fund s Level 3 fair value measurements as of March 31, 2013. 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 that the Fund uses in determining fair value. If the Valuation Committee 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 table, therefore, is not all-inclusive, but provides information on the significant Level 3 inputs that are pertinent to the Fund s fair value measurements. The weighted average calculations in the table below are based on principal balances for all CLO debt and equity investments.

($ in millions)	Quantitative Information about Level 3 Fair Value Measurements			
Assets	Fair Value as of	Valuation Techniques/ Methodologies	Unobservable Input	Range/Weighted Average

	March 31, 2013			
CLO debt	$42.5	market quotes	NBIB [(1)]	81.79% - 96.75%/88.39%
CLO equity	84.7	market quotes	NBIB [(1)]	65.0% - 124.0%/89.46%
Total Fair Value for Level 3 Investments	$127.2			

(1) The Fund generally uses prices provided by an independent pricing service or broker or agent bank non-binding indicative bid prices (NBIB) on or near the valuation date as the primary basis for the fair value determinations for CLO debt and equity investments. These bid prices are non-binding, and may not be determinative of fair value. Each bid price is evaluated by the Valuation Committee in conjunction with additional information compiled by OXLC Management, including actual trades and firm bids and offers, if any, financial performance, recent business developments, and, in the case of CLO debt and equity investments, performance and covenant compliance information as provided by the independent trustee.

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, 2013

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

A rollforward of the fair value of investments for the year ended March 31, 2013, utilizing significant unobservable inputs, is as follows:

($ in millions)	Collateralized Loan Obligation Debt Investments	Collateralized Loan Obligation Equity Investments	Total
Balance at March 31, 2012	$ 23.3	$ 17.2	$ 40.5
Realized gains included in earnings	2.4		2.4
Unrealized appreciation included in earnings	6.5	9.5	16.0
Amortization of discounts and premiums	1.1	7.9	9.0
Purchases	23.9	63.3	87.2
Repayments, sales of principal and reductions to investment cost value	(14.7)	(13.2)	(27.9)
Transfers in and/or out of level 3			
Balance at March 31, 2013	$ 42.5	$ 84.7	$ 127.2
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.	$ 6.0	$ 9.6	$ 15.6

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, 2013.

PREFERRED STOCK

The Fund carries its mandatorily redeemable Preferred Stock at cost on the statement of assets and liabilities, and not fair value. For disclosure purposes, the fair value of the Preferred Stock, approximately $16.4 million, is based upon its closing price per share of $26.00 at March 31, 2013. The Fund considers its Preferred Stock to be a level 3 liability within the fair value hierarchy.

PREPAID EXPENSES

Prepaid expenses consist primarily of insurance costs.

INVESTMENT INCOME RECOGNITION

Interest income from debt positions in CLO investment vehicles is recorded on the accrual basis to the extent that such amounts are expected to be collected. Amortization of premium or accretion of discount is recognized on the effective yield method.

Interest income from investments in the equity class securities of CLO investment vehicles (typically income notes or subordinated notes) is recorded based upon an estimation of an effective yield to maturity utilizing assumed cash flows. The Fund monitors the expected cash flows from its CLO equity investments, including the expected residual payments, and effective yield is determined and updated periodically, as needed.

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OXFORD LANE CAPITAL CORP.

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2013

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

FEDERAL INCOME TAXES

The Fund intends to operate so as to qualify to be taxed as a RIC under Subchapter M of the Internal Revenue Code and, as such, to not be subject to 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 federal income tax regulations differ from accounting principles generally accepted in the United States, 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 in classification may also result from the treatment of short-term gains as ordinary income for tax purposes.

The Fund declared and paid dividends on common stock of $2.05 per share or approximately $4.7 million for the year ended March 31, 2012. For the year ended March 31, 2013, the Fund declared and paid dividends on common stock of $2.20 per share or approximately $12.4 million. The tax character of distributions paid on common stock in 2013 represents approximately $12,067,000 of ordinary income and approximately $349,000 of capital gains, with no return of capital. The tax character of distributions paid in 2012 represented entirely ordinary income, with no return of capital.

For the year ended March 31, 2013 the Fund also declared and paid dividends on Preferred Stock of approximately $459,000, the tax character of distributions paid on Preferred Stock represents ordinary income.

As of March 31, 2013, the estimated components of distributable earnings, on a tax basis, were as follows:

Distributable ordinary income	$ 1,902,257
Distributable long-term capital gains	$ 1,844,087
Unrealized appreciation on investments	$ 7,661,842

The tax basis components of distributable 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. These amounts will be finalized before filing the federal tax return.

Aggregate gross unrealized appreciation for tax purposes is $9,232,656; and aggregate gross unrealized depreciation of $1,570,814. For tax purposes, the cost basis of the portfolio investments at March 31, 2013 was $119,568,265.

DIVIDENDS AND DISTRIBUTIONS

Dividends from net investment income and capital gain distributions are determined in accordance with U.S. federal income tax regulations, which differ from GAAP. Dividends 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. Dividends and 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 dividend reinvestment plan unless the shareholder has elected to have them paid in cash.

Amounts required to be distributed reflect estimates made by the Fund. Dividends paid by the Fund are subject to re-characterization for tax purposes.

OXFORD LANE CAPITAL CORP.

NOTES TO FINANCIAL STATEMENTS MARCH 31, 2013

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

CONCENTRATION OF CREDIT RISK

At March 31, 2013, the Fund maintained a cash balance with State Street Bank and Trust Co. The Fund is subject to credit risk arising should State Street Bank and Trust Co. be unable to fulfill its obligations. In addition, the Fund s portfolio may be concentrated in a limited number of investments in CLO vehicles, which will subject the Fund to a risk of significant loss if that sector experiences a market downturn.

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

Deferred offering costs consist principally of legal, accounting, filing and underwriting fees incurred through the balance sheet date that are related to an offering proposed by the Fund. The deferred offering costs will be charged to capital upon the completion of an offering or charged to expense if the offering is unsuccessful. Expenses related to shelf offerings are charged to capital as shares registered are issued.

NOTE 3. RELATED PARTY TRANSACTIONS

Effective September 9, 2010, the Fund entered into an 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. 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, which means all assets of any type, at the 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 interest income, dividend income 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 our 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 the Fund has not yet received in cash. 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 the Fund s net assets at the end of the immediately preceding calendar quarter, is compared to a hurdle of 1.75% per quarter (7.00% annualized). Our undistributed net investment income used to calculate the incentive fee is also included in the amount of the Fund s gross assets used to calculate the 2.00% base management fee. The incentive fee with respect to the Fund s pre-incentive fee net investment income in each calendar quarter is calculated 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%;

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OXFORD LANE CAPITAL CORP.

NOTES TO FINANCIAL STATEMENTS MARCH 31, 2013

NOTE 3. RELATED PARTY TRANSACTIONS (continued)

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, 2013, the Fund accrued incentive fee expenses of approximately $1.5 million. At March 31, 2013, the Fund has an incentive fee payable of approximately $465,000.

Effective September 9, 2010 the Fund entered into an 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 preparing reports to the Fund s stockholders.

In addition, BDC Partners assists the Fund in determining and publishing the Fund s net asset value, oversees the preparation and filing of the Fund s tax returns and the printing and dissemination of reports to the Fund s stockholders, and generally oversees 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, the fees and expenses associated with performing compliance functions and the Fund s allocable portion of the compensation of the Fund s chief financial officer, chief compliance officer, controller and treasurer, and any administrative support staff. The administration agreement may be terminated by either party without penalty upon 60 days written notice to the other party.

The independent directors receive an annual fee of $35,000. In addition, the independent directors receive $2,000 plus reimbursement of reasonable out-of-pocket expenses incurred in connection with attending each Board 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. The Chairman of the Audit Committee also receives an additional annual fee of $5,000. 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, own 6.5% of the Fund at March 31, 2013.

NOTE 4. OTHER INCOME

Other income includes closing fees, or origination fees, associated with investments in portfolio companies. Such fees are normally paid at closing of the Fund s investments, are fully earned and non-refundable, and are generally non-recurring. The Fund had no such income for the year ended March 31, 2013.

OXFORD LANE CAPITAL CORP.

NOTES TO FINANCIAL STATEMENTS MARCH 31, 2013

NOTE 5. RIGHTS OFFERINGS

On April 11, 2012 (the Record Date) the Fund issued non-transferable rights to purchase common stock to its stockholders of record (Record Date Stockholders). Record Date Stockholders received four rights for each outstanding share of common stock owned on the record date. The rights entitled the holders to purchase one new share of common stock for every one right held. On April 27, 2012, the Fund closed its rights offering and sold 2,508,270 shares of its common stock at a price of $13.75 per share, less underwriting fees and offering costs of approximately $1.7 million. The total net proceeds to the Fund from the issuance of non-transferable rights to common stock to Record Date Stockholders were approximately $32.8 million.

On January 18, 2013 (the Record Date) the Fund issued non-transferable rights to purchase common stock to its stockholders of record (Record Date Stockholders). Record Date Stockholders received one right for each outstanding share of common stock owned on the record date. The rights entitled the holders to purchase one new share of common stock for every two rights held. On February 25, 2013, the Fund closed its rights offering and sold 2,522,077 shares of its common stock at a price of $14.50 per share, less underwriting fees and offering costs of approximately $1.6 million. The total net proceeds to the Fund from the issuance of non-transferable rights to common stock to Record Date Stockholders were approximately $34.9 million.

NOTE 6. SERIES 2017 TERM PREFERRED SHARES

The Fund has authorized five million preferred shares at a par value of $0.01 per share. On November 28, 2012, the Fund completed an underwritten public offering of 600,000 shares of its newly designated 8.50% Series 2017 Term Preferred Shares (the Preferred Stock) at a public offering price of $25 per share, less underwriting fees and offering costs. The Fund also granted the underwriters a 30-day option to purchase additional shares of Preferred Stock on the same terms and conditions to cover over-allotments. On December 10, 2012, the underwriters purchased an additional 32,450 shares of Preferred Stock. The total net proceeds to the Fund from the issuance of the Preferred Stock were approximately $14.8 million.

The Fund is required to redeem all of the outstanding Series 2017 Term Preferred Shares on December 31, 2017 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 Series 2017 Term Preferred Shares on December 31, 2017 without the prior unanimous consent of the holders of Series 2017 Term Preferred Shares. If the Fund fails to maintain an asset coverage ratio of at least 200%, the Fund will redeem a portion of the outstanding Series 2017 Term Preferred Shares in an amount at least equal to the lesser of (1) the minimum number of shares of Series 2017 Term Preferred Shares necessary to cause OXLC to meet our required asset coverage ratio, and (2) the maximum number of Series 2017 Term Preferred Shares that OXLC can redeem out of cash legally available for such redemption. At any time on or after December 31, 2014, at the Fund s sole option, the Fund may redeem the Series 2017 Term Preferred 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 the Series 2017 Term Preferred Shares.

Deferred issuance costs represent fees and other direct incremental costs incurred in connection with the Fund s Preferred Stock offering. As of March 31, 2013, the Fund had deferred issuance costs of approximately $941,000. In addition, the Fund pays monthly dividends on the preferred shares at an annual rate of 8.50% of the $25 liquidation preference per share, or $2.125 per year, on the last business day of each month. The deferred issuance costs are being amortized and included, along with the monthly dividend payment, in interest expense on mandatorily redeemable Preferred Stock in the statement of operations over the term of the Preferred Stock. Amortization expense for the year ended March 31, 2013 was approximately $66,000. The Fund also paid dividends for the year ended March 31, 2013 on preferred shares of approximately $459,000.

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OXFORD LANE CAPITAL CORP.

NOTES TO FINANCIAL STATEMENTS MARCH 31, 2013

NOTE 7. PURCHASES AND SALES OF SECURITIES

Purchases and sales of securities, excluding short-term investments and prepayments, for the year ended March 31, 2013, totaled approximately $87.2 million and $12.3 million, respectively.

NOTE 8. COMMITMENTS

In the normal course of business, the Fund enters into a variety of undertakings containing 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, 2013, the Fund had not issued any commitments to purchase additional debt or equity investments from any portfolio companies.

NOTE 9. 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.

NOTE 10. FINANCIAL HIGHLIGHTS

Financial highlights for the year ended March 31, 2013, the year ended March 31, 2012 and for the period January 25, 2011 (Commencement of Operations) to March 31, 2011 are as follows:

	Year Ended March 31, 2013	Year Ended March 31, 2012	January 25, 2011 (Commencement of Operations) to March 31, 2011
Per Share Data			
Net asset value at beginning of period[1]	$17.05	$18.19	$16.80
Net investment income[2]	1.17	1.19	0.07
Net realized and unrealized capital gains[3]	3.54	0.83	(0.03)

Total from investment operations	4.71	2.02	0.04
Less Distributions per share from net investment income	(2.20)	(2.05)	(0.25)
Less Distributions per share based on weighted average share impact	(0.28)	(0.10)	
Total distributions[4]	(2.48)	(2.15)	(0.25)
Effect of shares issued, net of underwriting expense[5]	(2.52)	(0.77)	1.79
Effect of offering costs[5]	(0.56)	(0.24)	(0.19)
Effect of shares issued, net[5]	(3.08)	(1.01)	1.60
Net asset value at end of period	$16.20	$17.05	$18.19
Per share market value at beginning of period	$14.60	$18.75	$20.00
Per share market value at end of period	$15.98	$14.60	$18.75
Total return[6][7]	26.21%	(10.75)%	(5.0)%
Shares outstanding at end of period	7,602,719	2,456,511	1,861,250

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OXFORD LANE CAPITAL CORP.

NOTES TO FINANCIAL STATEMENTS MARCH 31, 2013

NOTE 10. FINANCIAL HIGHLIGHTS (continued)

	Year Ended March 31, 2013		Year Ended March 31, 2012		January 25, 2011 (Commencement of Operations) to March 31, 2011	
Ratios/Supplemental Data						
Net assets at end of period (000 s)	$123,140		$41,879		$33,863	
Average net assets (000's)	$100,481		$36,644		$34,389	
Ratio of net investment income to average daily net assets	5.90	%	7.18	%	3.51	%(8)
Ratio of expenses to average daily net assets	5.65	%	6.50	%	4.79	%(8)
Portfolio turnover rate	12.29	%	0.22	%	0.05	%

(1) For period January 25, 2011 through March 31, 2011, represents the net asset value per share prior to commencement of operations.

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

(3) Net realized and unrealized capital gains and losses include rounding adjustments to reconcile change in net asset value per share.

(4) Management monitors available 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.

(5) Based upon actual shares outstanding upon share issuance.

(6) 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 dividends, capital gains and other distributions were reinvested as provided for in the Fund's dividend reinvestment plan, and then 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.

(7) Total return for the period January 25, 2011 through March 31, 2011 was not annualized.

(8) Annualized, after adjusting for certain periodic expenses recorded during the period January 25, 2011 through March 31, 2011.

NOTE 11. RISK DISCLOSURES

The U.S. capital markets have experienced periods of extreme volatility and disruption over the past four years. 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, TICC CLO LLC, a subsidiary of TICC Capital Corp. 2011-1 Holdings, LLC, a direct subsidiary of TICC Capital Corp., the assets of which are included in the gross assets of TICC Capital Corp., TICC CLO 2012-1 LLC, a direct subsidiary of TICC Capital Corp., the assets of which are included in the gross assets of TICC

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OXFORD LANE CAPITAL CORP.

NOTES TO FINANCIAL STATEMENTS MARCH 31, 2013

NOTE 11. RISK DISCLOSURES (continued)

Capital Corp., and T2 Income Fund CLO I Ltd., a CLO structured finance vehicle that invests in a diversified portfolio of Senior Loans. 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 involves a number of significant risks. CLO vehicles are typically very highly levered (10 14 times), and therefore the junior debt and equity tranches that the Fund invests in are subject to a higher degree of risk of total loss. In particular, investors in CLO vehicles indirectly bear risks of the underlying 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, we 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 our 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. 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

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OXFORD LANE CAPITAL CORP.

NOTES TO FINANCIAL STATEMENTS MARCH 31, 2013

NOTE 11. RISK DISCLOSURES (continued)

reinvestment periods) declines or if the Fund transitions its portfolio into lower yielding investments, the Fund s ability to pay future dividends may be harmed.

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 status 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 status regardless of whether or not the CFC makes an actual distribution during such year.

Legislation enacted in 2010 imposes a withholding tax of 30% on payments of U.S. source interest and dividends paid after December 31, 2013, 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. entity complies with certain reporting requirements regarding its United States account holders and its United States owners. Most CLO vehicles in which we invest 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 we invest fails to properly comply with these reporting requirements, it could reduce the amounts available to distribute to equity and junior debt holders in such CLO vehicle, which could materially and adversely affect our operating results and cash flows.

If the Fund is required to include amounts in income prior to receiving distributions representing such income, the Fund may have to sell some of its investments at times and/or at prices management would not consider advantageous, raise additional debt or equity capital or forgo new investment opportunities for this purpose. If the Fund is not able to obtain cash from other sources, it may fail to qualify for RIC tax treatment and thus become subject to corporate-level income tax. For additional discussion regarding the tax implications of a RIC, see Note 2. Summary of Significant Accounting Policies Federal Income Taxes.

The Fund s Series 2017 Term Preferred Shares pays dividends at a fixed dividend rate. Prices of fixed income investments vary inversely with changes in market yields. The market yields on securities comparable to the Series 2017 Term Preferred Shares may increase, which would likely result in a decline in the secondary market price of the Series 2017 Term Preferred Shares prior to the term redemption date. The Fund may be unable to pay dividends on the Series 2017 Term Preferred Shares under some circumstances. The terms of any future indebtedness OXLC may incur could preclude the payment of dividends in respect of equity securities, including the Series 2017 Term Preferred Shares, under certain conditions.

Given the seven-year term and potential for early redemption of the Series 2017 Term Preferred Shares, see Note 6. Series 2017 Term Preferred Shares, holders of such shares may face an increased reinvestment risk, which is the risk that the return on an investment purchased with proceeds from the sale or redemption of the Series 2017 Term Preferred Shares may be lower than the return previously obtained from the investment in such shares.

OXFORD LANE CAPITAL CORP.

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2013

NOTE 11. RISK DISCLOSURES (continued)

The Fund does not intend to have the Series 2017 Term Preferred Shares rated by any rating agency. Unrated securities usually trade at a discount to similar, rated securities. As a result, there is a risk that the Series 2017 Term Preferred Shares may trade at a price that is lower than they might otherwise trade if rated by a rating agency.

NOTE 12. SUBSEQUENT EVENTS

The Fund has evaluated events and transactions that occurred after March 31, 2013 and through the date that the financial statements were issued.

On May 22, 2013, the Board of Directors declared a distribution of $0.55 per share for the fiscal first quarter, payable on June 28, 2013 to shareholders of record as of June 14, 2013.

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Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of Oxford Lane Capital Corp.:

In our opinion, the accompanying statement of assets and liabilities, including the schedule of investments, and the related statements of operations, of changes in net assets and of cash flows and the financial highlights present fairly, in all material respects, the financial position of Oxford Lane Capital Corp. (the Company) at March 31, 2013, the results of its operations and its cash flows for the year then ended, the changes in its net assets for each of the two years in the period then ended and the financial highlights for each of the two years in the period then ended and for the period January 25, 2011 (commencement of operations) through March 31, 2011, in conformity with accounting principles generally accepted in the United States of America. These financial statements and financial highlights (hereafter referred to as financial statements) are the responsibility of the Company s management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits, which included confirmation of securities at March 31, 2013 by correspondence with the custodian and brokers, provide a reasonable basis for our opinion.

/s/ PricewaterhouseCoopers LLP
New York, New York
May 23, 2013

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$100,000,000

Oxford Lane Capital Corp.

Common Stock
Preferred Stock
Subscription Rights
Debt Securities

We are a non-diversified, closed-end management investment company that has registered as an investment company under the Investment Company Act of 1940, or the 1940 Act. Our investment objective is to maximize our portfolio s total return. We seek to achieve our investment objective by investing primarily in senior, secured loans made to companies whose debt is unrated or is rated below investment grade (Senior Loans), with an emphasis on current income. Those investments may take a variety of forms, including the direct purchases of Senior Loans (either in the primary or secondary markets) or through investments in entities that in turn own a pool of Senior Loans. We have initially implemented our investment objective by purchasing in the secondary market portions of equity and junior debt tranches of collateralized loan obligation (CLO) vehicles. Structurally, CLO vehicles are entities that were formed to originate and manage a portfolio of loans. The loans within the CLO vehicle are limited to loans which meet established credit criteria and are subject to concentration limitations in order to limit a CLO vehicle s exposure to a single credit.

Oxford Lane Management, LLC manages our investments and its affiliate arranges for the performance of the administrative services necessary for us to operate.

We may offer, from time to time, in one or more offerings or series, up to $100,000,000 of our common stock, preferred stock, subscription rights to purchase shares of our common stock or debt securities, which we refer to, collectively, as our securities. The preferred stock and subscription rights offered hereby may be convertible or exchangeable into shares of our common stock. The securities may be offered at prices and on terms to be described in one or more supplements to this prospectus.

In the event we offer common stock, the offering price per share of our common stock less any underwriting discounts or commissions will generally not be less than the net asset value per share of our common stock at the time we make the offering. However, we may issue shares of our common stock pursuant to this prospectus at a price per share that is less than our net asset value per share (i) in connection with a rights offering to our existing stockholders, (ii) with the prior approval of the majority of our common stockholders or (iii) under such other circumstances as the Securities and Exchange Commission (SEC) may permit.

Our securities may be offered directly to one or more purchasers, or through agents designated from time to time by us, or to or through underwriters or dealers. Each prospectus supplement relating to an offering will identify any agents or underwriters involved in the sale of our securities, and will disclose any applicable purchase price, fee, discount or commissions arrangement between us and our agents or underwriters or among our underwriters or the basis upon which such amount may be calculated. See Plan of Distribution. We may not sell any of our securities through agents, underwriters or dealers without delivery of this prospectus and a prospectus supplement describing the method and terms of the offering of such securities.

Our common stock is traded on the NASDAQ Global Select Market under the symbol OXLC. On October 4, 2012, the last reported sales price on the NASDAQ Global Select Market for our common stock was $15.84 per share. We are required to determine the net asset value per share of our common stock on a quarterly basis. Our net asset value per share of our common stock as of June 30, 2012 was $14.60.

This prospectus and any accompanying prospectus supplement contains important information about us that a prospective investor should know before investing in our securities. Please read this prospectus and any accompanying prospectus supplement before investing and keep it for future reference. We are required to file annual, semi-annual and quarterly reports, proxy statements and other information about us with the Securities and Exchange Commission, or the SEC. This information is available free of charge by contacting us by mail at 8 Sound Shore Drive, Suite 255, Greenwich, CT 06830, by telephone at (203) 983-5275 or on our website at *http://www.oxfordlanecapital.com*. The SEC also maintains a website at *http://www.sec.gov* that contains such information. Information contained on our website is not incorporated by reference into this prospectus, and you should not consider that information to be part of this prospectus.

An investment in our securities is subject to risks and involves a heightened risk of total loss of investment. Shares of closed-end investment companies frequently trade at a discount to their net asset value. In addition, the CLO securities in which we invest are subject to special risks. See Risk Factors beginning on page 15 to read about factors you should consider, including the risk of leverage, before investing in our securities.

Neither the SEC nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

This prospectus may not be used to consummate sales of our securities unless accompanied by a prospectus supplement.

The date of this prospectus is October 10, 2012.

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You should rely on the information contained in this prospectus or any accompanying prospectus supplement. We have not, and the dealer managers have not, authorized any other person to provide you with different information or to make representations as to matters not stated in this prospectus or any accompanying prospectus supplement. If anyone provides you with different or inconsistent information, you should not rely on it. We are offering to sell, and seeking offers to buy, securities only in jurisdictions where offers and sales are permitted. You should not assume that the information contained in this prospectus or any accompanying prospectus supplement is accurate as of any date other than the date on their respective cover pages. This prospectus and any accompanying prospectus supplement will be amended to reflect material changes to the information contained herein and therein.

OXFORD LANE CAPITAL CORP.

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ABOUT THIS PROSPECTUS

This prospectus is part of a registration statement that we have filed with the SEC, using the shelf registration process. Under the shelf registration process, we may offer, from time to time, in one or more offerings up to $100,000,000 of our common stock, preferred stock, subscription rights to purchase shares of our common stock or debt securities, on terms to be determined at the time of the offering. The securities may be offered at prices and on terms described in one or more supplements to this prospectus. This prospectus provides you with a general description of the securities that we may offer. Each time we use this prospectus to offer securities, we will provide a prospectus supplement that will contain specific information about the terms of that offering. The prospectus supplement may also add, update or change information contained in this prospectus. If there is any inconsistency between information in this prospectus and any accompanying

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prospectus supplement, you should rely only on the information contained in the prospectus supplement. Please carefully read this prospectus and the prospectus supplement together with any exhibits and the additional information described under the headings Available Information and Risk Factors before you make an investment decision.

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SUMMARY

The following summary contains basic information about this offering. It may not contain all the information that is important to an investor. For a more complete understanding of this offering, you should read this entire document and the documents to which we have referred.

Except where the context requires otherwise, the terms Oxford Lane Capital, the Company, we, us and our refer to Oxford Lane Capital Corp.; Oxford Lane Management and investment adviser refer to Oxford Lane Management, LLC; and BDC Partners refers to BDC Partners, LLC.

Overview

We are a non-diversified closed-end management investment company that has registered as an investment company under the 1940 Act. Our investment objective is to maximize our portfolio s total return. We seek to achieve our investment objective by investing primarily in senior, secured loans made to companies whose debt is unrated or is rated below investment grade (Senior Loans), with an emphasis on current income. Those investments may take a variety of forms, including the direct purchases of Senior Loans (either in the primary or secondary markets) or through investments in entities that in turn own a pool of Senior Loans. We believe that recent dislocations in the credit market have created opportunities to purchase our targeted investments at attractive risk adjusted returns.

We have initially implemented our investment objective by purchasing in the secondary market portions of equity and junior debt tranches of collateralized loan obligation (CLO) vehicles. Substantially all of the CLO vehicles in which we may invest would be deemed to be investment companies under the 1940 Act but for the exceptions set forth in section 3(c)(1) or section 3(c)(7). Structurally, CLO vehicles are entities that were formed to originate and manage a portfolio of loans. The loans within the CLO vehicle are limited to loans which meet established credit criteria and are subject to concentration limitations in order to limit a CLO vehicle s exposure to a single credit. A CLO vehicle is formed by raising various classes or tranches of debt (with the most senior tranches being rated AAA to the most junior tranches typically being rated BB) and equity. The CLO vehicles which we focus on are collateralized primarily by Senior Loans, and generally have very little or no exposure to real estate, mortgage loans or to pools of consumer-based debt, such as credit card receivables or auto loans. We may also invest, on an opportunistic basis, in other corporate credits of a variety of types. We expect that each of our investments will range in size from $1 million to $12 million, although the investment size may vary consistent with the size of our overall portfolio.

Oxford Lane Management manages our investments and its affiliate arranges for the performance of the administrative services necessary for us to operate.

Distributions

In order to qualify as a regulated investment company, or RIC, and to avoid corporate level tax on the income we distribute to our stockholders, we are required, under Subchapter M of the Internal Revenue Code of 1986, as amended, or the Code, to distribute at least 90% of our ordinary income and short-term capital gains to our stockholders on an annual basis.

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The following table reflects the cash distributions, including dividends and returns of capital, if any, per share that we have declared on our common stock to date:

Date Declared	Record Date	Payment Date	Amount
Fiscal 2013			
July 31, 2012	September 14, 2012	September 28, 2012	$ 0.55
May 22, 2012	June 15, 2012	June 29, 2012	0.55
Total (2013)			1.10
Fiscal 2012			
January 25, 2012	March 16, 2012	March 30, 2012	0.55
October 24, 2011	December 16, 2011	December 30, 2011	0.50
July 22, 2011	September 16, 2011	September 30, 2011	0.50
April 6, 2011	June 16, 2011	June 30, 2011	0.50
Total (2012)			2.05
Fiscal 2011			
March 7, 2011	March 21, 2011	April 1, 2011	0.25
Total (2011)			0.25
			$ 3.40

For accounting purposes the distributions declared for the fiscal periods ended March 31, 2012 and 2011 were in excess of the reported earnings. However, as a RIC, earnings and distributions are determined on a tax basis. For tax purposes, the distribution declared in March 2011 and paid in April 2011 is considered a distribution for the tax year 2012. Furthermore, taxable earnings are determined according to tax regulations and differ from reported income for accounting purposes. Therefore, for the fiscal period ended March 31, 2011 distributions were spilled-back for tax purposes in an amount equal to taxable earnings. Based on current estimates of taxable earnings for fiscal 2012 and 2013, we do not expect that any portion of the above-referenced dividends will represent a tax return of capital to our stockholders; however, there can be no assurance that actual results will not differ materially from the projections and assumptions upon which the amount of such dividend was based. To the extent that taxable earnings for any fiscal year are less than the amount of the dividends paid during the year, there would be a tax return of capital to shareholders. The tax character of any distributions will be determined after the end of the fiscal year.

Use of Proceeds From Prior Offerings

Since the closing of our initial public offering on January 25, 2011 and including two subsequent rights offerings on August 26, 2011 and April 27, 2012, through October 4, 2012 we have invested approximately $72.6 million of the cumulative net proceeds we received from our initial public offering (including the proceeds received from the underwriters' partial exercise of the over-allotment option) and subsequent rights offerings, representing approximately 97% of those cumulative proceeds. Consistent with our investment objective, these investments were made in junior debt and equity tranches of CLOs.

Oxford Lane Management

Our investment activities are managed by Oxford Lane Management, which is an investment adviser that has registered under the Investment Advisers Act of 1940, or the Advisers Act. Under our investment advisory agreement with Oxford Lane Management, which we refer to as our Investment Advisory Agreement, we have agreed to pay Oxford Lane Management an annual base management fee based on our gross assets, as well as an incentive fee based on our performance. See Investment Advisory Agreement.

We expect to benefit from the proven ability of our investment adviser s team to identify attractive opportunities, conduct diligence on and value prospective investments, negotiate terms where appropriate, and manage and monitor a diversified portfolio although we do not intend to operate as a diversified investment company within the meaning of the 1940 Act. Our investment adviser s senior investment team members have broad investment backgrounds, with prior experience at investment banks, commercial banks, unregistered investment funds and other financial services companies, and have collectively developed a broad network of contacts to provide us with our principal source of investment opportunities.

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Our investment adviser is led by Jonathan H. Cohen, our Chief Executive Officer, and Saul B. Rosenthal, our President. Messrs. Cohen and Rosenthal are assisted by Darryl M. Monasebian and Hari Srinivasan, who serve as Executive Vice President and Managing Director, respectively, for Oxford Lane Management. We consider Messrs. Cohen, Rosenthal, Monasebian and Srinivasan to be Oxford Lane Management s senior investment team.

Messrs. Cohen and Rosenthal, together with the other members of Oxford Lane Management s investment team, have developed an infrastructure that we believe provides Oxford Lane Capital with a competitive advantage in locating and acquiring attractive Senior Loans and CLO investments.

Charles M. Royce is a non-managing member of Oxford Lane Management. Mr. Royce has served as President since 1972, and a member of the Board of Managers since 2001, of Royce & Associates, LLC (Royce & Associates). He also serves as Royce & Associates Co-Chief Investment Officer and manages or co-manages twelve of Royce & Associates open- and closed-end registered funds. Mr. Royce currently serves on the Board of Directors of The Royce Funds and TICC Capital Corp. Mr. Royce is also a non-managing member of TICC Management, LLC, the investment adviser for TICC Capital Corp. Mr. Royce, as a non-managing member of Oxford Lane Management, does not take part in the management or participate in the operations of Oxford Lane Management; however, Mr. Royce may be available from time to time to Oxford Lane Management to provide certain consulting services without compensation. Royce & Associates is a wholly owned subsidiary of Legg Mason, Inc.

In addition, we will pay BDC Partners, an affiliate of Oxford Lane Management, our allocable portion of overhead and other expenses incurred by BDC Partners in performing its obligations under an administration agreement by and among us and BDC Partners (the Administration Agreement), including rent, the fees and expenses associated with performing compliance functions, and our allocable portion of the compensation of our Chief Financial Officer, Chief Compliance Officer and any administrative support staff. These arrangements will create conflicts of interest that our Board of Directors must monitor.

Investment Focus

Our investment objective is to maximize our portfolio s total return. We seek to achieve our investment objective by investing primarily in Senior Loans, with an emphasis on current income. Those investments may take a variety of forms, including the direct purchases of Senior Loans (either in the primary or secondary markets) or through investments in entities that in turn own a pool of Senior Loans. We have initially implemented our investment objective by investing principally in the equity and junior debt tranches of CLO vehicles, which are collateralized primarily by a diverse portfolio of leveraged corporate loans, and which generally have very little or no exposure to real estate or mortgage loans or to pools of consumer-based debt, such as credit card receivables or auto loans. We may invest in securities issued by foreign entities, including foreign CLO vehicles.

The CLO investments we have initially targeted generally represent either a residual economic interest, in the case of an equity tranche, or a debt investment collateralized by a portfolio of Senior Loans. The value of our CLO investments generally depend on both the quality and nature of the underlying portfolio it references and also on the specific structural characteristics of the CLO itself, both of which are described below.

CLO Structural Elements

Structurally, CLO vehicles are entities that were formed to originate and manage a portfolio of loans. The loans within the CLO vehicle are limited to loans which meet established credit criteria and are subject to concentration limitations in order to limit a CLO vehicle s exposure to a single credit.

A CLO vehicle is formed by raising multiple tranches of debt (with the most senior tranches being rated AAA to the most junior tranches typically being rated BB) and equity. As interest payments are received the CLO vehicle makes contractual interest payments to each tranche of debt based on their seniority. If there are funds remaining after each tranche of debt receives its contractual interest rate and the CLO vehicle meets or exceeds required collateral coverage levels (or other similar covenants) the remaining funds may be paid to the equity tranche. The contractual provisions setting out this order of payments are set out in detail in the CLO vehicle s indenture. These provisions are referred to as the priority of payments or the waterfall and determine any other obligations that may be required to be paid ahead of payments of interest

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and principal on the securities issued by a CLO vehicle. In addition, for payments to be made to each tranche, after the most senior tranche of debt, there are various tests which must be complied with, which are different for each CLO vehicle.

CLO indentures typically provide for adjustments to the priority of payments in the event that certain cashflow or collateral requirements are not maintained. The collateral quality tests that may divert cashflows in the priority of payments are predominantly determined by reference to the par values of the underlying loans, rather than their current market values. Accordingly, we believe that CLO equity and junior debt investments allow investors to gain diversified exposure to the Senior Loan market on a levered basis without being structurally subject to mark-to-market price fluctuations of the underlying loans. As such, although the current valuations of CLO equity and junior debt tranches are expected to fluctuate based on price changes within the loan market, interest rate movements and other macroeconomic factors, those tranches will generally be expected to continue to receive distributions from the CLO vehicle periodically so long as the underlying portfolio does not suffer defaults, realized losses or other covenant violations sufficient to trigger changes in the waterfall allocations. We therefore believe that an investment portfolio consisting of CLO equity and junior debt investments of this type has the ability to provide attractive risk-adjusted rates of return.

The diagram below is for illustrative purposes only. The CLO structure highlighted below is only a hypothetical structure and structures among CLO vehicles in which we may invest may vary substantially from the hypothetical example set forth below.

The Syndicated Senior Loan Market

We believe that while the syndicated leveraged corporate loan market is relatively large, with Standard and Poor s estimating the total par value outstanding at approximately $518 billion as of February 8, 2012, this market remains largely inaccessible to a significant portion of investors that are not lenders or approved institutions. The CLO market permits wider exposure to syndicated Senior Loans, but this market is almost exclusively private and predominantly institutional.

The Senior Loan market is characterized by various factors, including:

Seniority. A Senior Loan typically ranks senior in a company s capital structure to all other forms of debt or equity. As such, that loan maintains the senior-most claim on the company s assets and cash flow, and, we believe should, all other things being equal, offer the prospect of a relatively more stable and lower-risk holding.
Floating rate instruments. A Senior Loan typically contains a floating versus a fixed interest rate, which we believe provides some measure of protection against the risk of interest rate fluctuation.
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Frequency of interest payments. A Senior Loan typically provides for scheduled interest payments no less frequently than quarterly.

In the current environment, we believe the above attributes seem particularly desirable.

Investment Opportunity

We believe that the Senior Loan market has and continues to represent an attractive area for investment. We believe that the CLO equity and junior debt investments we intend to seek currently represent, as a class, an opportunity to obtain attractive risk-adjusted investment returns. 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 the increasing asset spreads and the introduction of more LIBOR floors have created opportunities to purchase certain CLO equity and junior debt instruments that may produce attractive risk-adjusted returns.
We believe that CLO equity and junior debt have generally become more liquid since mid-2009. From late 2007 through mid-2009, these assets traded only very infrequently. We believe that greater recent liquidity in this market has created an opportunity to better analyze and compare various equity and debt instruments from among a large number of different structures.
We believe that although Senior Loan asset prices have risen since mid-2010, CLO equity and junior debt instruments still offer attractive risk-adjusted returns.
We believe that larger institutional investors with sufficient resources to source, analyze and negotiate the purchase of these assets may refrain from purchasing assets of the size that we are targeting, thereby potentially reducing the competition for our target investments.
We believe that investing in CLO securities and CLO equity instruments 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, as the nature of that analysis tends to be highly specialized.
We believe that a stronger credit market for Senior Loans has substantially 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 a total par value of approximately $250 billion invested in over 500 different CLO vehicles. We estimate the size of the junior-most debt tranches (specifically the tranches originally rated BB) is approximately $9.0 billion (of which turbo BB tranches are an attractive sub-segment), and the size of the equity tranches is approximately $20 billion.

Risk Factors

The value of our assets, as well as the market price of our securities, will fluctuate. Our investments may be risky, and you may lose all or part of your investment in us. Investing in Oxford Lane Capital involves other risks, including the following:

We have a limited operating history as a closed-end investment company;
We are dependent upon Oxford Lane Management s key personnel for our future success;
Our incentive fee structure and the formula for calculating the fee payable to Oxford Lane Management may incentivize Oxford Lane Management to pursue speculative investments, use leverage when it may be unwise to do so, or refrain from de-levering when it would otherwise be appropriate to do so;

A general increase in interest rates will likely have the effect of making it easier for our investment adviser to receive incentive fees, without necessarily resulting in an increase in our net earnings due to the catch up feature of the incentive fee;

CLO vehicles are very highly levered (typically 10-14 times), and therefore the junior debt and equity instruments in which we invest are subject to a higher degree of risk of total loss;

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Our portfolio of investments may lack diversification among CLO vehicles which may subject us to a risk of significant loss if one or more of these CLO vehicles experiences a high level of defaults on its underlying Senior Loans;
The Senior Loan portfolios of the CLO vehicles in which we will invest may be concentrated in a limited number of industries, which may subject those vehicles, and in turn us, to a risk of significant loss if there is a downturn in a particular industry in which a number of our CLO vehicles investments are concentrated;
Our financial results may be affected adversely if one or more of our significant equity or junior debt investments in such CLO vehicles defaults on its payment obligations or fails to perform as we expect;
Investing in CLO vehicles and other high-yield corporate credits involves a variety of risks, any of which may adversely impact our performance;
A disruption or downturn in the capital markets and the credit markets could impair our ability to raise capital and negatively affect our business;
We may borrow money to leverage our portfolio, which would magnify the potential for gain or loss on amounts invested and may increase the risk of investing in us;
Our investment portfolio will be recorded at fair value, with our Board of Directors having final responsibility for overseeing, reviewing and approving, in good faith, its estimate of fair value and, as a result, there will be uncertainty as to the value of our portfolio investments;
We may experience fluctuations in our quarterly results;
We will become subject to corporate-level income tax if we are unable to qualify as a RIC under Subchapter M of the Code;
Shares of closed-end management investment companies, including Oxford Lane Capital, have in the past frequently traded at discounts to their net asset values, and we cannot assure you that the market price of shares of our common stock will not decline below our net asset value per share;
Our common stock price may be volatile and may decrease substantially;
There is a risk that our stockholders may not receive distributions or that our distributions may not grow or may be reduced over time, including on a per share basis as a result of the dilutive effects of this offering;
Regulations governing our operation as a registered closed-end management investment company affect our ability to raise additional capital and the way in which we do so. The raising of debt capital may expose us to risks, including the typical risks associated with leverage.
If we issue preferred stock, the net asset value and market value of our common stock may become more volatile.
Holders of any preferred stock we might issue would have the right to elect members of our Board of Directors and class voting rights on certain matters.

See Risk Factors beginning on page 15, and the other information included in this prospectus and any accompanying prospectus supplement, for additional discussion of factors you should carefully consider before investing in our securities.

Operating and Regulatory Structure

Oxford Lane Capital is a Maryland corporation that is a non-diversified closed-end management investment company that has registered as an investment company under the 1940 Act. As a registered closed-end fund, we are required to meet regulatory tests. See Regulation as a Registered Closed-End Investment Company. We may also borrow funds to make investments. In addition, we have elected to be treated for federal income tax purposes, and intend to qualify annually, as a RIC under Subchapter M of the Code. See Material U.S. Federal Income Tax Considerations.

Our investment activities are managed by Oxford Lane Management and supervised by our Board of Directors. Oxford Lane Management is an investment adviser that is registered under the Advisers Act. Under our Investment Advisory Agreement, we have agreed to pay Oxford Lane Management an annual base management fee based on our gross assets as well as an incentive fee based on our performance. See

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Investment Advisory Agreement. We have also entered into an administration agreement with BDC Partners, which we refer to as the Administration Agreement, under which we have agreed to reimburse BDC Partners for our allocable portion of overhead and other expenses incurred by BDC Partners in performing its obligations under the Administration Agreement, including furnishing us with office facilities, equipment and clerical, bookkeeping and record keeping services at such facilities, as well as providing us with other administrative services. See Administration Agreement.

BDC Partners also serves as the managing member of Oxford Lane Management. Messrs. Cohen and Rosenthal, in turn, serve as the managing member and non-managing member, respectively, of BDC Partners.

Our Corporate Information

Our offices are located at 8 Sound Shore Drive, Suite 255, Greenwich, CT 06830, and our telephone number is (203) 983-5275.

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OFFERINGS

We may offer, from time to time, up to $100,000,000 of our common stock, preferred stock, subscription rights to purchase shares of our common stock or debt securities, on terms to be determined at the time of the offering. We will offer our securities at prices and on terms to be set forth in one or more supplements to this prospectus. The offering price per share of our securities, less any underwriting commissions or discounts, generally will not be less than the net asset value per share of our securities at the time of an offering. However, we may issue shares of our securities pursuant to this prospectus at a price per share that is less than our net asset value per share (i) in connection with a rights offering to our existing stockholders, (ii) with the prior approval of the majority of our common stockholders or (iii) under such other circumstances as the SEC may permit. Any such issuance of shares of our common stock below net asset value may be dilutive to the net asset value of our common stock. See Risk Factors Risks Relating to an Investment in our Common Stock.

Our securities may be offered directly to one or more purchasers, or through agents designated from time to time by us, or to or through underwriters or dealers. The prospectus supplement relating to an offering will identify any agents or underwriters involved in the sale of our securities, and will disclose any applicable purchase price, fee, commission or discount arrangement between us and our agents or underwriters or among our underwriters or the basis upon which such amount may be calculated. See Plan of Distribution. We may not sell any of our securities through agents, underwriters or dealers without delivery of this prospectus and a prospectus supplement describing the method and terms of the offering of such securities.

Set forth below is additional information regarding offerings of our securities:

Use of Proceeds

We intend to use the net proceeds from the sale of our securities pursuant to this prospectus for acquiring investments in accordance with our investment objective and strategies described in this prospectus and for general working capital purposes. Each supplement to this prospectus relating to an offering will more fully identify the use of the proceeds from such offering. See Use of Proceeds.

NASDAQ Global Select Market symbol

OXLC

Distributions

To the extent that we have income available, we intend to distribute quarterly dividends to our stockholders, beginning with our first full quarter after the completion of this offering. The amount of our dividends, if any, will be determined by our Board of Directors. Any dividends to our stockholders will be declared out of assets legally available for distribution. The specific tax characteristics of our dividends will be reported to shareholders after the end of each calendar year.

Taxation

We have elected to be treated for federal income tax purposes as a RIC under Subchapter M of the Code. As a RIC, we generally do not have to pay corporate-level federal income taxes on any ordinary income or capital gains that we distribute to our stockholders as dividends. To maintain our RIC tax treatment, we must meet specified source-of-income and asset diversification requirements and distribute annually at least 90% of our ordinary income and realized net short-term capital gains in excess of realized net long-term capital losses, if any. See Distributions and Material U.S. Federal Income Tax Considerations.

Investment Advisory Fees

We pay Oxford Lane Management a fee for its services under the Investment Advisory Agreement 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 our gross assets, which includes any borrowings for investment purposes. The incentive fee is calculated and payable quarterly in arrears and equals 20.0% of our pre-incentive fee net investment income for the immediately preceding quarter, subject to a preferred return, or hurdle, and a catch up feature. No incentive fees are payable to our investment adviser on any realized capital gains. See Investment Advisory Agreement.

Administration Agreement

We reimburse BDC Partners for our allocable portion of overhead and other expenses it incurs in performing its obligations under the Administration Agreement, including furnishing us with office facilities, equipment and clerical, bookkeeping and record keeping services at such facilities, as well as providing us with other administrative services. In addition, we reimburse BDC Partners for the fees and expenses associated with performing compliance functions, and our allocable portion of the compensation of our Chief Financial Officer, Chief Compliance Officer and any administrative support staff. See Administration Agreement.

Leverage

We do not currently anticipate incurring indebtedness on our portfolio or paying any interest during the twelve months following completion of this offering. Although we have no current intention to do so, we may borrow funds to make investments. As a result, we may be exposed to the risks of leverage, which may be considered a speculative investment technique. In addition, the CLO vehicles in which we invest will be leveraged, which will indirectly expose us to the risks of leverage. The use of leverage magnifies the potential gain and loss on amounts invested and therefore increases the risks associated with investing in our securities. In addition, the costs associated with our borrowings, including any increase in the management fee payable to our investment adviser, Oxford Lane Management, will be borne by our common stockholders. Under the 1940 Act, we are only permitted to incur additional indebtedness to the extent our asset coverage, as defined under the 1940 Act, is at least 300% immediately after each such borrowing. See Regulation as a Registered Closed-End Investment Company.

Trading

Shares of closed-end investment companies frequently trade at a discount to their net asset value. The risk that our shares may trade at a discount to our net asset value is separate and distinct from the risk that our net asset value per share may decline. We cannot predict whether our shares will trade above, at or below net asset value.

Dividend Reinvestment Plan

We have adopted an opt out dividend reinvestment plan. If your shares of common stock are registered in your own name, your distributions will automatically be reinvested under our dividend reinvestment plan in additional whole and fractional shares of common stock, unless you opt out of our dividend reinvestment plan so as to receive cash dividends by delivering a written notice to our dividend paying agent. If your shares are held in the name of a broker or other nominee, you should contact the broker or nominee for details regarding opting out of our dividend reinvestment plan. Stockholders who receive distributions in the form of stock will be subject to the same federal, state and local tax consequences as stockholders who elect to receive their distributions in cash. See Dividend Reinvestment Plan.

Certain Anti-Takeover Measures

Our charter and bylaws, as well as certain statutory and regulatory requirements, contain certain provisions that may have the effect of discouraging a third party from making an acquisition proposal for us. These anti-takeover provisions may inhibit a change in control in circumstances that could give the holders of our common stock the opportunity to realize a premium over the market price for our common stock. See Description of Securities.

Available Information

After the completion of this offering, we will be required to file periodic reports, proxy statements and other information with the SEC. This information will be available at the SEC s public reference room at 100 F Street, NE, Washington, D.C. 20549 and on the SEC s website at *http://www.sec.gov*. The public may obtain information on the operation of the SEC s public reference room by calling the SEC at (202) 551-8090. This information will also be available free of charge by contacting us at Oxford Lane Capital Corp., 8 Sound Shore Drive, Suite 255, Greenwich, CT 06830, by telephone at (203) 983-5275, or on our website at *http://www.oxfordlanecapital.com*.

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FEES AND EXPENSES

The following table is intended to assist you in understanding the costs and expenses that you will bear directly or indirectly. We caution you that some of the percentages indicated in the table below are estimates and may vary. Except where the context suggests otherwise, whenever this prospectus contains a reference to fees or expenses paid by us or Oxford Lane Capital, or that we will pay fees or expenses, you will indirectly bear such fees or expenses as an investor in Oxford Lane Capital Corp.

Stockholder transaction expenses:		
Sales load (as a percentage of offering price)		%(1)
Offering expenses borne by us (as a percentage of offering price)		%(2)
Dividend reinvestment plan expenses	None	(3)
Total stockholder transaction expenses (as a percentage of offering price)		%
Annual expenses (as a percentage of net assets attributable to common stock):		
Base management fee	2.68	%(4)
Incentive fees payable under our investment advisory agreement	1.45	%(5)
Interest payments on borrowed funds	0.00	%(6)
Preferred stock dividend payment	2.74	%(7)
Other expenses (estimated)	2.11	%(8)
Acquired fund fees and expenses	3.47	%(9)
Total annual expenses (estimated)	12.45	%

Example

The following example demonstrates the projected dollar amount of total cumulative expenses that would be incurred over various periods with respect to a hypothetical investment in our common stock. In calculating the following expense amounts, we have assumed that our annual operating expenses would remain at the levels set forth in the table above. See Note 6 below for additional information regarding certain assumptions regarding our level of leverage subsequent to this offering.

In the event that shares to which this prospectus relates are sold to or through underwriters, a corresponding prospectus supplement will restate this example to reflect the applicable sales load.

	1 Year	3 Years	5 Years	10 Years
You would pay the following expenses on a $1,000 investment, assuming a 5% annual return	$ 120	$ 333	$ 516	$ 867

The example and the expenses in the tables above should not be considered a representation of our future expenses, and actual expenses may be greater or less than those shown. While the example assumes, as required by the SEC, a 5.0% annual return, our performance will vary and may result in a return greater or less than 5.0%. The incentive fee under the Investment Advisory Agreement, which, assuming a 5.0% annual return, would either not be payable or would have an insignificant impact on the expense amounts shown above, is not included in the example. Also, while the example assumes reinvestment of all dividends at net asset value, participants in our dividend reinvestment plan will receive a number of shares of our common stock, determined by dividing the total dollar amount of the dividend payable to a participant by the market price per share of our common stock at the close of trading on the dividend payment date, which may be at, above or below net asset value. See Dividend Reinvestment Plan for additional information regarding our dividend reinvestment plan.

(1) In the event that the securities to which this prospectus relates are sold to or through underwriters, a corresponding prospectus supplement will disclose the applicable sales load and the Example will be updated accordingly.

(2) The prospectus supplement corresponding to each offering will disclose the applicable offering expenses and total stockholder transaction expenses as a percentage of the offering price.

(3) The expenses of the dividend reinvestment plan are included in other expenses.

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(4) Assumes gross assets of $98.0 million and $25.0 million of leverage (including an assumed $25.0 million of preferred stock with a preferred rate of 8.0% per annum), and assumes net assets of $73.0 million, which reflects our net assets as of June 30, 2012. The above calculation reflects our base management fee as a percentage of our net assets. Our base management fee under the Investment Advisory Agreement, however, is based on our gross assets, which is defined as all the assets of Oxford Lane Capital, including those acquired using borrowings for investment purposes. As a result, to the extent we use leverage, it would have the effect of increasing our base management fee as a percentage of our net assets. See Investment Advisory Agreement.

(5) Amount reflects the estimated annual incentive fees payable to our investment adviser, Oxford Lane Management, during the fiscal year following this offering. The estimate assumes that the incentive fee earned will be proportional to the fee earned during the fiscal quarter ended June 30, 2012. Based on our current business plan, we anticipate that substantially all of the net proceeds of any offerings conducted pursuant to this prospectus will be invested within three months depending on the availability of investment opportunities that are consistent with our investment objective and other market conditions. We expect that it will take approximately one to three months to invest all of the proceeds of any offerings conducted pursuant to this prospectus, in part because equity and junior debt investments in CLO vehicles require substantial due diligence prior to investment.

The incentive fee, which is payable quarterly in arrears, equals 20.0% of the excess, if any, of our Pre-Incentive Fee Net Investment Income that exceeds a 1.75% quarterly (7.0% annualized) hurdle rate, which we refer to as the Hurdle, subject to a catch-up provision measured at the end of each calendar quarter. The incentive fee is computed and paid on income that may include interest that is accrued but not yet received in cash. The operation of the incentive fee for each quarter is as follows:

no incentive fee is payable to our investment adviser in any calendar quarter in which our Pre-Incentive Fee Net Investment Income does not exceed the Hurdle of 1.75%;

100% of our 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) is payable to our investment adviser. We refer to this portion of our 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 our investment adviser with 20.0% of our Pre-Incentive Fee Net Investment Income, as if a Hurdle did not apply when our Pre-Incentive Fee Net Investment Income exceeds 2.1875% in any calendar quarter; and

20.0% of the amount of our Pre-Incentive Fee Net Investment Income, if any, that exceeds 2.1875% in any calendar quarter (8.75% annualized) is payable to our investment adviser (once the Hurdle is reached and the catch-up is achieved, 20.0% of all Pre-Incentive Fee Investment Income thereafter is allocated to our investment adviser).

No incentive fee is payable to our investment adviser on realized capital gains. For a more detailed discussion of the calculation of this fee, see Investment Advisory Agreement.

(6) Assumes that we maintain our current level of no outstanding borrowings as of June 30, 2012. We may also issue preferred stock, which may be considered a form of leverage, pursuant to the registration statement of which this prospectus forms a part. In the event we were to issue preferred stock, our borrowing costs, and correspondingly our total annual expenses, including our base management fee as a percentage of our net assets, would increase.

(7) Assumes that we issue $25.0 million of preferred stock with a preferred rate equal to 8.0% per annum.

(8) Other expenses ($1.5 million) assumes that other expenses for the year will be proportional to other expenses incurred during the fiscal quarter ended June 30, 2012.

(9) Reflects the estimated annual collateral manager fees that will be indirectly incurred by us in connection with our investments in CLO equity tranches during the twelve months following the date of this prospectus, assuming the CLO equity investments held as of June 30, 2012 and net assets of $73.0 million. Collateral manager fees are charged on the total assets of the CLO vehicle, including the assets acquired with borrowed funds, but are assumed to be paid from the residual cash flows after interest payments to the senior debt tranches. Therefore, these collateral manager fees (which are generally 0.50% to 0.55% of total assets) are effectively much higher when

allocated only to the equity tranches. The debt tranches that we hold generally are not deemed to pay any such collateral manager fees. The calculation

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does not include any other operating expense ratios of the CLO vehicles, as these amounts are not routinely reported to shareholders on a basis consistent with this methodology; however, it is estimated that additional operating expenses of approximately 0.5% to 1.0% could be incurred. As a result of our investments in such CLO equity investments, our stockholders will be required to pay two levels of fees and expenses in connection with their investment in our common stock, including fees payable under our Investment Advisory Agreement and fees and expenses charged to us on the CLO equity tranches in which we are invested.

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FINANCIAL HIGHLIGHTS

The financial highlights table is intended to help you understand our financial performance. Information is shown since the commencement of our operations on January 25, 2011. The financial data for the fiscal years ended March 31, 2012 and March 31, 2011 is derived from our financial statements which have been audited by PricewaterhouseCoopers LLP, our independent registered public accounting firm. The data should be read in conjunction with our financial statements and related notes thereto included in this prospectus.

	Year Ended March 31, 2012		January 25, 2011 (Commencement of Operations) to March 31, 2011	
Per Share Data				
Net asset value at beginning of period[1]	$18.19		$ 16.80	
Net investment income[2]	1.19		0.07	
Net realized and unrealized capital gains[3]	0.83		(0.03	)
Total from investment operations	2.02		0.04	
Less distributions per share from net investment income	(2.05	)	(0.25	)
Less distributions per share based on weighted average share impact	(0.10	)		
Total distributions[4]	(2.15	)	(0.25	)
Effect of shares issued, net of underwriting expense[8]	(0.77	)	1.79	
Effect of offering costs[8]	(0.24	)	(0.19	)
Effect of shares issued, net[8]	(1.01	)	1.60	
Net asset value at end of period	$17.05		$ 18.19	
Per share market value at beginning of period	$18.75		$ 20.00	
Per share market value at end of period	$14.60		$ 18.75	
Total return[5][7]	(10.75	%)	(5.0	%)
Shares outstanding at end of period	2,456,511		1,861,250	
Ratios/Supplemental Data				
Net assets at end of period (000 s)	41,879		33,863	
Ratio of net investment income to average daily net assets	7.18	%	3.51	%[6]
Ratio of expenses to average daily net assets	6.50	%	4.79	%[6]
Portfolio turnover rate	0.22	%	0.05	%

(1) For period January 25, 2011 through March 31, 2011, represents the net asset value per share prior to commencement of operations.

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

(3) Net realized and unrealized capital gains include rounding adjustments, if necessary, to reconcile change in net asset value per share.

(4) Management monitors available 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.

(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, dividends, capital gains and other distributions were reinvested as provided for in the Fund's dividend reinvestment plan and then 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.

(6) Annualized, after adjusting for certain periodic expenses recorded during the period January 25, 2011 through March 31, 2011.

(7) Total return for the period January 25, 2011 through March 31, 2011 was not annualized.

(8) Based upon actual shares outstanding upon share issuance.

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RISK FACTORS

Investing in our securities involves a number of significant risks. In addition to the other information contained in this prospectus and any accompanying prospectus supplement, you should consider carefully the following information before making an investment in our securities. The risks set out below are not the only risks we face. Additional risks and uncertainties not presently known to us or not presently deemed material by us might also impair our operations and performance. If any of the following events occur, our business, financial condition and results of operations could be materially and adversely affected. In such case, our net asset value and the trading price of our common stock could decline, and you may lose all or part of your investment.

Risks Relating to Our Business and Structure

We have a limited operating history as a closed-end investment company.

We are a non-diversified, closed-end management investment company with a limited operating history of only one year. As a result, we do not have significant financial information on which you can evaluate an investment in our company or our prior performance. We are subject to all of the business risks and uncertainties associated with any new business, including the risk that we will not achieve our investment objective and that the value of your investment could decline substantially or become worthless. We anticipate that it may take approximately one to three months to invest substantially all of the net proceeds of this offering in our targeted investments. During this period, we will invest in temporary investments, such as cash, cash equivalents, U.S. government securities and other high-quality debt investments that mature in one year or less, which we expect will earn yields substantially lower than the interest or other income that we anticipate receiving in respect of investments in CLO vehicles or other debt securities. As a result, our dividends may be substantially lower than the dividends that we expect to pay when the proceeds of this offering have been fully invested in accordance with our investment objective.

Our investment portfolio is recorded at fair value, with our Board of Directors having final responsibility for overseeing, reviewing and approving, in good faith, its estimate of fair value and, as a result, there will be uncertainty as to the value of our portfolio investments.

Under the 1940 Act, we are required to carry our portfolio investments at market value or, if there is no readily available market value, at fair value as determined by us in accordance with our written valuation policy with our Board of Directors having final responsibility for overseeing, reviewing and approving, in good faith, our estimate of fair value. Typically, there will not be a public market for the type of investments we target. As a result, we will value these securities quarterly at fair value based on relevant information compiled by our investment adviser, third-party pricing services (when available) and our Valuation Committee and with the oversight, review and approval of our Board of Directors.

The determination of fair value and, consequently, the amount of unrealized gains and losses in our portfolio, are to a certain degree subjective and dependent on a valuation process approved by our Board of Directors. Certain factors that may be considered in determining the fair value of our investments include available indicative bids or quotations, as well as external events, such as private mergers, sales and acquisitions involving comparable companies. Because such valuations, and particularly valuations of private securities, are inherently uncertain, they may fluctuate over short periods of time and may be based on estimates. Our determinations of fair value may differ materially from the values that would have been used if an active public market for these securities existed. Our determinations of the fair value of our investments have a material impact on our net earnings through the recording of unrealized appreciation or depreciation of investments and may cause our net asset value on a given date to materially understate or overstate the value that we may ultimately realize on one or more of our investments. Investors purchasing our securities based on an overstated net asset value may pay a higher price than the value of our investments might warrant. Conversely, investors selling shares during a period in which the net asset value understates the value of our investments may receive a lower price for their shares than the value of our investments might warrant.

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Our financial condition and results of operations depend on our ability to effectively manage and deploy capital.

Our ability to achieve our investment objective depends on our ability to effectively manage and deploy capital, which depends, in turn, on our investment adviser s ability to identify, evaluate and monitor, and our ability to acquire, investments that meet our investment criteria.

Accomplishing our investment objective on a cost-effective basis is largely a function of our investment adviser s handling of the investment process, its ability to provide competent, attentive and efficient services and our access to investments offering acceptable terms, either in the primary or secondary markets. Even if we are able to grow and build upon our investment operations, any failure to manage our growth effectively could have a material adverse effect on our business, financial condition, results of operations and prospects. The results of our operations will depend on many factors, including the availability of opportunities for investment, readily accessible short and long-term funding alternatives in the financial markets and economic conditions. Furthermore, if we cannot successfully operate our business or implement our investment policies and strategies as described herein, it could negatively impact our ability to pay dividends.

We may face increasing competition for investment opportunities.

We may compete for investments with other investment funds (potentially including private equity funds, mezzanine funds and business development companies), as well as traditional financial services companies, which could include commercial banks, investment banks, finance companies and other sources of funding. Many of our competitors are substantially larger and have considerably greater financial, technical and marketing resources than us. For example, some competitors may have a lower cost of capital and access to funding sources that may not be available to us, including from federal government agencies through federal rescue programs such as the U.S. Department of Treasury s Financial Stability Plan (formerly known as the Troubled Asset Relief Program). In addition, some of our competitors may have higher risk tolerances or different risk assessments than we have. These characteristics could allow our competitors to consider a wider variety of investments, establish more relationships and offer higher pricing than we are willing to offer to potential sellers. We may lose investment opportunities if our competitors are willing to pay more for the types of investments that we intend to target. If we are forced to pay more for our investments, we may not be able to achieve acceptable returns on our investments or may bear substantial risk of capital loss. An increase in the number and/or the size of our competitors in our target markets could force us to accept less attractive investments. Furthermore, many of our competitors have greater experience operating under, or are not be subject to, the regulatory restrictions that the 1940 Act imposes on us as a closed-end management investment company.

We are dependent upon Oxford Lane Management s key personnel for our future success.

We depend on the diligence, skill and network of business contacts of Messrs. Cohen and Rosenthal, who serve as the investment committee of Oxford Lane Management, and who lead Oxford Lane Management s investment team. Messrs. Cohen and Rosenthal, together with the other senior investment professionals available to Oxford Lane Management, evaluate, acquire and monitor our investments. Our future success depends on the continued service of Messrs. Cohen and Rosenthal and the other members of Oxford Lane Management s senior investment team. We cannot assure you that unforeseen business, medical, personal or other circumstances would not lead any such individual to terminate his relationship with us. The loss of Mr. Cohen or Mr. Rosenthal, or any of the other senior investment professionals who serve on Oxford Lane Management s senior investment team, could have a material adverse effect on our ability to achieve our investment objective as well as on our financial condition and results of operations. In addition, we can offer no assurance that Oxford Lane Management will continue indefinitely as our investment adviser.

The members of Oxford Lane Management s investment team are and may in the future become affiliated with entities engaged in business activities similar to those intended to be conducted by us, and may have conflicts of interest in allocating their time. In particular, the members of Oxford Lane Management s investment team, including Messrs. Cohen and Rosenthal, are currently actively involved in the management of the portfolios of TICC Capital Corp., a publicly-traded business development company that invests principally in the debt of U.S.-based companies, TICC CLO LLC, a CLO structured finance vehicle that invests in a diversified portfolio of Senior Loans, the assets of which are included in the gross assets of TICC Capital Corp., Greenwich Loan Income Fund Limited, a Guernsey fund that invests primarily in Senior Loans, and T2 Income Fund CLO I Ltd., a CLO structured finance vehicle that invests in a diversified portfolio of Senior Loans, the assets of which are included in the gross assets of Greenwich Loan Income Fund Limited. Neither Messrs. Cohen or Rosenthal, or the investment team, is required to dedicate any specific portion of their time to the activities of Oxford Lane Capital; moreover, they are engaged in other business activities which divert their time and attention.

Our success depends on the ability of Oxford Lane Management to retain qualified personnel in a competitive environment.

Our success requires that Oxford Lane Management retain investment and administrative personnel in a competitive market. Its ability to attract and retain personnel with the requisite credentials, experience and skills depends on several factors including, but not limited to, its ability to offer competitive wages, benefits and professional growth opportunities. Many of the entities, including investment funds (such as private equity funds, mezzanine funds and business development companies) and traditional financial services companies, with which we compete for experienced personnel have greater resources than we have.

There are significant potential conflicts of interest which could impact our investment returns.

Oxford Lane Management s investment team 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, TICC CLO LLC, a CLO structured finance vehicle that invests in a diversified portfolio of Senior Loans, the assets of which are included in the gross assets of TICC Capital Corp., Greenwich Loan Income Fund Limited, a Guernsey fund that invests primarily in Senior Loans, T2 Income Fund CLO I Ltd., a CLO structured finance vehicle that invests in a diversified portfolio of Senior Loans, the assets of which are included in the gross assets of Greenwich Loan Income Fund Limited, and Oxford Gate Capital, LLC, a private partnership that invests in a broad range of assets, including the equity and debt of CLOs. In addition, our executive officers and directors, as well as the current and future members of our investment adviser, Oxford Lane Management, may serve as officers, directors or principals of other entities that operate in the same or a related line of business as we do. Accordingly, they may have obligations to investors in those entities, the fulfillment of which obligations may not be in the best interests of us or our stockholders. Each of TICC Capital Corp., TICC CLO LLC Greenwich Loan Income Fund Limited, T2 Income Fund CLO I Ltd. and Oxford Gate Capital, LLC, as well as any affiliated investment vehicle formed in the future and managed by our investment adviser or its affiliates may, notwithstanding different stated investment objectives, have overlapping investment objectives with our own and, accordingly, may invest in asset classes similar to those targeted by us. As a result, Oxford Lane Management s investment team may face conflicts in allocating investment opportunities between us and such other entities. Although Oxford Lane Management s investment team will endeavor to allocate investment opportunities in a fair and equitable manner, it is possible that, in the future, we may not be given the opportunity to participate in investments made by investment funds, including TICC Capital Corp., TICC CLO LLC Greenwich Loan Income Fund Limited, T2 Income Fund CLO I Ltd. and Oxford Gate Capital, LLC, managed by our investment adviser or an investment manager affiliated with our investment adviser. In any such case, when Oxford Lane Management s investment team identifies an investment, it will be required to choose which investment fund should make the investment, although BDC Partners maintains an allocation policy to ensure the equitable distribution of such investment opportunities, consistent with the requirements of the 1940 Act.

In certain instances, we may co-invest on a concurrent basis with affiliates of our 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 we elect to seek such relief, there can be no assurance when, or if, such relief may be obtained.

In addition, we will pay BDC Partners, an affiliate of Oxford Lane Management, our allocable portion of overhead and other expenses incurred by BDC Partners in performing its obligations under the Administration Agreement, including rent, the fees and expenses associated with performing compliance functions, and our allocable portion of the compensation of our Chief Financial Officer, Chief Compliance Officer and any administrative support staff. These arrangements may create conflicts of interest that our Board of Directors must monitor. Oxford Lane Management will not be reimbursed for any performance-related compensation of its employees.

Our incentive fee structure and the formula for calculating the fee payable to Oxford Lane Management may incentivize Oxford Lane Management to pursue speculative investments, use leverage when it may be unwise to do so, or refrain from de-levering when it would otherwise be appropriate to do so.

The incentive fee payable by us to Oxford Lane Management may create an incentive for Oxford Lane Management to pursue investments on our behalf that are riskier or more speculative than would be the case in the absence of such compensation arrangement. Such a practice could result in our investing in more speculative securities than would otherwise be the case, which could result in higher investment losses, particularly during economic downturns. The incentive fee payable to our investment adviser is based on our pre-incentive net investment income, as calculated in accordance with our Investment Advisory Agreement. In addition, our base management fee is calculated on the basis of our gross assets, including assets acquired through the use of leverage. This may encourage our investment adviser to use leverage to increase the aggregate amount of and the return on our investments, even when it may not be appropriate to do so, and to refrain from de-levering when it would otherwise be appropriate to do so. Under certain circumstances, the use of leverage may increase the likelihood of default, which would impair the value of our securities.

We may invest, to the extent permitted by law, in the securities and other instruments of other investment companies, including private funds, and, to the extent we so invest, will bear our ratable share of any such investment company s expenses, including management and performance fees. We will also remain obligated to pay management and incentive fees to Oxford Lane Management with respect to the assets invested in the securities and other instruments of other investment companies. With respect to each of these investments, each of our stockholders will bear his or her share of the management and incentive fee of Oxford Lane Management as well as indirectly bearing the management and performance fees and other expenses of any investment companies in which we invest.

In the course of our investing activities, we will pay management and incentive fees to Oxford Lane Management and reimburse Oxford Lane Management for certain expenses it incurs. As a result, investors in our common stock will invest on a gross basis and receive distributions on a net basis after expenses, resulting in a lower rate of return than an investor might achieve through direct investments.

A general increase in interest rates will likely have the effect of making it easier for our investment adviser to receive incentive fees, without necessarily resulting in an increase in our net earnings.

Given the structure of our Investment Advisory Agreement with Oxford Lane Management, any general increase in interest rates will likely have the effect of making it easier for Oxford Lane 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 our investment adviser. In addition, in view of the catch-up provision applicable to income incentive fees under the Investment Advisory Agreement, our investment adviser could potentially receive a significant portion of the increase in our investment income attributable to such a general increase in interest rates. If that were to occur, our increase in net earnings, if any, would likely be significantly smaller than the relative increase in our investment adviser s income incentive fee resulting from such a general increase in interest rates.

Our investment adviser has the right to resign on 60 days notice, and we may not be able to find a suitable replacement within that time, resulting in a disruption in our operations that could adversely affect our financial condition, business and results of operations.

Our investment adviser has the right, under the Investment Advisory Agreement, to resign at any time upon 60 days written notice, whether we have found a replacement or not. If our investment adviser resigns, we may not be able to find a new investment adviser or hire internal management with similar expertise and ability to provide the same or equivalent services on acceptable terms within 60 days, or at all. If we are unable to do so quickly, our operations are likely to experience a disruption, our financial condition, business and results of operations as well as our ability to pay distributions are likely to be adversely affected and the

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market price of our shares may decline. In addition, the coordination of our internal management and investment activities is likely to suffer if we are unable to identify and reach an agreement with a single institution or group of executives having the expertise possessed by our investment adviser and its affiliates. Even if we are able to retain comparable management, whether internal or external, the integration of such management and their lack of familiarity with our investment objective may result in additional costs and time delays that may adversely affect our financial condition, business and results of operations.

Our investment adviser may not be able to achieve the same or similar returns as those achieved by Messrs. Cohen and Rosenthal while managing other portfolios.

Although Messrs. Cohen and Rosenthal have experience managing other investment portfolios, including those of TICC Capital Corp., a publicly traded business development company that invests principally in the debt of U.S.-based companies, TICC CLO LLC, a CLO structured finance vehicle that invests in a diversified portfolio of Senior Loans, the assets of which are included in the gross assets of TICC Capital Corp., Greenwich Loan Income Fund Limited, a Guernsey fund that invests primarily in leveraged corporate loans, and T2 Income Fund CLO I Ltd., a CLO structured finance vehicle that invests in a diversified portfolio of Senior Loans, the assets of which are included in the gross assets of Greenwich Loan Income Fund Limited, their track record and prior achievements are not necessarily indicative of future results that will be achieved by our investment adviser. We cannot assure you that we will be able to achieve the results realized by other vehicles managed by Messrs. Cohen and Rosenthal, including TICC Capital Corp., Greenwich Loan Income Fund Limited and T2 Income Fund CLO I Ltd.

Regulations governing our operation as a registered closed-end management investment company affect our ability to raise additional capital and the way in which we do so. The raising of debt capital may expose us to risks, including the typical risks associated with leverage.

Although we have no current intention to do so, we may in the future issue debt securities or preferred stock and/or borrow money from banks or other financial institutions, which we refer to collectively as senior securities, up to the maximum amount permitted by the 1940 Act. Under the provisions of the 1940 Act, we will be permitted, as a registered closed-end management investment company, to issue senior securities in amounts such that our asset coverage ratio, defined under the 1940 Act as the ratio of our gross assets (less all liabilities and indebtedness not represented by senior securities) to our outstanding senior securities, of at least 300% after each issuance of senior securities. If the value of our assets declines, we may be unable to satisfy this test. If that happens, we may be required to sell a portion of our investments and, depending on the nature of our leverage, repay a portion of our indebtedness at a time when such sales may be disadvantageous. Also, any amounts that we use to service our indebtedness would not be available for distributions to our common stockholders. Furthermore, as a result of issuing senior securities, we would also be exposed to typical risks associated with leverage, including an increased risk of loss. If we issue preferred stock, the preferred stock would rank senior to common stock in our capital structure, preferred stockholders would have separate voting rights on certain matters and might have other rights, preferences, or privileges more favorable than those of our common stockholders, and the issuance of preferred stock could have the effect of delaying, deferring or preventing a transaction or a change of control that might involve a premium price for holders of our common stock or otherwise be in your best interest.

We are not generally able to issue and sell our common stock at a price below net asset value per share, other than in connection with a rights offering to our existing stockholders. We may, however, sell our common stock at a price below the then-current net asset value per share of our common stock if our Board of Directors determines that such sale is in the best interests of Oxford Lane Capital and our stockholders, and our stockholders approve such sale. In any such case, the price at which our securities are to be issued and sold may not be less than a price that, in the determination of our Board of Directors, closely approximates the market value of such securities (less any distributing commission or discount). If we raise additional funds by issuing more common stock, then the percentage ownership of our stockholders at that time will decrease, and you may experience dilution.

We may borrow money and/or issue preferred stock to leverage our portfolio, which would magnify the potential for gain or loss on amounts invested and will increase the risk of investing in us.

The use of leverage magnifies the potential for gain or loss on amounts invested and, therefore, increases the risks associated with investing in our securities. Although we have no current intention to do so, we may borrow from and issue senior debt securities, including preferred stock, to banks, insurance companies and other lenders in the future. Holders of these senior securities will have fixed dollar claims on our assets that are superior to the claims of our common stockholders, and we would expect such lenders to seek recovery against our assets in the event of a default. If the value of our assets decreases, leveraging would cause net asset value to decline more sharply than it otherwise would have had we not leveraged. Similarly, any decrease in our income would cause net income to decline more sharply than it would have had we not borrowed. Such a decline could also negatively affect our ability to make dividend payments on our common stock. Leverage is generally considered a speculative investment technique. Our ability to service any debt that we incur will depend largely on our financial performance and will be subject to prevailing economic conditions and competitive pressures. Moreover, as the management fee payable to our investment adviser, Oxford Lane Management, will be payable based on our gross assets, including those assets acquired through the use of leverage, Oxford Lane Management will have a financial incentive to incur leverage which may not be consistent with our stockholders interests. In addition, our common stockholders will bear the burden of any increase in our expenses as a result of leverage, including any increase in the management fee payable to Oxford Lane Management.

As a registered closed-end management investment company, we will generally be required to meet an asset coverage ratio, defined under the 1940 Act as the ratio of our gross assets (less all liabilities and indebtedness not represented by senior securities) to our outstanding senior securities, of at least 300% after each issuance of senior securities. If this ratio declines below 300%, we may not be able to incur additional debt and could be required by law to sell a portion of our investments to repay some debt when it is disadvantageous to do so, which could have a material adverse effect on our operations, and we may not be able to make distributions. The amount of leverage that we employ will depend on our investment adviser s and our Board of Directors assessment of market and other factors at the time of any proposed borrowing. We cannot assure you that we will be able to obtain credit at all or on terms acceptable to us.

In addition, any debt facility into which we may enter would likely impose financial and operating covenants that restrict our business activities, including limitations that could hinder our ability to finance additional loans and investments or to make the distributions required to maintain our status as a RIC under Subchapter M of the Code.

We may experience fluctuations in our quarterly results.

We could experience fluctuations in our quarterly operating results due to a number of factors, including our ability or inability to make investments that meet our investment criteria, the interest rate payable on the debt securities we acquire, the level of portfolio dividend and fee income, the level of our expenses, variations in and the timing of the recognition of realized and unrealized gains or losses, the degree to which we encounter competition in our markets and general economic conditions. As a result of these factors, results for any period should not be relied upon as being indicative of performance in future periods.

Our Board of Directors is authorized to reclassify any unissued shares of common stock into one or more classes of preferred stock, which could convey special rights and privileges to its owners.

Under Maryland General Corporation Law and our charter, our Board of Directors will be authorized to classify and reclassify any authorized but unissued shares of stock into one or more classes of stock, including preferred stock. Prior to issuance of shares of each class or series, the Board of Directors will be required by Maryland law and our charter to set the terms, preferences, conversion or other rights, voting powers, restrictions, limitations as to dividends or other distributions, qualifications and terms or conditions of redemption for each class or series. Thus, the Board of Directors could authorize the issuance of shares of preferred stock with terms and conditions which could have the effect of delaying, deferring or preventing a transaction or a change in control that might involve a premium price for holders of our common stock or otherwise be in their best interest. The cost of any such reclassification would be borne by our common stockholders. Certain matters under the 1940 Act require the separate vote of the holders of any issued and outstanding preferred stock. For example, holders of preferred stock would vote separately from the holders of common stock on a proposal to cease operations as a registered closed-end management investment company. In addition, the 1940 Act provides that holders of preferred stock are entitled to vote separately from holders of common stock to elect two preferred stock directors. We currently have no plans to issue preferred stock. These effects, among others, could have an adverse effect on your investment in our common stock.

Our Board of Directors may change our operating policies and strategies without prior notice or stockholder approval, the effects of which may be adverse.

Our Board of Directors will have the authority to modify or waive our current operating policies, investment criteria and strategies, other than those that we have deemed to be fundamental, without prior notice and without stockholder approval. We cannot predict the effect any changes to our current operating policies, investment criteria and strategies would have on our business, net asset value, operating results and value of our stock. However, the effects might be adverse, which could negatively impact our ability to pay you dividends and cause you to lose all or part of your investment. See Regulation as a Registered Closed-End Management Investment Company Fundamental Investment Policies.

We will be subject to corporate-level income tax if we are unable to qualify as a RIC under Subchapter M of the Code.

Although we have elected to be treated as a RIC under Subchapter M of the Code for 2011 and succeeding tax years, no assurance can be given that we will be able to and maintain our RIC status. To maintain RIC tax treatment under the Code, we must meet the following annual distribution, income source and asset diversification requirements.

The annual distribution requirement for a RIC will be satisfied if we distribute to our stockholders on an annual basis at least 90% of our net ordinary income and realized net short-term capital gains in excess of realized net long-term capital losses, if any. Because we may use debt financing, we are subject to certain asset coverage ratio requirements under the 1940 Act and financial covenants under loan and credit agreements that could, under certain circumstances, restrict us from making distributions necessary to satisfy the distribution requirement. If we are unable to obtain cash from other sources, we could fail to qualify for RIC tax treatment and thus become subject to corporate-level income tax.

The income source requirement will be satisfied if we obtain at least 90% of our income for each year from dividends, interest, gains from the sale of stock or securities or similar sources.

The asset diversification requirement will be satisfied if we meet certain asset diversification requirements at the end of each quarter of our taxable year. Failure to meet those requirements may result in our having to dispose of certain investments quickly in order to prevent the loss of RIC status. Because most of our investments will be in CLO vehicles for which there will likely be no active public market, any such dispositions could be made at disadvantageous prices and could result in substantial losses.

If we fail to qualify for RIC tax treatment for any reason and remain or become subject to corporate income tax, the resulting corporate taxes could substantially reduce our net assets, the amount of income available for distribution and the amount of our distributions.

There is a risk that our stockholders may not receive distributions or that our distributions may not grow or may be reduced over time, including on a per share basis as a result of the dilutive effects of this offering.

We intend to make distributions on a quarterly basis to our stockholders out of assets legally available for distribution. We cannot assure you that we will achieve investment results that will allow us to make a specified level of cash distributions or year-to-year increases in cash distributions. In addition, due to the asset coverage test applicable to us as a registered closed-end management investment company, we may be limited in our ability to make distributions. See Regulation as a Registered Closed-End Management Investment Company.

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We may have difficulty paying our required distributions if we recognize income before or without receiving cash representing such income.

For federal income tax purposes, we will include in income certain amounts that we have not yet received in cash, such as original issue discount or market discount, which may arise if we acquire a debt security at a significant discount to par. Such discounts will be included in income before we receive any corresponding cash payments. We also may be required to include in income certain other amounts that we will not receive in cash.

Since, in certain cases, we may recognize income before or without receiving cash representing such income, we may have difficulty meeting the annual distribution requirement necessary to maintain RIC tax treatment under the Code. In addition, since our incentive fee is payable on our income recognized, rather than cash received, we may be required to pay advisory fees on income before or without receiving cash representing such income. Accordingly, we may have to sell some of our investments at times and/or at prices we would not consider advantageous, raise additional debt or equity capital or forgo new investment opportunities for this purpose. If we are not able to obtain cash from other sources, we may fail to qualify for RIC tax treatment and thus become subject to corporate-level income tax. For additional discussion regarding the tax implications of a RIC, please see Material U.S. Federal Income Tax Considerations Taxation as a Regulated Investment Company.

We may in the future choose to pay dividends in our own stock, in which case you may be required to pay tax in excess of the cash you receive.

We may distribute taxable dividends that are payable in cash or shares of our common stock at the election of each stockholder. Under certain applicable provision of the Code and the Treasury regulations, distributions payable in cash or in shares of stock at the election of stockholders are treated as taxable dividends. The Internal Revenue Service has issued private rulings indicating that this rule will apply even where the total amount of cash that may be distributed is limited to no more than 20% of the total distribution. Under these rulings, if too many stockholders elect to receive their distributions in cash, each such stockholder would receive a pro rata share of the total cash to be distributed and would receive the remainder of their distribution in shares of stock. If we decide to make any distributions consistent with these rulings that are payable in part in our stock, taxable stockholders receiving such dividends will be required to include the full amount of the dividend (whether received in cash, our stock, or combination thereof) as ordinary income (or as long-term capital gain to the extent such distribution is properly reported as a capital gain dividend) to the extent of our current and accumulated earnings and profits for United States federal income tax purposes. As a result, a U.S. stockholder may be required to pay tax with respect to such dividends in excess of any cash received. If a U.S. stockholder sells the stock it receives as a dividend in order to pay this tax, the sales proceeds may be less than the amount included in income with respect to the dividend, depending on the market price of our stock at the time of the sale. Furthermore, with respect to non-U.S. stockholders, we may be required to withhold U.S. tax with respect to such dividends, including in respect of all or a portion of such dividend that is payable in stock. In addition, if a significant number of our stockholders determine to sell shares of our stock in order to pay taxes owed on dividends, it may put downward pressure on the trading price of our stock.

Changes in laws or regulations governing our operations may adversely affect our business or cause us to alter our business strategy.

We, the CLO vehicles in which we intend to invest, and the portfolio companies whose securities are held by such CLO vehicles will be subject to applicable local, state and federal laws and regulations, including, without limitation, federal immigration laws and regulations. New legislation may be enacted or new interpretations, rulings or regulations could be adopted, including those governing the types of investments we are permitted to make, any of which could harm us and our stockholders, potentially with retroactive effect. Additionally, any changes to the laws and regulations governing our operations may cause us to alter our investment strategy in order to avail ourselves of new or different opportunities. Such changes could result in material differences to the strategies and plans set forth herein and may result in our investment focus shifting from the areas of expertise of our investment adviser s senior investment team to

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other types of investments in which the investment team may have less expertise or little or no experience. Thus, any such changes, if they occur, could have a material adverse effect on our results of operations and the value of your investment.

We incur significant costs as a result of being a publicly traded company.

As a publicly traded company, we incur legal, accounting and other expenses, including costs associated with the periodic reporting requirements applicable to a company whose securities are registered under the Securities Exchange Act of 1934, as amended, or the Exchange Act, as well as additional corporate governance requirements, including requirements under the Sarbanes-Oxley Act of 2002, and other rules implemented by the SEC.

A disruption or downturn in the capital markets and the credit markets could impair our ability to raise capital and negatively affect our business.

We are a registered closed-end management investment company and we rely on our ability to raise additional capital for investment purposes. Without sufficient access to the capital markets or credit markets, our business operations may be limited or we may not be able to pursue new business opportunities. Since the middle of 2007, the capital markets and the credit markets have been experiencing volatility and disruption and, accordingly, there has been and may continue to be uncertainty in the financial markets in general. Ongoing disruptive conditions in the financial industry and the impact of new legislation in response to those conditions could restrict our business operations and could adversely impact our results of operations and financial condition. Further, a prolonged period of market illiquidity may have an adverse effect on our business, financial condition and results of operations.

If the fair value of our assets declines substantially, we may fail to maintain the asset coverage ratios imposed upon us by the 1940 Act. Any such failure would affect our ability to issue senior securities, including borrowings, and pay dividends, which could materially impair our business operations. Our liquidity could be impaired further by an inability to access the capital markets or to obtain debt financing. For example, we cannot be certain that we would be able to obtain borrowing facilities on commercially reasonable terms, if at all. Reflecting concern about the stability of the financial markets, many lenders and institutional investors have reduced or ceased providing funding to borrowers. This market turmoil and tightening of credit have led to increased market volatility and widespread reduction of business activity generally.

If we are unable to access the capital markets or obtain debt financing on commercially reasonable terms, our liquidity will be lower than it would have been with the benefit of those activities. If we are unable to repay amounts outstanding under any borrowing facility we may in the future obtain, and are declared in default or are unable to renew or refinance any such facility, we would not be able to initiate significant originations or to operate our business in the normal course. These situations may arise due to circumstances that we may be unable to control, such as inaccessibility to the credit markets, a severe decline in the value of the U.S. dollar, a further economic downturn or an operational problem that affects third parties or us, and could materially damage our business. Moreover, we are unable to predict when economic and market conditions may become more favorable. Even if such conditions improve broadly and significantly over the long term, adverse conditions in particular sectors of the financial markets could adversely impact our business.

We may be more susceptible than a diversified fund to being adversely affected by any single corporate, economic, political or regulatory occurrence.

We are classified as non-diversified under the 1940 Act. As a result, we can invest a greater portion of our assets in obligations of a single issuer than a diversified fund. We may therefore be more susceptible than a diversified fund to being adversely affected by any single corporate, economic, political or regulatory occurrence. We have elected to qualify as a RIC under Subchapter M of the Code, and thus we intend to satisfy the diversification requirements of Subchapter M, including its less stringent diversification requirements that apply to the percentage of our total assets that are represented by cash and cash items (including receivables), U.S. government securities, the securities of other regulated investment companies and certain other securities.

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Terrorist attacks, acts of war or natural disasters may affect any market for our common stock, impact the businesses in which we invest and harm our business, operating results and financial condition.

Terrorist acts, acts of war or natural disasters may disrupt our operations, as well as the operations of the businesses in which we intend to invest. Such acts have created, and continue to create, economic and political uncertainties and have contributed to global economic instability. Future terrorist activities, military or security operations, or natural disasters could further weaken the domestic/global economies and create additional uncertainties, which may negatively impact the businesses in which we invest either directly or indirectly and, in turn, could have a material adverse impact on our business, operating results and financial condition. Losses from terrorist attacks and natural disasters are generally uninsurable.

Risks Related to Our Investments

Our investments in CLO vehicles may be riskier and less transparent to us and our stockholders than direct investments in the underlying companies.

We have initially invested principally in equity and junior debt tranches issued by CLO vehicles. Generally, there may be less information available to us regarding the underlying debt investments held by such CLO vehicles than if we had invested directly in the debt of the underlying companies. As a result, our stockholders will not know the details of the underlying securities of the CLO vehicles in which we will invest. Our CLO investments will also be subject to the risk of leverage associated with the debt issued by such CLOs and the repayment priority of senior debt holders in such CLO vehicles.

The accounting and tax implications of such investments are complicated. In particular, reported earnings from the equity tranche investments of these CLO vehicles are recorded under generally accepted accounting principles based upon a constant yield calculation. Current taxable earnings on these investments, however, will generally not be determinable until after the end of the fiscal year of each individual CLO vehicle that ends within the Company s fiscal year, even though the investments are generating cash flow. In general, the tax treatment of these investments may result in higher distributable earnings in the early years and a capital loss at maturity, while for reporting purposes the totality of cash flows are reflected in a constant yield to maturity.

Our portfolio of investments may lack diversification among CLO vehicles which may subject us to a risk of significant loss if one or more of these CLO vehicles experience a high level of defaults on its underlying Senior Loans.

Our portfolio may hold investments in a limited number of CLO vehicles. Beyond the asset diversification requirements associated with our qualification as a RIC under the Code, we will not have fixed guidelines for diversification, we will not have any limitations on the ability to invest in any one CLO vehicle, and our investments may be concentrated in relatively few CLO vehicles. As our portfolio is less diversified than the portfolios of some larger funds, we are more susceptible to failure if one or more of the CLO vehicles in which we are invested experiences a high level of defaults on its underlying Senior Loans. Similarly, the aggregate returns we realize may be significantly adversely affected if a small number of investments perform poorly or if we need to write down the value of any one investment.

The Senior Loan portfolios of the CLO vehicles in which we invest may be concentrated in a limited number of industries or borrowers, which may subject those vehicles, and in turn us, to a risk of significant loss if there is a downturn in a particular industry in which a number of a CLO vehicle s investments are concentrated.

The CLO vehicles in which we invest may have Senior Loan portfolios that are concentrated in a limited number of industries or borrowers. A downturn in any particular industry or borrower in which a CLO vehicle is heavily invested may subject that vehicle, and in turn us, to a risk of significant loss and could significantly impact the aggregate returns we realize. If an industry in which a CLO vehicle is heavily invested suffers from adverse business or economic conditions, a material portion of our investment in that CLO vehicle could be affected adversely, which, in turn, could adversely affect our financial position and results of operations.

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The CLO vehicles in which we invest will incur, or will have already incurred, debt that ranks senior to our investment.

We intend to invest primarily in equity and junior debt tranches issued by CLO vehicles. As a result, the CLO vehicles in which we invest will issue and sell or have already issued and sold debt tranches that will rank senior to the tranches in which we invest. By their terms, such tranches may entitle the holders to receive payment of interest or principal on or before the dates on which we are entitled to receive payments with respect to the tranches in which we invest. Also, in the event of insolvency, liquidation, dissolution, reorganization or bankruptcy of a CLO vehicle, holders of senior debt instruments would typically be entitled to receive payment in full before we receive any distribution. After repaying such senior creditors, such CLO vehicle may not have any remaining assets to use for repaying its obligation to us. In the case of tranches ranking equally with the tranches in which we invest, we would have to share on an equal basis any distributions with other creditors holding such securities in the event of an insolvency, liquidation, dissolution, reorganization or bankruptcy of the relevant CLO vehicle. Therefore, we may not receive back the full amount of our investment in a CLO vehicle.

Failure by a CLO vehicle in which we are invested to satisfy certain tests will harm our operating results.

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, senior debt holders may be entitled to additional payments that would, in turn, reduce the payments we would otherwise be entitled to receive. Separately, we may incur expenses to the extent necessary to seek recovery upon default or to negotiate new terms, which may include the waiver of certain financial covenants, with a defaulting CLO vehicle or any other investment we may make. If any of these occur, it could materially and adversely affect our operating results and cash flows.

Our financial results may be affected adversely if one or more of our significant equity or junior debt investments in such CLO vehicles defaults on its payment obligations or fails to perform as we expect.

Our portfolio will consist primarily of equity and junior debt investments in CLO vehicles, which involves a number of significant risks. CLO vehicles are typically very highly levered (10-14 times), and therefore the junior debt and equity tranches that we will invest in are subject to a higher degree of risk of total loss. In particular, investors in CLO vehicles indirectly bear risks of the underlying debt investments held by such CLO vehicles. We will generally have the right to receive payments only from the CLO vehicles, and will generally not have direct rights against the underlying borrowers or the entity that sponsored the CLO vehicle. While the CLO vehicles we have initially targeted generally enable the investor to acquire interests in a pool of Senior Loans without the expenses associated with directly holding the same investments, we will generally pay 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 interests we intend to acquire in CLO vehicles will likely be 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 our 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.

Investments in structured vehicles, including equity and junior debt instruments issued by CLO vehicles, involve risks, including credit risk and market risk. Changes in interest rates and credit quality may cause significant price fluctuations. Additionally, changes in the underlying Senior Loans held by a CLO vehicle may cause payments on the instruments we hold to be reduced, either temporarily or permanently. Structured investments, particularly the subordinated interests in which we invest, are less liquid than many other types of securities and may be more volatile than the Senior Loans underlying the CLO vehicles we target.

Investing in CLO vehicles, Senior Loans and other high-yield corporate credits involves a variety of risks, any of which may adversely impact our performance.

Investment Risk. An investment in our securities is subject to investment risk, including the possible loss of your entire investment. An investment in our securities represents an indirect investment in the portfolio of equity and junior tranches issued by CLO vehicles and other securities owned by us, and the value of these securities may fluctuate, sometimes rapidly and unpredictably. At any point in time an investment in our securities may be worth less than the original amount invested, even after taking into account distributions paid by us and the ability of shareholders to reinvest dividends. Because of their security features, we believe that certain Senior Loans that are experiencing, or are more likely to experience financial difficulty may represent attractive investment opportunities. We may invest in certain Senior Loans of borrowers that have filed for bankruptcy protection. Because of the security provided in certain Senior Loans, we believe that we may be able to recover more of our investment in certain defaulted Senior Loans than would be the case for some other types of defaulted debt securities. Nevertheless, there is no assurance that the sale of collateral (which was pledged against the Senior Loan) would raise enough cash to satisfy the borrower s obligation or that the collateral can or will be liquidated.

Market Risk. Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices and includes interest rate risk, foreign currency risk and other price risks , such as index price risk. We may use derivative instruments to hedge the investment portfolio against currency risks. Our investments in CLO vehicles typically have no significant assets other than the collateral. Accordingly, payments on the equity and junior debt instruments we intend to initially target are payable solely from the cash flows from the collateral, net of all management fees and other expenses. Quarterly distributions or interest payments to us as a holder of equity or junior debt instruments, respectively, will only be made after payments due on any outstanding senior debt tranches have been made in full for such quarter.

Rating Risk. Rating agencies, including Moody s and Standard and Poor s, have and may continue to downgrade the tranches of CLO vehicles that we are targeting and, therefore, these investments may be seen as riskier than they were previously thought to be. We cannot assure you that the CLO vehicles in which we invest, or the tranches of those CLO vehicles that we hold, will not experience downgrades. To the extent our portfolio experiences such downgrades, the value of our investments, and our ability to liquidate such investments, would likely be impaired. A significant impairment of any of our investments may have a material adverse effect on our financial results and operations.

Interest Rate Risk. Our investments have initially been focused on investments in equity and junior debt tranches issued by CLO vehicles. Our investments have some exposure to interest rate risk and our investments in equity tranches of CLO vehicles have dollar-for-dollar interest rate risk on the equity portion. We expect to have less significant interest rate-related fluctuations in our net asset value per share than investment companies investing primarily in fixed income securities. When interest rates decline, the value of a fixed income portfolio can normally be expected to rise. Conversely, when interest rates rise, the value of a fixed income portfolio can normally be expected to decline. Currently, LIBOR rates are at historic lows. Although the income available to us will vary, we expect that our acquisition of interests in CLO vehicles may minimize fluctuations in our net asset value resulting from changes in market interest rates.

However, because floating or variable rates only reset periodically, changes in prevailing interest rates can be expected to cause some fluctuations in our net asset value. Similarly, a sudden and significant increase in market interest rates may cause a decline in our net asset value. In addition, any debt instruments that allow the borrower to opt between LIBOR-based interest rates and interest rates based on bank prime rates may have an impact on our net asset value. A material decline in our net asset value may impair our ability to maintain required levels of asset coverage, to the extent we elect to use debt to finance investments.

Credit Risk. Credit risk is the risk that one or more investments in a portfolio will decline in price or fail to pay interest or principal when due because the issuer of the security experiences a decline in its financial condition. While a senior position in the capital structure of a corporate borrower may provide some protection to the CLO vehicles in which we invest, losses or other reductions in collateral may still occur in the portfolios of such CLO vehicles because the market value of such loans is affected by the creditworthiness

Investing in CLO vehicles, Senior Loans and other high-yield corporate credits involves a variety of risks, any of whi of borrowers and by general economic and specific industry conditions. As we invest in equity and junior debt tranches of CLO vehicles, we are exposed to a greater amount of credit risk than a fund which invests in senior debt or investment grade securities. The prices of primarily non-investment grade securities are more sensitive to negative developments, such as a decline in a CLO vehicle s collateral or cash flows or a general economic downturn, than are the prices of more senior debt securities. Securities of below investment grade quality are predominantly speculative with respect to the issuer s capacity to pay interest and repay principal when due and therefore involve a greater risk of default. We will typically be in a first loss or subordinated position with respect to realized losses on the collateral of each investment we make in a CLO vehicle. The leveraged nature of the CLO vehicle, in particular, magnifies the adverse impact of collateral defaults. In addition, we may purchase participations in leveraged corporate loans. Such participations have rights that are more limited than the rights provided under assignments. In a participation the contractual relationship is typically with the lender selling the participation, but not with the borrower. As a result, a participant assumes the credit risk of the lender selling the participation in addition to the credit risk of the borrower. In the event of the insolvency of the lender selling the participation, a participant may be treated as a general creditor of the lender and may not have a senior claim to the lender s interest in the Senior Loan.

Liquidity Risk. Liquidity risk is defined as the risk that we may not be able to settle or meet our obligations on time or at a reasonable price. We may invest up to 100% of our portfolio in securities that are considered illiquid. Illiquid securities are securities which cannot be sold within seven days in the ordinary course of business at approximately the value used by us in determining our net asset value. We may not be able to readily dispose of such securities at prices that approximate those at which we could sell such securities if they were more widely-traded and, as a result of such illiquidity, we may have to sell other investments or engage in borrowing transactions to raise cash to meet our obligations. Limited liquidity can also affect the market price of securities, thereby adversely affecting our net asset value and ability to make dividend distributions. Some instruments issued by CLO vehicles may not be readily marketable and may be subject to restrictions on resale. Securities issued by CLO vehicles are generally not listed on any U.S. national securities exchange and no active trading market may exist for the securities in which we invest. Although a secondary market may exist for our investments, the market for our investments may be subject to irregular trading activity, wide bid/ask spreads and extended trade settlement periods. As a result, these types of investments may be more difficult to value. In addition, we believe that ownership of CLO equity and junior debt instruments has generally been distributed across a wide range of holders, some of whom we believe may continue to face near- to intermediate-term liquidity issues. Further, we believe that larger institutional investors with sufficient resources to source, analyze and negotiate the purchase of these assets may refrain from purchases of the size that we are targeting, thereby reducing the prospective investor population, which would limit our ability to sell our position in a CLO vehicle if we choose to or need to do so. We have no limitation on the amount of our assets which may be invested in securities that are not readily marketable or are subject to restrictions on resale. Further, Senior Loans generally are not listed on any national securities exchange or automated quotation system and no active trading market exists for many Senior Loans. As a result, many Senior Loans are illiquid, meaning that we may not be able to sell them quickly at a fair price. The market for illiquid securities is more volatile than the market for liquid securities.

Investments in foreign securities may involve significant risks in addition to the risks inherent in U.S. investments.

Our investment strategy involves investments in securities issued by foreign entities, including foreign CLO vehicles. Investing in foreign entities may expose us to additional risks not typically associated with investing in U.S. issues. These risks include changes in exchange control regulations, political and social instability, expropriation, imposition of foreign taxes, less liquid markets and less available information than is generally the case in the United States, higher transaction costs, less government supervision of exchanges, brokers and issuers, less developed bankruptcy laws, difficulty in enforcing contractual obligations, lack of uniform accounting and auditing standards and greater price volatility. Further, we, and the CLO vehicles in which we invest, may have difficulty enforcing creditor s rights in foreign jurisdictions. In addition, the underlying companies of the CLO vehicles in which we invest may be foreign, which may create greater exposure for us to foreign economic developments.

Investments in foreign securities may involve significant risks in addition to the risks inherent in U.S. investments.

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Although we expect that most of our investments will be U.S. dollar-denominated, any investments denominated in a foreign currency will be subject to the risk that the value of a particular currency will change in relation to one or more other currencies. Among the factors that may affect currency values are trade balances, the level of short-term interest rates, differences in relative values of similar assets in different currencies, long-term opportunities for investment and capital appreciation, and political developments. We may employ hedging techniques to minimize these risks, but we can offer no assurance that we will, in fact, hedge currency risk, or that if we do, such strategies will be effective.

We may expose ourselves to risks if we engage in hedging transactions.

If we engage in hedging transactions, we may expose ourselves to risks associated with such transactions. We may utilize instruments such as forward contracts, currency options and interest rate swaps, caps, collars and floors to seek to hedge against fluctuations in the relative values of our portfolio positions from changes in currency exchange rates and market interest rates. Hedging against a decline in the values of our portfolio positions does not eliminate the possibility of fluctuations in the values of such positions or prevent losses if the values of such positions decline. However, such hedging can establish other positions designed to gain from those same developments, thereby offsetting the decline in the value of such portfolio positions. Such hedging transactions may also limit the opportunity for gain if the values of the underlying portfolio positions increase. It may not be possible to hedge against an exchange rate or interest rate fluctuation that is so generally anticipated that we are not able to enter into a hedging transaction at an acceptable price. Moreover, for a variety of reasons, we may not seek to establish a perfect correlation between such hedging instruments and the portfolio holdings being hedged. Any such imperfect correlation may prevent us from achieving the intended hedge and expose us to risk of loss. In addition, it may not be possible to hedge fully or perfectly against currency fluctuations affecting the value of securities denominated in non-U.S. currencies because the value of those securities is likely to fluctuate as a result of factors not related to currency fluctuations.

Any unrealized losses we experience on our portfolio may be an indication of future realized losses, which could reduce our income available for distribution.

As a registered closed-end management investment company, we are required to carry our investments at market value or, if no market value is ascertainable, at the fair value as determined in good faith by our Board of Directors. Decreases in the market values or fair values of our investments will be recorded as unrealized depreciation. Any unrealized losses in our portfolio could be an indication of an issuer s inability to meet its repayment obligations to us with respect to the affected investments. This could result in realized losses in the future and ultimately in reductions of our income available for distribution in future periods.

Our investments in CLO vehicles may be subject to special anti-deferral provisions that could result in us incurring tax or recognizing income prior to receiving cash distributions related to such income.

We anticipate that the CLO vehicles in which we invest may constitute passive foreign investment companies (PFICs). Because we acquire shares in PFICs (including equity tranche investments in CLO vehicles that are PFICs), we 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 us to our stockholders. Certain elections may be available to mitigate or eliminate such tax on excess distributions, but such elections (if available) will generally require us to recognize our share of the PFIC s income for each year regardless of whether we receive any distributions from such PFIC. We must nonetheless distribute such income to maintain our status as a RIC.

If we hold 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), we may be treated as receiving a deemed distribution (taxable as ordinary income) each year from such foreign corporation in an amount equal to our pro rata share of the corporation s income for the tax year (including both ordinary earnings and capital gains). If we are required to include such deemed distributions from a CFC in our income, we will be required to distribute such income to maintain our RIC status regardless of whether or not the CFC makes an actual distribution during such year.

Our investments in CLO vehicles may be subject to special anti-deferralprovisions that could result in us incurring ta

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If we are required to include amounts in income prior to receiving distributions representing such income, we may have to sell some of our investments at times and/or at prices we would not consider advantageous, raise additional debt or equity capital or forgo new investment opportunities for this purpose. If we are not able to obtain cash from other sources, we may fail to qualify for RIC tax treatment and thus become subject to corporate-level income tax. For additional discussion regarding the tax implications of a RIC, see Material U.S. Federal Income Tax Considerations Taxation as a Regulated Investment Company.

If a CLO vehicle in which invest fails to comply with certain U.S. tax disclosure requirements, such CLO may be subject to withholding requirements that could materially and adversely affect our operating results and cash flows.

Legislation enacted in 2010 imposes a withholding tax of 30% on payments of U.S. source interest and dividends paid after December 31, 2013, or gross proceeds from the disposition of a instrument that produces U.S. source interest or dividends paid after December 31, 2014, to certain non-U.S. entities, including certain non-U.S. financial institutions and investment funds, unless such non-U.S. entity complies with certain reporting requirements regarding its United States account holders and its United States owners. Most CLO vehicles in which we invest 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 we invest fails to properly comply with these reporting requirements, it could reduce the amounts available to distribute to equity and junior debt holders in such CLO vehicle, which could materially and adversely affect our operating results and cash flows.

Risks Relating to an Investment in our Securities

Shares of closed-end management investment companies have in the past frequently traded at discounts to their net asset values, and we cannot assure you that the market price of shares of our common stock will not decline below our net asset value per share.

Shares of closed-end management investment companies have in the past frequently traded at discounts to their net asset values and our stock may also be discounted in the market. This characteristic of closed-end management investment companies is separate and distinct from the risk that our net asset value per share may decline. We cannot predict whether shares of our common stock will trade above, at or below our net asset value. The risk of loss associated with this characteristic of closed-end management investment companies may be greater for investors expecting to sell shares of common stock purchased in the offering soon after the offering. In addition, if our common stock trades below its net asset value, we will generally not be able to sell additional shares of our common stock to the public at its market price without first obtaining the approval of our stockholders (including our unaffiliated stockholders) and our independent directors for such issuance.

Our common stock price may be volatile and may decrease substantially.

The trading price of our common stock may fluctuate substantially. The price of our common stock that will prevail in the market after this offering may be higher or lower than the price you pay, depending on many factors, some of which are beyond our control and may not be directly related to our operating performance. These factors include, but are not limited to, the following:

price and volume fluctuations in the overall stock market from time to time;
investor demand for our shares;
significant volatility in the market price and trading volume of securities of registered closed-end management investment companies or other companies in our sector, which are not necessarily related to the operating performance of these companies;
changes in regulatory policies or tax guidelines with respect to RICs or registered closed-end management investment companies;
failure to qualify as a RIC, or the loss of RIC status;
any shortfall in revenue or net income or any increase in losses from levels expected by investors or securities analysts;

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changes, or perceived changes, in the value of our portfolio investments;
departures of any members of Oxford Lane Management s senior investment team;
operating performance of companies comparable to us; or
general economic conditions and trends and other external factors.

In the past, following periods of volatility in the market price of a company s securities, securities class action litigation has often been brought against that company. Due to the potential volatility of our stock price, we may become the target of securities litigation in the future. Securities litigation could result in substantial costs and divert management s attention and resources from our business.

We cannot assure you that we will be able to successfully deploy the proceeds of any offering conducted pursuant to this prospectus within the timeframe we have contemplated.

We currently anticipate that substantially all of the net proceeds of any offering conducted pursuant to this prospectus will be invested in accordance with our investment objective within approximately one to three months after the consummation of such offering. We cannot assure you, however, that we will be able to locate a sufficient number of suitable investment opportunities to allow us to successfully deploy substantially all of the net proceeds of any such offering in that timeframe. To the extent we are unable to invest substantially all of the net proceeds of any such offering within our contemplated timeframe after the completion of such offering, our investment income, and in turn our results of operations, will likely be materially adversely affected.

We will have broad discretion over the use of proceeds of any offering conducted pursuant to this prospectus and will use proceeds in part to satisfy operating expenses.

We will have significant flexibility in applying the proceeds of any offering conducted pursuant to this prospectus and may use the net proceeds from any such offering in ways with which you may not agree, or for purposes other than those contemplated at the time of such offering. We will also pay operating expenses, and may pay other expenses such as due diligence expenses of potential new investments, from net proceeds. Our ability to achieve our investment objective may be limited to the extent that net proceeds of any such offering, pending full investment, are used to pay operating expenses.

Your interest in us may be diluted if you do not fully exercise your subscription rights in any rights offering.

In the event we issue subscription rights to purchase shares of our common stock, stockholders who do not fully exercise their rights should expect that they will, at the completion of the offer, own a smaller proportional interest in us than would otherwise be the case if they fully exercised their rights. We cannot state precisely the amount of any such dilution in share ownership because we do not know at this time what proportion of the shares will be purchased as a result of the offer.

In addition, if the subscription price is less than our net asset value per share, then our stockholders would experience an immediate dilution of the aggregate net asset value of their shares as a result of the offer. The amount of any decrease in net asset value is not predictable because it is not known at this time what the subscription price and net asset value per share will be on the expiration date of the rights offering or what proportion of the shares will be purchased as a result of the offer. Such dilution could be substantial.

If we issue preferred stock, the net asset value and market value of our common stock will likely become more volatile.

We cannot assure you that the issuance of preferred stock would result in a higher yield or return to the holders of the common stock. The issuance of preferred stock would likely cause the net asset value and market value of the common stock to become more volatile. If the dividend rate on the preferred stock were to approach the net rate of return on our investment portfolio, the benefit of leverage to the holders of the common stock would be reduced. If the dividend rate on the preferred stock were to exceed the net rate of return on our portfolio, the leverage would result in a lower rate of return to the holders of common stock than if we had not issued preferred stock. Any decline in the net asset value of our investments would be borne entirely by the holders of common stock. Therefore, if the market value of our portfolio were to decline, the leverage would result in a greater decrease in net asset value to the holders of common stock than if we were not leveraged through the issuance of preferred stock. This greater net asset value decrease would also tend to cause a greater decline in the market price for the common stock. We might be in danger of failing to maintain the required asset coverage of the preferred stock or of losing our ratings, if any, on the preferred stock or, in an extreme case, our current investment income might not be sufficient to meet the dividend requirements on the preferred stock. In order to counteract such an event, we might need to liquidate investments in order to fund a redemption of some or all of the preferred stock. In addition, we would pay (and the holders of common stock would bear) all costs and expenses relating to the issuance and ongoing maintenance of the preferred stock, including higher advisory fees if our total return exceeds the dividend rate on the preferred stock. Holders of preferred stock may have different interests than holders of common stock and may at times have disproportionate influence over our affairs.

Holders of any preferred stock we might issue would have the right to elect members of our Board of Directors and class voting rights on certain matters.

Holders of any preferred stock we might issue, voting separately as a single class, would have the right to elect two members of our Board of Directors at all times and in the event dividends become two full years in arrears would have the right to elect a majority of the directors until such arrearage is completely eliminated. In addition, preferred stockholders have class voting rights on certain matters, including changes in fundamental investment restrictions and conversion to open-end status, and accordingly can veto any such changes. Restrictions imposed on the declarations and payment of dividends or other distributions to the holders of our common stock and preferred stock, both by the 1940 Act and by requirements imposed by rating agencies, if any, or the terms of our credit facilities, if any, might impair our ability to maintain our qualification as a RIC for federal income tax purposes. While we would intend to redeem our preferred stock to the extent necessary to enable us to distribute our income as required to maintain our qualification as a RIC, there can be no assurance that such actions could be effected in time to meet the tax requirements.

Provisions of the Maryland General Corporation Law and of our charter and bylaws could deter takeover attempts and have an adverse impact on the price of our common stock.

The Maryland General Corporation Law and our charter and bylaws contain provisions that may discourage, delay or make more difficult a change in control of Oxford Lane Capital or the removal of our directors. We are subject to the Maryland Business Combination Act, subject to any applicable requirements of the 1940 Act. Our Board of Directors has adopted a resolution exempting from the Business Combination Act any business combination between us and any other person, subject to prior approval of such business combination by our Board of Directors, including approval by a majority of our independent Directors. If the resolution exempting business combinations is repealed or our Board of Directors does not approve a business combination, the Business Combination Act may discourage third parties from trying to acquire control of us and increase the difficulty of consummating such an offer. Our bylaws exempt from the Maryland Control Share Acquisition Act acquisitions of our stock by any person. If we amend our bylaws to repeal the exemption from the Control Share Acquisition Act, the Control Share Acquisition Act also may make it more difficult for a third party to obtain control of us and increase the difficulty of consummating such a transaction.

We have also adopted measures that may make it difficult for a third party to obtain control of us, including provisions of our charter classifying our Board of Directors in three classes serving staggered three-year terms, and authorizing our Board of Directors to classify or reclassify shares of our stock in one or more classes or series, to cause the issuance of additional shares of our stock, to amend our charter without stockholder approval and to increase or decrease the number of shares of stock that we have authority to issue. These provisions, as well as other provisions of our charter and bylaws, may delay, defer or prevent a transaction or a change in control that might otherwise be in the best interests of our stockholders.

You may not receive dividends or our dividends may decline or may not grow over time.

We cannot assure you that we will achieve investment results or maintain a tax status that will allow or require any specified level of cash distributions or year-to-year increases in cash distributions. In particular, our future dividends are dependent upon the investment income we receive on our portfolio investments. To the extent such investment income declines, our ability to pay future dividends may be harmed.

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CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This prospectus contains forward-looking statements that involve substantial risks and uncertainties. These forward-looking statements are not historical facts, but rather are based on current expectations, estimates and projections about Oxford Lane Capital Corp., our current and prospective portfolio investments, our industry, our beliefs, and our assumptions. Words such as anticipates, expects, intends, plans, will, may, continue, be estimates, would, could, should, targets, projects, and variations of these words and similar expressions are ir identify forward-looking statements.

The forward-looking statements contained in this prospectus involve risks and uncertainties, including statements as to:

- our future operating results;
- our business prospects and the prospects of a CLO vehicle s portfolio companies;
- the impact of investments that we expect to make;
- our contractual arrangements and relationships with third parties;
- the dependence of our future success on the general economy and its impact on the industries in which we invest;
- the ability of a CLO vehicle s portfolio companies to achieve their objectives;
- our expected financings and investments;
- the adequacy of our cash resources and working capital; and
- the timing of cash flows, if any, from our investments.

These statements are not guarantees of future performance and are subject to risks, uncertainties, and other factors, some of which are beyond our control and difficult to predict and could cause actual results to differ materially from those expressed or forecasted in the forward-looking statements, including without limitation:

- an economic downturn could impair the ability of a CLO vehicle s portfolio companies to continue to operate, which could lead to the loss of some or all of our investment in such CLO vehicle;
- a contraction of available credit and/or an inability to access the equity markets could impair our investment activities;
- interest rate volatility could adversely affect our results, particularly if we elect to use leverage as part of our investment strategy;
- currency fluctuations could adversely affect the results of our investments in foreign companies, particularly to the extent that we receive payments denominated in foreign currency rather than U.S. dollars; and
- the risks, uncertainties and other factors we identify in Risk Factors and elsewhere in this prospectus and in our filings with the SEC.

Although we believe that the assumptions on which these forward-looking statements are based are reasonable, any of those assumptions could prove to be inaccurate, and as a result, the forward-looking statements based on those assumptions also could be inaccurate. Important assumptions include our ability to originate new investments, certain margins and levels of profitability and the availability of additional capital. In light of these and other uncertainties, the inclusion of a projection or forward-looking statement in this prospectus should not be regarded as a representation by us that our plans and objectives will be achieved. These risks and uncertainties include those described or identified in Risk Factors and elsewhere in this prospectus. You should not place undue reliance on these forward-looking statements, which apply only as of the date of this prospectus. However, we will update this prospectus to reflect any material changes to the information contained herein. The forward-looking statements contained in this prospectus are excluded from the safe harbor protection provided by Section 27A of the Securities Act of 1933, as amended, or the Securities Act.

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USE OF PROCEEDS

We plan to use the net proceeds from the sale of our securities pursuant to this prospectus for acquiring investments in accordance with our investment objective and strategies described in this prospectus and for general working capital purposes. We may also pay operating expenses, including advisory and administrative fees and expenses, and may pay other expenses such as due diligence expenses of potential new investments, from the net proceeds of any offering conducted pursuant to this prospectus. We anticipate that substantially all of the net proceeds of any such offering will be used for the above purposes within approximately one to three months from the consummation of such offering, depending on the availability of appropriate investment opportunities consistent with our investment objective and market conditions. We cannot assure you we will achieve our targeted investment pace.

Pending such investments, we will invest the net proceeds primarily in cash, cash equivalents, U.S. government securities and other high-quality investments that mature in one year or less from the date of investment. The management fee payable by us will not be reduced while our assets are invested in such securities. See Regulation as a Closed-End Investment Company Temporary Investments for additional information about temporary investments we may make while waiting to make longer-term investments in pursuit of our investment objective. The supplement to this prospectus relating to an offering conducted pursuant to this prospectus will more fully identify the use of the proceeds from such offering.

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PRICE RANGE OF COMMON STOCK AND DISTRIBUTIONS

Our common stock is traded on the NASDAQ Global Select Market under the symbol OXLC. The following table sets forth, for each fiscal quarter since our initial public offering, the net asset value (NAV) per share of our common stock, the high and low intraday sales prices for our common stock, such sales prices as a percentage of NAV per share and quarterly distributions per share.

	NAV(1)	Price Range High	Price Range Low	Premium/Discount of High Sales Price to NAV(2)	Premium/Discount of Low Sales Price to NAV(2)	Cash Distributions Per Share(3)
Fiscal 2013						
Third Quarter (through October 4, 2012)	*	$15.95	$15.49	*	*	*
Second Quarter	*	$16.79	$14.00	*	*	$ 0.55
First Quarter	$14.60	$15.00	$13.49	3 %	(8 %)	$ 0.55
Fiscal 2012						
Fourth Quarter	$17.05	$16.50	$13.30	(3 %)	(22 %)	$ 0.55
Third Quarter	$15.08	$14.98	$12.06	(1 %)	(20 %)	$ 0.50
Second Quarter	$15.14	$18.74	$13.05	24 %	(14 %)	$ 0.50
First Quarter	$17.44	$20.00	$17.61	15 %	1 %	$ 0.50
Fiscal 2011						
Fourth Quarter (from January 20, 2011 through March 31, 2011)	$18.19	$20.50	$17.11	13 %	(6 %)	$ 0.25

(1) Net asset value per share is determined as of the last day in the relevant quarter and therefore may not reflect the net asset value per share on the date of the high and low sales prices. The net asset values shown are based on outstanding shares at the end of each period.

(2) Calculated as the respective high or low intraday sales price divided by NAV.

(3) Represents the cash distribution declared in the specified quarter.

* Not determinable at the time of filing.

On October 4, 2012, the last reported sales price of our common stock was $15.84 per share. As of October 4, 2012, we had 61 shareholders of record.

Shares of closed-end management investment companies may trade at a market price that is less than the value of the net assets attributable to those shares. The possibility that our shares of common stock will trade at a discount from net asset value or at premiums that are unsustainable over the long term are separate and distinct from the risk that our net asset value will decrease. Since our initial public offering, shares of our common stock have traded at a discount and at a premium to the net assets attributable to those shares. It is not possible to predict whether the shares offered hereby will trade at, above, or below net asset value.

To the extent that we have income available, we intend to distribute quarterly dividends to our stockholders. Our quarterly dividends, if any, will be determined by our Board of Directors. Any dividends to our stockholders will be declared out of assets legally available for distribution. The following table reflects the cash distributions, including dividends and returns of capital, if any, per share that we have declared on our common stock to date:

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Date Declared	Record Date	Payment Date	Amount
Fiscal 2013			
July 31, 2012	September 14, 2012	September 28, 2012	$ 0.55
May 22, 2012	June 15, 2012	June 29, 2012	0.55
Total (2013)			1.10
Fiscal 2012			
January 25, 2012	March 16, 2012	March 30, 2012	0.55
October 24, 2011	December 16, 2011	December 30, 2011	0.50
July 22, 2011	September 16, 2011	September 30, 2011	0.50
April 6, 2011	June 16, 2011	June 30, 2011	0.50
Total (2012)			2.05
Fiscal 2011			
March 7, 2011	March 21, 2011	April 1, 2011	0.25
Total (2011)			0.25
			$ 3.40

For accounting purposes the distributions declared for the fiscal periods ended March 31, 2012 and 2011 were in excess of the reported earnings. However, as a RIC, earnings and distributions are determined on a tax basis. For tax purposes, the distribution declared in March 2011 and paid in April 2011 is considered a distribution for the tax year 2012. Furthermore, taxable earnings are determined according to tax regulations and differ from reported income for accounting purposes. Therefore, for the fiscal period ended March 31, 2011 distributions were spilled-back for tax purposes in an amount equal to taxable earnings. Based on current estimates of taxable earnings for fiscal 2012 and 2013, we do not expect that any portion of the above-referenced dividends will represent a tax return of capital to our stockholders; however, there can be no assurance that actual results will not differ materially from the projections and assumptions upon which the amount of such dividend was based. To the extent that taxable earnings for any fiscal year are less than the amount of the dividends paid during the year, there would be a tax return of capital to shareholders. The tax character of any distributions will be determined after the end of the fiscal year.

We have elected to be treated, and intend to qualify annually, as a RIC under Subchapter M of the Code beginning with our 2011 taxable year. To obtain and maintain RIC tax treatment, we must, among other things, distribute at least 90% of our ordinary income and realized net short-term capital gains in excess of realized net long-term capital losses, if any. In order to avoid certain excise taxes imposed on RICs, we currently intend to distribute during each calendar year an amount at least equal to the sum of: (1) 98% of our ordinary income for the calendar year; (2) 98.2% of our capital gains in excess of capital losses for the one-year period ending on October 31 of the calendar year; and, (3) any ordinary income and net capital gains for preceding years that were not distributed during such years and on which we paid no federal income tax. In addition, although we currently intend to distribute realized net capital gains (i.e., net long term capital gains in excess of short term capital losses), if any, at least annually, we may in the future decide to retain such capital gains for investment and elect to treat such gains as deemed distributions to you. If this happens, you will be treated as if you had received an actual distribution of the capital gains we retain and reinvested the net after tax proceeds in us. In this situation, you would be eligible to claim a tax credit (or, in certain circumstances, a tax refund) equal to your allocable share of the tax we paid on the capital gains deemed distributed to you. See Material U.S. Federal Income Tax Considerations. We can offer no assurance that we will achieve results that will permit the payment of any cash distributions and, to the extent that we issue senior securities, we will be prohibited from making distributions if doing so causes us to fail to maintain the asset coverage ratios stipulated by the 1940 Act or if distributions are limited by the terms of any of our borrowings.

Our current intention is to make any distributions in additional shares of our common stock under our dividend reinvestment plan out of assets legally available therefore, unless you elect to receive your dividends and/or long-term capital gains distributions in cash. See Dividend Reinvestment Plan. If you hold shares in the name of a broker or financial intermediary, you should contact the broker or financial intermediary regarding your election to receive distributions in cash. We can offer no assurance that we will achieve results that will permit the payment of any cash distributions and, if we issue senior securities, we will be prohibited from making distributions if doing so causes us to fail to maintain the asset coverage ratios stipulated by the 1940 Act or if distributions are limited by the terms of any of our borrowings.

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BUSINESS

Overview

We are a non-diversified closed-end management investment company that has registered as an investment company under the 1940 Act. Our investment objective is to maximize our portfolio s total return. We seek to achieve our investment objective by investing primarily in Senior Loans, with an emphasis on current income. Those investments may take a variety of forms, including the direct purchases of Senior Loans (either in the primary or secondary markets) or through investments in entities that in turn own a pool of Senior Loans. We believe that recent dislocations in the credit markets have created opportunities to purchase our targeted investments at attractive risk adjusted returns.

We have initially implemented our investment objective by purchasing in the secondary market portions of equity and junior debt tranches of CLO vehicles. Substantially all of the CLO vehicles in which we may invest would be deemed to be investment companies under the 1940 Act but for the exceptions set forth in section 3(c)(1) or section 3(c)(7). Structurally, CLO vehicles are entities that were formed to originate and manage a portfolio of loans. The loans within the CLO vehicle are limited to loans which meet established credit criteria and are subject to concentration limitations in order to limit a CLO vehicle s exposure to a single credit. A CLO vehicle is formed by raising various classes or tranches of debt (with the most senior tranches being rated AAA to the most junior tranches typically being rated BB) and equity. The CLO vehicles which we focus on are collateralized primarily by Senior Loans, and generally have very little or no exposure to real estate, mortgage loans or to pools of consumer-based debt, such as credit card receivables or auto loans. We may also invest, on an opportunistic basis, in other corporate credits of a variety of types. We expect that each of our investments will range in size from $1 million to $12 million, although the investment size may vary consistent with the size of our overall portfolio.

Oxford Lane Management manages our investments and its affiliate arranges for the performance of the administrative services necessary for us to operate.

Distributions

The following table reflects the cash distributions, including dividends and returns of capital, if any, per share that we have declared on our common stock to date:

Date Declared	Record Date	Payment Date	Amount
Fiscal 2013			
July 31, 2012	September 14, 2012	September 28, 2012	$ 0.55
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April 6, 2011	June 16, 2011	June 30, 2011	0.50
Total (2012)			2.05
Fiscal 2011			

March 7, 2011	March 21, 2011	April 1, 2011	0.25
Total (2011)			0.25
			$ 3.40

For accounting purposes the distributions declared for the fiscal periods ended March 31, 2012 and 2011 were in excess of the reported earnings. However, as a RIC, earnings and distributions are determined on a tax basis. For tax purposes, the distribution declared in March 2011 and paid in April 2011 is considered a distribution for the tax year 2012. Furthermore, taxable earnings are determined according to tax regulations and differ from reported income for accounting purposes. Therefore, for the fiscal period ended March 31, 2011 distributions were spilled-back for tax purposes in an amount equal to taxable earnings. Based on current estimates of taxable earnings for 2012 and fiscal 2013, we do not expect that any portion of the above-referenced dividends will represent a tax return of capital to our stockholders; however, there can be no

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assurance that actual results will not differ materially from the projections and assumptions upon which the amount of such dividend was based. To the extent that taxable earnings for any fiscal year are less than the amount of the dividends paid during the year, there would be a tax return of capital to shareholders. The tax character of any distributions will be determined after the end of the fiscal year.

Use of Proceeds From Prior Offerings

Since the closing of our initial public offering on January 25, 2011 and including two subsequent rights offerings on August 26, 2011 and April 27, 2012, through October 4, 2012 we have invested approximately $72.6 million of the cumulative net proceeds we received from our initial public offering (including the proceeds received from the underwriters' partial exercise of the over-allotment option) and subsequent rights offerings, representing approximately 97% of those cumulative proceeds. Consistent with our investment objective, these investments were made in junior debt and equity tranches of CLOs.

Oxford Lane Management

Our investment activities are managed by Oxford Lane Management, which is an investment adviser that has registered under the Advisers Act. Under our Investment Advisory Agreement with Oxford Lane Management, we have agreed to pay Oxford Lane Management an annual base management fee based on our gross assets, as well as an incentive fee based on our performance. See Investment Advisory Agreement.

We expect to benefit from the proven ability of our investment adviser s team to identify attractive opportunities, conduct diligence on and value prospective investments, negotiate terms where appropriate, and manage and monitor a diversified portfolio although we do not intend to operate as a diversified investment company within the meaning of the 1940 Act. Our investment adviser s senior investment team members have broad investment backgrounds, with prior experience at investment banks, commercial banks, unregistered investment funds and other financial services companies, and have collectively developed a broad network of contacts to provide us with our principal source of investment opportunities.

Our investment adviser is led by Jonathan H. Cohen, our Chief Executive Officer, and Saul B. Rosenthal, our President. Messrs. Cohen and Rosenthal are assisted by Darryl M. Monasebian and Hari Srinivasan, who serve as Executive Vice President and Managing Director, respectively, for Oxford Lane Management. We consider Messrs. Cohen, Rosenthal, Monasebian and Srinivasan to be Oxford Lane Management s senior investment team.

Messrs. Cohen and Rosenthal, together with the other members of Oxford Lane Management s investment team, have developed an infrastructure that we believe provides Oxford Lane Capital with a competitive advantage in locating and acquiring attractive Senior Loans and CLO investments. In particular, in addition to our portfolio, the members of Oxford Lane Management s investment team currently manage the portfolios of:

TICC Capital Corp., a NASDAQ Global Select Market-listed business development company, which completed its initial public offering in 2003, with approximately $470 million in gross assets as of June 30, 2012, which is managed by TICC Management, LLC;

- ***TICC CLO LLC***, a $225 million CLO structured finance vehicle completed in 2011 investing in a diversified portfolio of Senior Loans, the assets of which are included in the gross assets of TICC Capital Corp.;

Greenwich Loan Income Fund Limited, a Guernsey-based, AIM and CISX listed closed-end debt-focused investment fund, which completed its initial public offering in 2005, with approximately $327 million of gross assets as of June 30, 2012, which is managed by T2 Advisers, LLC; and

T2 Income Fund CLO I Ltd., a twelve year, $309 million CLO structured finance vehicle completed in 2007 investing in a diversified portfolio of Senior Loans, the assets of which are included in the gross assets of Greenwich Loan Income Fund Limited. T2 Income Fund CLO I Ltd. is in full compliance with all applicable covenant tests as of June 30, 2012 and has been distributing cash to all of its note and equity holders uninterrupted since inception, other than in two quarters in which equity holders received partial distributions in accordance with the terms of this CLO vehicle.

Since 2004, in the course of managing those existing portfolios, the members of Oxford Lane Management s investment team have historically evaluated and invested primarily in a combination of bilateral and syndicated Senior Loans and structured finance vehicles, with the objective of producing high risk-adjusted returns primarily in the form of current income. Since June 2009, the members of Oxford Lane Management s investment team have sourced and analyzed in excess of 200 secondary CLO investments, and have invested an aggregate of approximately $136.5 million in 63 such transactions with an aggregate par value of approximately $211.1 million. In total, as of June 30, 2012, Oxford Lane Management s investment team has reviewed over 1,000 transactions, has invested in more than 150 companies representing over $1.1 billion in invested capital and currently has approximately $784 million under management.

Charles M. Royce is a non-managing member of Oxford Lane Management. Mr. Royce has served as President since 1972, and a member of the Board of Managers since 2001, of Royce & Associates. He also serves as Royce & Associates Co-Chief Investment Officer and manages or co-manages twelve of Royce & Associates open- and closed-end registered funds. Mr. Royce currently serves on the Board of Directors of The Royce Funds and TICC Capital Corp. Mr. Royce is a non-managing member of TICC Management, LLC, the investment adviser for TICC Capital Corp. Mr. Royce, as a non-managing member of Oxford Lane Management, does not take part in the management or participate in the operations of Oxford Lane Management; however, Mr. Royce may be available from time to time to Oxford Lane Management to provide certain consulting services without compensation. Royce & Associates is a wholly owned subsidiary of Legg Mason, Inc.

In addition, our executive officers and directors, as well as the current and future members of our investment adviser, Oxford Lane Management, may serve as officers, directors or principals of other entities that operate in the same or a related line of business as we do. Accordingly, they may have obligations to investors in those entities, the fulfillment of which obligations may not be in the best interests of us or our stockholders. Each of TICC Capital Corp., TICC CLO LLC, Greenwich Loan Income Fund Limited and T2 Income Fund CLO I Ltd., as well as any affiliated investment vehicle formed in the future and managed by our investment adviser or its affiliates may, notwithstanding different stated investment objectives, have overlapping investment objectives with our own and, accordingly, may invest in asset classes similar to those targeted by us. As a result, Oxford Lane Management may face conflicts in allocating investment opportunities between us and such other entities. Although Oxford Lane Management endeavors to allocate investment opportunities in a fair and equitable manner, it is possible that, in the future, we may not be given the opportunity to participate in investments made by investment funds, including TICC Capital Corp., TICC CLO LLC, Greenwich Loan Income Fund Limited, T2 Income Fund CLO I Ltd. and Oxford Gate Capital (a private partnership that invests in a broad range of assets, including the equity and debt tranches of CLO vehicles), managed by our investment adviser or an investment manager affiliated with our investment adviser. In any such case, when Oxford Lane Management s investment team identifies an investment, it will be required to choose which investment fund should make the investment.

In certain instances, we may co-invest on a concurrent basis with affiliates of our 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 we elect to seek such relief, there can be no assurance when, or if, such relief may be obtained.

In addition, we will pay BDC Partners, an affiliate of Oxford Lane Management, our allocable portion of overhead and other expenses incurred by BDC Partners in performing its obligations under the Administration Agreement, including rent, the fees and expenses associated with performing compliance functions, and our allocable portion of the compensation of our Chief Financial Officer, Chief Compliance Officer and any administrative support staff. These arrangements will create conflicts of interest that our Board of Directors must monitor.

Investment Focus

Our investment objective is to maximize our portfolio s total return. We seek to achieve our investment objective by investing primarily in Senior Loans, with an emphasis on current income. Those investments may take a variety of forms, including the direct purchases of Senior Loans (either in the primary or secondary markets) or through investments in entities that in turn own a pool of Senior Loans. We have initially

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implemented our investment objective by investing principally in the equity and junior debt tranches of CLO vehicles, which are collateralized primarily by a diverse portfolio of leveraged corporate loans, and which generally have very little or no exposure to real estate or mortgage loans or to pools of consumer-based debt, such as credit card receivables or auto loans. We may invest in securities issued by foreign entities, including foreign CLO vehicles.

The CLO investments we have initially targeted will generally represent either a residual economic interest, in the case of an equity tranche, or a debt investment collateralized by a portfolio of Senior Loans. The value of our CLO investments generally depend on both the quality and nature of the underlying portfolio it references and also on the specific structural characteristics of the CLO itself, both of which are described below.

CLO Structural Elements

Structurally, CLO vehicles are entities that were formed to originate and manage a portfolio of loans. The loans within the CLO vehicle are limited to loans which meet established credit criteria and are subject to concentration limitations in order to limit a CLO vehicle s exposure to a single credit.

A CLO vehicle is formed by raising multiple tranches of debt (with the most senior tranches being rated AAA to the most junior tranches typically being rated BB) and equity. As interest payments are received the CLO vehicle makes contractual interest payments to each tranche of debt based on their seniority. If there are funds remaining after each tranche of debt receives its contractual interest rate and the CLO vehicle meets or exceeds required collateral coverage levels (or other similar covenants) the remaining funds may be paid to the equity tranche. The contractual provisions setting out this order of payments are set out in detail in the CLO vehicle s indenture. These provisions are referred to as the priority of payments or the waterfall and determine any other obligations that may be required to be paid ahead of payments of interest and principal on the securities issued by a CLO vehicle. In addition, for payments to be made to each tranche, after the most senior tranche of debt, there are various tests which must be complied with, which are different for each CLO vehicle.

CLO indentures typically provide for adjustments to the priority of payments in the event that certain cashflow or collateral requirements are not maintained. The collateral quality tests that may divert cashflows in the priority of payments are predominantly determined by reference to the par values of the underlying loans, rather than their current market values. Accordingly, we believe that CLO equity and junior debt investments allow investors to gain diversified exposure to the Senior Loan market on a levered basis without being structurally subject to mark-to-market price fluctuations of the underlying loans. As such, although the current valuations of CLO equity and junior debt tranches are expected to fluctuate based on price changes within the loan market, interest rate movements and other macroeconomic factors, those tranches will generally be expected to continue to receive distributions from the CLO vehicle periodically so long as the underlying portfolio does not suffer defaults, realized losses or other covenant violations sufficient to trigger changes in the waterfall allocations. We therefore believe that an investment portfolio consisting of CLO equity and junior debt investments of this type has the ability to provide attractive risk-adjusted rates of return.

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The diagram below is for illustrative purposes only. The CLO structure highlighted below is only a hypothetical structure and structures among CLO vehicles in which we may invest may vary substantially from the hypothetical example set forth below.

The Syndicated Senior Loan Market

We believe that while the syndicated leveraged corporate loan market is relatively large, with Standard and Poor s estimating the total par value outstanding at approximately $518 billion as of February 8, 2012, this market remains largely inaccessible to a significant portion of investors that are not lenders or approved institutions. The CLO market permits wider exposure to syndicated Senior Loans, but this market is almost exclusively private and predominantly institutional.

The Senior Loan market is characterized by various factors, including:

Seniority. A Senior Loan typically ranks senior in a company s capital structure to all other forms of debt or equity. As such, that loan maintains the senior-most claim on the company s assets and cash flow, and, we believe should, all other things being equal, offer the prospect of a relatively more stable and lower-risk holding.
Floating rate instruments. A Senior Loan typically contains a floating versus a fixed interest rate, which we believe provides some measure of protection against the risk of interest rate fluctuation.
Frequency of interest payments. A Senior Loan typically provides for scheduled interest payments no less frequently than quarterly.
In the current environment, we believe the above attributes seem particularly desirable.

Investment Opportunity

We believe that the Senior Loan market has and continues to represent an attractive area for investment. We believe that the CLO equity and junior debt investments we intend to seek currently represent, as a class, an opportunity to obtain attractive risk-adjusted investment returns. 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 the increasing asset spreads and the introduction of more LIBOR floors have created opportunities to purchase certain CLO equity and junior debt instruments that may produce attractive risk-adjusted returns.
We believe that CLO equity and junior debt have generally become more liquid since mid-2009. From late 2007 through mid-2009, these assets traded only very infrequently. We believe that greater
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recent liquidity in this market has created an opportunity to better analyze and compare various equity and debt instruments from among a large number of different structures.

We believe that although Senior Loan asset prices have risen since mid-2010, CLO equity and junior debt instruments still offer attractive risk-adjusted returns.

We believe that larger institutional investors with sufficient resources to source, analyze and negotiate the purchase of these assets may refrain from purchasing assets of the size that we are targeting, thereby potentially reducing the competition for our target investments.

We believe that investing in CLO securities and CLO equity instruments 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, as the nature of that analysis tends to be highly specialized.

We believe that a stronger credit market for Senior Loans has substantially 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 a total par value of approximately $250 billion invested in over 500 different CLO vehicles. We estimate the size of the junior-most debt tranches (specifically the tranches originally rated BB) is approximately $9.0 billion (of which turbo BB tranches are an attractive sub-segment), and the size of the equity tranches is approximately $20 billion.