

ServisFirst Bancshares, Inc.  
Form 4  
September 15, 2014

**FORM 4** UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

OMB APPROVAL

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**STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES**

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

(Print or Type Responses)

1. Name and Address of Reporting Person \*  
Filler James J

2. Issuer Name and Ticker or Trading Symbol  
ServisFirst Bancshares, Inc. [SFBS]

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

(Last) (First) (Middle)  
2964 SHOOK HILL PARKWAY  
  
(Street)

3. Date of Earliest Transaction  
(Month/Day/Year)  
09/12/2014

Director  10% Owner  
 Officer (give title below)  Other (specify below)

4. If Amendment, Date Original Filed(Month/Day/Year)

6. Individual or Joint/Group Filing(Check Applicable Line)  
 Form filed by One Reporting Person  
 Form filed by More than One Reporting Person

BIRMINGHAM, AL 35223

(City) (State) (Zip)

**Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned**

1. Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)	4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)	5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Ownership (Instr. 4)
			Code	V	Amount	(A) or (D)	Price
Common Stock	09/12/2014		P		800	A	\$ 29.33
							(1)
					643,503	D	

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

**Persons who respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB control number.**

SEC 1474 (9-02)

**Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned (e.g., puts, calls, warrants, options, convertible securities)**



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any calendar quarter (8.75% annualized). 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% of our pre-incentive fee net investment income as if a hurdle did not apply if this net investment income exceeds 2.1875% in any calendar quarter; and

20% 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 Oxford Lane Management (once the hurdle is reached and the catch-up is achieved, 20% of all pre-incentive fee investment income thereafter is allocated to Oxford Lane Management).

The following is a graphical representation of the calculation of the income-related portion of the incentive fee:

## **Quarterly Incentive Fee Based on Net Investment Income**

**Pre-incentive fee net investment income  
(expressed as a percentage of the value of net assets)**

**Percentage of pre-incentive fee net investment income  
allocated to the Oxford Lane Management**

These calculations are appropriately pro-rated for any period of less than three months and adjusted for any share issuances or repurchases during the relevant quarter. You should be aware that a rise in the general level of interest rates can be expected to lead to higher interest rates applicable to our debt investments. Accordingly, an increase in interest rates would make it easier for us to meet or exceed the incentive fee hurdle rate and may result in a substantial increase of the amount of incentive fees payable to our investment adviser with respect to pre-incentive fee net investment income.

No incentive fee is payable to our investment adviser on realized capital gains. In addition, the amount of the incentive fee is not affected by any realized or unrealized losses that we may suffer.

**Examples of Quarterly Incentive Fee Calculation (amounts  
expressed as a percentage of the value of net assets, and are  
not annualized)**

### **Alternative 1:**

#### **Assumptions**

Investment income (including interest, dividends, fees, etc.) = 1.25%

Hurdle rate<sup>(1)</sup> = 1.75%

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Management fee<sup>(2)</sup> = 0.5%

Other expenses (legal, accounting, custodian, transfer agent, etc.)<sup>(3)</sup> = 0.20%

Pre-incentive fee net investment income

(investment income - (management fee + other expenses)) = 0.55%

Pre-incentive net investment income does not exceed hurdle rate, therefore there is no incentive fee.

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**Alternative 2:**

**Assumptions**

Investment income (including interest, dividends, fees, etc.) = 2.70%

Hurdle rate<sup>(1)</sup> = 1.75%

Management fee<sup>(2)</sup> = 0.5%

Other expenses (legal, accounting, custodian, transfer agent, etc.)<sup>(3)</sup> = 0.20%

Pre-incentive fee net investment income

(investment income - (management fee + other expenses)) = 2.00%

Incentive fee = 100% × pre-incentive fee net investment income in excess of the hurdle but less than 2.1875% (i.e. the catch-up<sup>(4)</sup>)

= 100% × (2.00% - 1.75%)

= 0.25%

**Alternative 3:**

**Assumptions**

Investment income (including interest, dividends, fees, etc.) = 3.00%

Hurdle rate<sup>(1)</sup> = 1.75%

Management fee<sup>(2)</sup> = 0.5%

Other expenses (legal, accounting, custodian, transfer agent, etc.)<sup>(3)</sup> = 0.20%

Pre-incentive fee net investment income

(investment income - (management fee + other expenses)) = 2.3%

Incentive fee = 20% × pre-incentive fee net investment income, subject to catch-up<sup>(4)</sup>

Incentive fee = 100% × catch-up + (20% × (pre-incentive fee net investment income - 2.1875%))

Catch-up = 2.1875% - 1.75%

= 0.4375%

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$$\begin{aligned}\text{Incentive fee} &= (100\% \times 0.4375\%) + (20\% \times (2.3\% - 2.1875\%)) \\ &= 0.4375\% + (20\% \times 0.1125\%) \\ &= 0.4375\% + 0.0225\% \\ &= 0.46\%\end{aligned}$$

(1) Represents 7% annualized hurdle rate.

(2) Represents 2.00% annualized management fee.

(3) Excludes organizational and offering expenses.

The catch-up provision is intended to provide the investment adviser with an incentive fee of 20% on all of Oxford Lane Capital's pre-incentive fee net investment income as if a hurdle rate did not apply when its net investment income exceeds 2.1875% in any calendar quarter.

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## Payment of Our Expenses

The investment team of our investment adviser and their respective staffs, when and to the extent engaged in providing investment advisory and management services, and the compensation and routine overhead expenses of such personnel allocable to such services, are provided and paid for by Oxford Lane Management. We bear all other costs and expenses of our operations and transactions, including (without limitation):

- the cost of our organization and this offering;
- the cost of calculating our net asset value, including the cost of any third-party valuation services;
- the cost of effecting sales and repurchases of our shares and other securities;
- interest payable on debt, if any, to finance our investments;
- fees payable to third parties relating to, or associated with, making investments, including legal fees and expenses and fees and expenses associated with performing due diligence reviews of prospective investments and advisory fees as well as expenses associated with such activities;
- the costs associated with protecting our interests in our investments, including legal fees;
- transfer agent and custodial fees;
- fees and expenses associated with marketing and investor relations efforts;
- federal and state registration fees, any stock exchange listing fees;
- federal, state and local taxes;
- independent directors' fees and expenses;
- brokerage commissions;
- fidelity bond, directors and officers errors and omissions liability insurance and other insurance premiums;
- direct costs and expenses of administration, including printing, mailing, long distance telephone and staff;
- fees and expenses associated with independent audits and outside legal costs;
- costs associated with our reporting and compliance obligations under the 1940 Act and applicable federal and state securities laws; and
- all other expenses incurred by either BDC Partners or us in connection with administering our business, including payments under the Administration Agreement that will be based upon 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 costs of compensation and related expenses of our Chief Compliance Officer, our Chief Financial Officer and any administrative support staff.

## Duration and Termination

The Investment Advisory Agreement was initially approved by the Board of Directors of Oxford Lane Capital on September 9, 2010. Unless earlier terminated as described below, the Investment Advisory Agreement will remain in effect for a period of two years from the date it was approved by our Board of Directors and will remain in effect from year to year thereafter if approved annually by our Board of Directors or by the affirmative vote of the holders of a majority of our outstanding voting securities, including, in either case, approval by a majority of our directors who are not parties to such agreement or who are not interested persons of any such party, as such term is defined in Section 2(a)(19) of the 1940 Act. The Investment Advisory Agreement will automatically terminate in the event of its assignment. The Investment Advisory Agreement may also be terminated by either party without penalty upon not more than 60 days' written notice.





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to the other party. See Risk Factors Risks Relating to Our Business and Structure Our investment adviser can resign on 60 days notice.

## **Indemnification**

The Investment Advisory Agreement provides that, absent willful misfeasance, bad faith or gross negligence in the performance of its duties or by reason of the reckless disregard of its duties and obligations, Oxford Lane Management and its officers, managers, partners, agents, employees, controlling persons, members and any other person or entity affiliated with it are entitled to indemnification from Oxford Lane Capital for any damages, liabilities, costs and expenses (including reasonable attorneys fees and amounts reasonably paid in settlement) arising from the rendering of Oxford Lane Management's services under the Investment Advisory Agreement or otherwise as an investment adviser of Oxford Lane Capital.

## **Organization of the Investment Adviser**

Oxford Lane Management is a Connecticut limited liability company that is registered as an investment adviser under the Advisers Act prior to pricing of this offering. BDC Partners, a Delaware limited liability company, is its managing member and provides Oxford Lane Management with all personnel necessary to manage our day-to-day operations and provide the services under the Investment Advisory Agreement. The principal address of Oxford Lane Management and of BDC Partners is 8 Sound Shore Drive, Suite 255, Greenwich, Connecticut 06830.

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 serves on the Board of Directors of The Royce Funds. Mr. Royce has served as Chairman of the Board of Directors of TICC Capital Corp. since 2003. 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.

## **Board Approval of the Investment Advisory Agreement**

A discussion regarding the basis for our board of director's approval of our Investment Advisory Agreement will be included in our first annual or semi-annual report filed subsequent to completion of any such board action pertaining thereto.

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## **ADMINISTRATION AGREEMENT**

BDC Partners, a Delaware limited liability company, serves as our administrator. The principal executive offices of BDC Partners are located at 8 Sound Shore Drive, Suite 255, Greenwich, CT 06830. Pursuant to an Administration Agreement, BDC Partners furnishes us with office facilities, equipment and clerical, bookkeeping and record keeping services at such facilities. Under the Administration Agreement, BDC Partners also performs, or oversees the performance of, our required administrative services, which include, among other things, being responsible for the financial records which we are required to maintain and preparing reports to our stockholders. In addition, BDC Partners assists us in determining and publishing our net asset value, oversees the preparation and filing of our tax returns and the printing and dissemination of reports to our stockholders, and generally oversees the payment of our expenses and the performance of administrative and professional services rendered to us by others. Payments under the Administration Agreement are equal to an amount based upon our 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 our allocable portion of the compensation of our Chief Financial Officer and Chief Compliance Officer and our allocable portion of the compensation of any administrative support staff. The Administration Agreement may be terminated by either party without penalty upon 60 days' written notice to the other party.

BDC Partners also provides administrative services to our investment adviser, Oxford Lane Management. As a result, Oxford Lane Management will also reimburse BDC Partners for its allocable portion of BDC Partners' overhead, including rent, the fees and expenses associated with performing compliance functions for Oxford Lane Management, and its allocable portion of the compensation of any administrative support staff.

The Administration Agreement provides that, absent willful misfeasance, bad faith or negligence in the performance of its duties or by reason of the reckless disregard of its duties and obligations, BDC Partners and its officers, managers, partners, agents, employees, controlling persons, members and any other person or entity affiliated with it are entitled to indemnification from Oxford Lane Capital for any damages, liabilities, costs and expenses (including reasonable attorneys' fees and amounts reasonably paid in settlement) arising from the rendering of BDC Partners' services under the Administration Agreement or otherwise as administrator for Oxford Lane Capital.

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## **CERTAIN RELATIONSHIPS AND TRANSACTIONS**

We have entered into the Investment Advisory Agreement with Oxford Lane Management. Oxford Lane Management is controlled by BDC Partners, its managing member. In addition to BDC Partners, Oxford Lane Management is expected to be owned in part by Charles M. Royce as a non-managing member. BDC Partners, as the managing member of Oxford Lane Management, manages the business and internal affairs of Oxford Lane Management. In addition, BDC Partners provides us with office facilities and administrative services pursuant to the Administration Agreement. Jonathan H. Cohen, our Chief Executive Officer, as well as a director, is the managing member of and controls BDC Partners. Saul B. Rosenthal, our President, is also the President and Chief Operating Officer of TICC Management and a member of BDC Partners. BDC Partners is also the managing member of Oxford Gate Capital, LLC, a private fund in which Messrs. Cohen, Rosenthal and Conroy, along with certain investment and administrative personnel of TICC Management, are invested.

Charles M. Royce is President and Co-Chief Investment Officer of Royce & Associates. 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, Mr. Cohen currently serves as Chief Executive Officer and Mr. Rosenthal currently serves as President and Chief Operating Officer of TICC Capital Corp., a publicly-traded business development company that invests principally in the debt of U.S.-based companies and is the collateral manager of TICC CLO LLC, and TICC Capital Corp.'s investment adviser, TICC Management. Messrs. Cohen and Rosenthal also currently serve as Chief Executive Officer, and President, respectively, for T2 Advisers, LLC, an investment adviser to Greenwich Loan Income Fund Limited, a Guernsey fund that invests primarily in Senior Loans. T2 Advisers, LLC also manages T2 Income Fund CLO I Ltd., a CLO vehicle established by Greenwich Loan Income Fund Limited. BDC Partners is the managing member of TICC Management, LLC and T2 Advisers, LLC, respectively. As a result, Messrs. Cohen and Rosenthal may be subject to certain conflicts of interests with respect to their management of our portfolio on the one hand, and their respective obligations to manage TICC Capital Corp., TICC CLO LLC, Greenwich Loan Income Fund Limited, T2 Income Fund CLO I Ltd. and Oxford Gate Capital, LLC on the other hand. In addition, Patrick F. Conroy, our Chief Financial Officer, Chief Compliance Officer and Corporate Secretary, currently serves in similar capacities for TICC Capital Corp. Mr. Conroy also currently serves as the Chief Financial Officer of Greenwich Loan Income Fund Limited and as the Chief Financial Officer, Chief Compliance Officer and Treasurer of T2 Advisers, LLC, TICC Management and BDC Partners.

BDC Partners has adopted a written policy with respect to the allocation of investment opportunities among us, TICC Capital Corp., Greenwich Loan Income Fund Limited and Oxford Gate Capital, LLC in view of the potential conflicts of interest raised by the relationships described above.

In the ordinary course of business, we may enter into transactions with portfolio companies that may be considered related party transactions. In order to ensure that we do not engage in any prohibited transactions with any persons affiliated with us, we have implemented certain policies and procedures whereby our executive officers screen each of our transactions for any possible affiliations between the proposed portfolio investment, us, companies controlled by us and our employees and directors. We will not enter into any agreements unless and until we are satisfied that doing so will not raise concerns under the 1940 Act or, if such concerns exist, we have taken appropriate actions to seek board review and approval or exemptive relief for such transaction. Our Board of Directors reviews these procedures on an annual basis.

We have also adopted a Code of Ethics which applies to, among others, our senior officers, including our Chief Executive Officer and Chief Financial Officer, as well as every officer, director and employee of Oxford Lane Capital.

Our Code of Ethics requires that all employees and directors avoid any conflict, or the appearance of a conflict, between an individual's personal interests and the interests of Oxford Lane Capital. Pursuant to our Code of Ethics, each employee and director must disclose any conflicts of interest, or actions or relationships that might give rise to a conflict, to our Chief Compliance Officer. Our Audit Committee is charged with approving any waivers under our

Code of Ethics. As required by the NASDAQ Stock Market corporate governance listing standards, the Audit Committee of our Board of Directors is also required to review and approve any transactions with related parties (as such term is defined in Item 404 of Regulation S-K).

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The following table sets forth, as of March 26, 2012, the beneficial ownership of each of our directors, executive officers, each person known to us to beneficially own 5% or more of the outstanding shares of our common stock, and the executive officers and directors as a group.

Unless otherwise indicated, we believe that each beneficial owner set forth in the table has sole voting and investment power and has the same address as Oxford Lane Capital. Our address is 8 Sound Shore Drive, Suite 255, Greenwich, Connecticut 06830.

Name of Beneficial Owner	Number of Shares Beneficially Owned <sup>(1)</sup>	Percentage of Class <sup>(2)</sup>	
Interested Directors			
Jonathan H. Cohen	53,333	2.17	%
Saul B. Rosenthal	44,000	1.79	%
Independent Directors			
Mark J. Ashenfelter	3,000	*	
John Reardon			
David S. Shin			
Executive Officers			
Patrick F. Conroy	7,000	*	
Executive Officers and Directors as a Group	107,333	4.37	%
Charles M. Royce	161,250	6.57	%

\* Represents less than one percent

Beneficial ownership has been determined in accordance with Rule 13d-3 under the Securities Exchange Act of 1934. Assumes no other purchases or sales of our common stock since the most recently available SEC filings.

(1) This assumption has been made under the rules and regulations of the SEC and does not reflect any knowledge that we have with regard to the present intent of the beneficial owners of our common stock listed in this table.

(2) Based on a total of 2,455,858 shares of our common stock issued and outstanding on March 26, 2012.

Set forth below is the dollar range of equity securities beneficially owned by each of our directors as of March 26, 2012.

Name of Portfolio Manager	Dollar Range of Equity Securities Beneficially Owned <sup>(1)(2)</sup>
Interested Directors	
Jonathan H. Cohen	Over \$100,000
Saul B. Rosenthal	Over \$100,000
Independent Directors	
Mark J. Ashenfelter	\$10,001 \$50,000
John Reardon	None
David S. Shin	None

(1) Dollar ranges are as follows: None, \$1 \$10,000, \$10,001 \$50,000, \$50,000 \$100,000, or Over \$100,000.

The dollar range of equity securities beneficially owned in us is based on the closing price for our common stock of (2) \$15.33 on March 26, 2012 on the NASDAQ Global Select Market. Beneficial ownership has been determined in accordance with Rule 16a-1(a)(2) of the Exchange Act.

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# REGULATION AS A REGISTERED CLOSED-END MANAGEMENT INVESTMENT COMPANY

## General

We are a non-diversified closed-end management investment company that has registered as an investment company under the 1940 Act. As a registered closed-end investment company, we are subject to regulation under the 1940 Act.

Under the 1940 Act, unless authorized by vote of a majority of the outstanding voting securities, we may not:

change our classification to an open-end management investment company; except in each case in accordance with our policies with respect thereto set forth in this prospectus, borrow money, issue senior securities, underwrite securities issued by other persons, purchase or sell real estate or commodities or make loans to other persons;

deviate from any policy in respect of concentration of investments in any particular industry or group of industries as recited in this prospectus, deviate from any investment policy which is changeable only if authorized by shareholder vote under the 1940 Act, or deviate from any fundamental policy recited in its registration statement in accordance with the requirements of the 1940 Act; or

change the nature of our business so as to cease to be an investment company.

A majority of the outstanding voting securities of a company is defined under the 1940 Act as the lesser of: (a) 67% or more of such company's voting securities present at a meeting if more than 50% of the outstanding voting securities of such company are present or represented by proxy, or (b) more than 50% of the outstanding voting securities of such company.

As with other companies regulated by the 1940 Act, a registered closed-end management investment company must adhere to certain substantive regulatory requirements. A majority of our directors must be persons who are not interested persons, as that term is defined in the 1940 Act. Additionally, we are required to provide and maintain a bond issued by a reputable fidelity insurance company to protect the closed-end management investment company. Furthermore, as a registered closed-end management investment company, we are prohibited from protecting any director or officer against any liability to us or our stockholders arising from willful misfeasance, bad faith, gross negligence or reckless disregard of the duties involved in the conduct of such person's office. We may also be prohibited under the 1940 Act from knowingly participating in certain transactions with our affiliates without the prior approval of our directors who are not interested persons and, in some cases, prior approval by the SEC.

As a registered closed-end management investment company, we are generally 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. We are also prohibited from issuing or selling any senior security if, immediately after such issuance, we would have outstanding more than (i) one class of senior security representing indebtedness, exclusive of any promissory notes or other evidences of indebtedness issued in consideration of any loan, extension, or renewal thereof, made by a bank or other person and privately arranged, and not intended to be publicly distributed, or (ii) one class of senior security which is stock, except that in each case any such class of indebtedness or stock may be issued in one or more series.

We are generally not able to issue and sell our common stock at a price below net asset value per share. See Risk Factors Risks Relating to Our Business and Structure Regulations governing our operation as a closed-end investment company affect our ability to, and the way in which we, raise additional capital. We may, however, sell our common stock, or at a price below the then-current net asset value of our common stock if our Board of Directors

determines that such sale is in our best interests and the best interests of our stockholders, and our stockholders approve such sale. In addition, we may generally issue new shares of our common stock at a price below net asset value in rights offerings to existing stockholders, in payment of dividends and in certain other limited circumstances.



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As a registered closed-end management investment company, we are generally limited in our ability to invest in any portfolio company in which our investment adviser or any of its affiliates currently has an investment or to make any co-investments with our investment adviser or its affiliates without an exemptive order from the SEC, subject to certain exceptions.

Although we do not presently expect to do so, we are authorized to borrow funds up to an amount not to exceed the limitations of the 1940 Act to make investments. We may also borrow funds, consistent with the foregoing limitations of the 1940 Act, in order to make the distributions required to maintain our status as a RIC under Subchapter M of the Code.

We will be periodically examined by the SEC for compliance with the 1940 Act.

As a registered closed-end management investment company, we are subject to certain risks and uncertainties. See [Risk Factors](#) [Risks Relating to Our Business and Structure](#).

## **Temporary Investments**

Pending investment in portfolio securities consistent with our investment objective and strategies described in this prospectus, our investments may consist of cash, cash equivalents, U.S. government securities or high-quality debt securities maturing in one year or less from the time of investment, which we refer to, collectively, as temporary investments. Typically, we will invest in U.S. Treasury bills or in repurchase agreements, provided that such agreements are fully collateralized by cash or securities issued by the U.S. government or its agencies. A repurchase agreement involves the purchase by an investor, such as us, of a specified security and the simultaneous agreement by the seller to repurchase it at an agreed-upon future date and at a price which is greater than the purchase price by an amount that reflects an agreed-upon interest rate. There is no percentage restriction on the proportion of our assets that may be invested in such repurchase agreements. However, if more than 25% of our gross assets constitute repurchase agreements from a single counterparty, we would not meet the diversification tests in order to qualify as a RIC for federal income tax purposes. Thus, we do not intend to enter into repurchase agreements with a single counterparty in excess of this limit. Our investment adviser will monitor the creditworthiness of the counterparties with which we enter into repurchase agreement transactions.

## **Senior Securities**

We are permitted, under specified conditions, to issue one class of indebtedness and one class of stock senior to our common stock if our asset coverage, as defined in the 1940 Act, is at least equal to 300% immediately after each such issuance. We are also permitted to issue promissory notes or other evidences of indebtedness in consideration of a loan, extension, or renewal thereof, made by a bank or other person and privately arranged, and not intended to be publicly distributed, provided that our asset coverage is at least equal to 300% immediately thereafter. In addition, while any senior securities remain outstanding, we must make provisions to prohibit any distribution to our stockholders or the repurchase of such securities or shares unless we meet the applicable asset coverage ratios at the time of the distribution or repurchase. We may also borrow amounts up to 5% of the value of our gross assets for temporary or emergency purposes without regard to asset coverage. For a discussion of the risks associated with leverage, see [Risk Factors](#) [Risks Relating to Our Business and Structure](#) We may borrow money, which would magnify the potential for gain or loss on amounts invested and may increase the risk of investing in us.

## Code of Ethics

We and Oxford Lane Management have each adopted a code of ethics pursuant to Rule 17j-1 under the 1940 Act and Rule 204A-1 under the Advisers Act, respectively, that establishes procedures for personal investments and restricts certain transactions by our personnel. Our codes of ethics generally do not permit investments by our employees in securities that may be purchased or held by us. You may read and copy these codes of ethics at the SEC's Public Reference Room in Washington, D.C. You may obtain information on the operation of the Public Reference Room by calling the SEC at (202) 551-8090. In addition, each code of ethics is attached as an exhibit to the registration statement of which this prospectus is a part, and is available on the EDGAR Database on the SEC's Internet site at <http://www.sec.gov>. You may also obtain

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copies of the codes of ethics, after paying a duplicating fee, by electronic request at the following Email address: publicinfo@sec.gov, or by writing the SEC's Public Reference Section, 100 F Street, N.E., Washington, D.C. 20549.

## **Compliance Policies and Procedures**

We and our investment adviser have adopted and implemented written policies and procedures reasonably designed to detect and prevent violation of the federal securities laws and are required to review these compliance policies and procedures annually for their adequacy and the effectiveness of their implementation and designate a Chief Compliance Officer to be responsible for administering the policies and procedures. Patrick F. Conroy currently serves as our Chief Compliance Officer.

## **Sarbanes-Oxley Act of 2002**

The Sarbanes-Oxley Act of 2002 imposes a wide variety of regulatory requirements on publicly-held companies and their insiders. Many of these requirements affect us. For example:

pursuant to Rule 30a-2 of the 1940 Act, our chief executive officer and chief financial officer must certify the accuracy of the financial statements contained in our periodic reports;

pursuant to Item 11 of Form N-CSR and Item 2 of Form N-Q, our periodic reports must disclose our conclusions about the effectiveness of our disclosure controls and procedures; and

pursuant to Item 11 of Form N-CSR and Item 2 of Form N-Q, our periodic reports must disclose whether there were significant changes in our internal controls over financial reporting or in other factors that could significantly affect these controls subsequent to the date of their evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

The Sarbanes-Oxley Act requires us to review our current policies and procedures to determine whether we comply with the Sarbanes-Oxley Act and the regulations promulgated thereunder. We will continue to monitor our compliance with all regulations that are adopted under the Sarbanes-Oxley Act and will take actions necessary to ensure that we are in compliance therewith.

## **Fundamental Investment Policies**

The restrictions identified as fundamental below, along with our investment objective, are our only fundamental policies. Fundamental policies may not be changed without the approval of the holders of a majority of our outstanding voting securities, as defined in the 1940 Act. The percentage restrictions set forth below, apply at the time a transaction is effected, and a subsequent change in a percentage resulting from market fluctuations or any cause will not require us to dispose of portfolio securities or to take other action to satisfy the percentage restriction.

As a matter of fundamental policy, we will not: (1) act as an underwriter of securities of other issuers (except to the extent that we may be deemed an underwriter of securities we purchase that must be registered under the Securities Act before they may be offered or sold to the public); (2) purchase or sell real estate or interests in real estate or real estate investment trusts (except that we may (A) purchase and sell real estate or interests in real estate in connection with the orderly liquidation of investments, or in connection with foreclosure on collateral, or (B) own the securities of companies that are in the business of buying, selling or developing real estate); (3) sell securities short (except with regard to managing the risks associated with publicly-traded securities we may hold in our portfolio); (4) purchase securities on margin (except to the extent that we may purchase securities with borrowed money); or (5) engage in the purchase or sale of commodities or commodity contracts, including futures contracts (except where necessary in

working out distressed investment situations or in hedging the risks associated with interest rate fluctuations), and, in such cases, only after all necessary registrations (or exemptions from registration) with the Commodity Futures Trading Commission have been obtained.

We may invest up to 100% of our assets in securities issued by CLO vehicles and in corporate debt instruments, which may be acquired directly in privately negotiated transactions or in secondary market purchases. With respect to securities we acquired directly in privately negotiated transactions, we may, for the purpose of public resale, be deemed an underwriter as that term is defined in the Securities Act. Our

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intention is to not write (sell) or buy put or call options to manage risks associated with any publicly-traded securities we may hold, except that we may enter into hedging transactions to manage the risks associated with interest rate fluctuations, and, in such cases, only after all necessary registrations (or exemptions from registration) with the Commodity Futures Trading Commission have been obtained. We also do not intend to acquire securities issued by any investment company that exceed the limits imposed by the 1940 Act. Under these limits, unless otherwise permitted by the 1940 Act, we currently cannot acquire more than 3% of the voting securities of any registered investment company, invest more than 5% of the value of our total assets in the securities of one investment company or invest, in the aggregate, in excess of 10% of the value of our total assets in the securities of one or more investment companies. With regard to that portion of our portfolio invested in securities issued by investment companies, it should be noted that such investments might subject our stockholders to additional expenses.

## **Proxy Voting Policies and Procedures**

We have delegated our proxy voting responsibility to Oxford Lane Management. The Proxy Voting Policies and Procedures of Oxford Lane Management are set forth below. The guidelines will be reviewed periodically by Oxford Lane Management and our non-interested directors, and, accordingly, are subject to change. For purposes of these Proxy Voting Policies and Procedures described below, we, our and us refers to Oxford Lane Management.

### **Introduction**

An investment adviser registered under the Advisers Act has a fiduciary duty to act solely in the best interests of its clients. As part of this duty, we recognize that we must vote client securities in a timely manner free of conflicts of interest and in the best interests of our clients.

These policies and procedures for voting proxies for our investment advisory clients are intended to comply with Section 206 of, and Rule 206(4)-6 under, the Advisers Act.

### **Proxy Policies**

We will vote proxies relating to our portfolio securities in what we perceive to be the best interest of our clients stockholders. We will review on a case-by-case basis each proposal submitted to a stockholder vote to determine its impact on the portfolio securities held by our clients. Although we will generally vote against proposals that may have a negative impact on our clients' portfolio securities, we may vote for such a proposal if there exist compelling long-term reasons to do so.

Our proxy voting decisions will be made by the senior officers who are responsible for monitoring each of our clients' investments. To ensure that our vote is not the product of a conflict of interest, we will require that: (1) anyone involved in the decision making process disclose to our managing members any potential conflict that he or she is aware of and any contact that he or she has had with any interested party regarding a proxy vote; and (2) employees involved in the decision making process or vote administration are prohibited from revealing how we intend to vote on a proposal in order to reduce any attempted influence from interested parties.

### **Proxy Voting Records**

You may obtain information about how we voted proxies by making a written request for proxy voting information to: Oxford Lane Management, LLC, 8 Sound Shore Drive, Suite 255, Greenwich, CT 06830.

## **Privacy Policy**

We are committed to protecting your privacy. This privacy notice, which is required by federal law, explains privacy policies of Oxford Lane Capital Corp. and its affiliated companies. This notice supersedes any other privacy notice you may have received from Oxford Lane Capital Corp., and its terms apply both to our current stockholders and to former stockholders as well.

We will safeguard, according to strict standards of security and confidentiality, all information we receive about you. With regard to this information, we maintain procedural safeguards that comply with federal standards.

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Our goal is to limit the collection and use of information about you. When you purchase shares of our common stock, our transfer agent collects personal information about you, such as your name, address, social security number or tax identification number.

This information is used only so that we can send you annual reports, proxy statements and other information required by law, and to send you information we believe may be of interest to you.

We do not share such information with any non-affiliated third party except as described below:

It is our policy that only authorized employees of our investment adviser, Oxford Lane Management, LLC, who need to know your personal information will have access to it.

We may disclose stockholder-related information to companies that provide services on our behalf, such as record keeping, processing your trades, and mailing you information. These companies are required to protect your information and use it solely for the purpose for which they received it.

If required by law, we may disclose stockholder-related information in accordance with a court order or at the request of government regulators. Only that information required by law, subpoena, or court order will be disclosed.

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## **DETERMINATION OF NET ASSET VALUE**

We determine the net asset value per share of our common stock by dividing the value of our portfolio investments, cash and other assets (including interest accrued but not collected) less all its liabilities (including accrued expenses, borrowings and interest payables) by the total number of shares of our common stock outstanding on a quarterly basis.

The most significant estimate inherent in the preparation of our financial statements is the valuation of investments and the related amounts of unrealized appreciation and depreciation of investments recorded. There is no single 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 we make. We are required to specifically fair value each individual investment on a quarterly basis.

Our Board of Directors determines the value of our investment portfolio each quarter, after consideration of our Valuation Committee's recommendation of fair value. Oxford Lane Management compiles relevant information, including a financial summary, covenant compliance review and recent trading activity in the security, if known. All available information, including non-binding indicative bids which may not be considered reliable, will be presented to the Valuation Committee to consider in making its recommendation of fair value to the Board of Directors. 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 Valuation Committee 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 making its recommendation of fair value to the Board of Directors. We may elect to engage third-party valuation firms to provide assistance to our Valuation Committee and Board of Directors in valuing certain of our investments. The Valuation Committee will evaluate the impact of such additional information, and factor it into its consideration of fair value.

## **DIVIDEND REINVESTMENT PLAN**

We have adopted a dividend reinvestment plan that provides for reinvestment of our dividends and other distributions on behalf of our stockholders, unless a stockholder elects to receive cash as provided below. As a result, if our Board of Directors authorizes, and we declare, a cash distribution, our stockholders who have not opted out of our dividend reinvestment plan will have their cash distributions automatically reinvested in additional shares of our common stock, rather than receiving the cash distributions.

No action will be required on the part of a registered stockholder to have his cash distribution reinvested in shares of our common stock. A registered stockholder may elect to receive an entire distribution in cash by notifying Computershare Trust Company, N.A., the plan administrator and our transfer agent and registrar, in writing so that such notice is received by the plan administrator no later than the record date for distributions to stockholders. The plan administrator will set up an account for shares acquired through the plan for each stockholder who has not elected to receive distributions in cash and hold such shares in non-certificated form. Upon request by a stockholder participating in the plan, received in writing not less than 10 days prior to the record date, the plan administrator will, instead of crediting shares to the participant's account, issue a certificate registered in the participant's name for the number of whole shares of our common stock and a check for any fractional share.

Those stockholders whose shares are held by a broker or other financial intermediary may receive distributions in cash by notifying their broker or other financial intermediary of their election.



We intend to use primarily newly issued shares to implement the plan, whether our shares are trading at a premium or at a discount to net asset value. However, we reserve the right to purchase shares in the open market in connection with our implementation of the plan. If we declare a distribution to stockholders, the plan administrator may be instructed not to credit accounts with newly-issued shares and instead to buy shares in the market if (i) the price at which newly-issued shares are to be credited does not exceed 110% of the last determined net asset value of the shares; or (ii) we have advised the plan administrator that since such net asset value was last determined, we have become aware of events that indicate the possibility of a material change in per share net asset value as a result of which the net asset value of the shares on the payment date might be higher than the price at which the plan administrator would credit newly-issued shares to stockholders. The number of shares to be issued to a stockholder is determined by dividing the total dollar amount of the distribution payable to such stockholder by the market price per share of our common stock at

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the close of regular trading on the valuation date for such distribution. Market price per share on that date will be the closing price for such shares on the national securities exchange on which our shares are then listed or, if no sale is reported for such day, at the average of their reported bid and asked prices. The number of shares of our common stock to be outstanding after giving effect to payment of the distribution cannot be established until the value per share at which additional shares will be issued has been determined and elections of our stockholders have been tabulated.

There will be no brokerage charges or other charges to stockholders who participate in the plan. The plan administrator's fees under the plan will be paid by us. If a participant elects by written notice to the plan administrator to have the plan administrator sell part or all of the shares held by the plan administrator in the participant's account and remit the proceeds to the participant, the plan administrator is authorized to deduct a transaction fee of \$2.50 plus a per share brokerage commissions from the proceeds.

Stockholders who receive distributions in the form of stock are subject to the same federal, state and local tax consequences as are stockholders who elect to receive their distributions in cash. A stockholder's basis for determining gain or loss upon the sale of stock received in a distribution from us will be equal to the total dollar amount of the distribution payable to the stockholder. Any stock received in a distribution will have a new holding period for tax purposes commencing on the day following the day on which the shares are credited to the U.S. stockholder's account.

The plan may be terminated by us upon notice in writing mailed to each participant at least 30 days prior to any record date for the payment of any distribution by us. All correspondence concerning the plan should be directed to the plan administrator by mail at 250 Royall Street, Canton, MA 02021 or by phone at (781) 575-2973.

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## **MATERIAL U.S. FEDERAL INCOME TAX CONSIDERATIONS**

The following discussion is a general summary of the material U.S. federal income tax considerations applicable to us and to an investment in our shares. This summary does not purport to be a complete description of the income tax considerations applicable to such an investment. For example, we have not described tax consequences that may be relevant to certain types of holders subject to special treatment under U.S. federal income tax laws, including stockholders subject to the alternative minimum tax, tax-exempt organizations, insurance companies, dealers in securities, a trader in securities that elects to use a market-to-market method of accounting for its securities holdings, pension plans and trusts, and financial institutions. This summary assumes that investors hold our common stock as capital assets (within the meaning of the Code). The discussion is based upon the Code, Treasury regulations, and administrative and judicial interpretations, each as of the date of this prospectus and all of which are subject to change, possibly retroactively, which could affect the continuing validity of this discussion. We have not sought and will not seek any ruling from the Internal Revenue Service regarding this offering. This summary does not discuss any aspects of U.S. estate or gift tax or foreign, state or local tax. It does not discuss the special treatment under U.S. federal income tax laws that could result if we invested in tax-exempt securities or certain other investment assets.

A U.S. stockholder generally is a beneficial owner of shares of our common stock who is for U.S. federal income tax purposes:

A citizen or individual resident of the United States;

A corporation or other entity treated as a corporation, for U.S. federal income tax purposes, created or organized in or under the laws of the United States or any political subdivision thereof (and an entity organized outside of the United States that is treated as a U.S. corporation under specialized sections of the Code);

A trust if a court within the United States is asked to exercise primary supervision over the administration of the trust and one or more United States persons have the authority to control all substantive decisions of the trust (or a trust that has made a valid election to be treated as a U.S. trust); or

An estate, the income of which is subject to U.S. federal income taxation regardless of its source.

A Non-U.S. stockholder generally is a beneficial owner of shares of our common stock who is not a U.S. stockholder.

If a partnership (including an entity treated as a partnership for U.S. federal income tax purposes) holds shares of our common stock, the tax treatment of a partner in the partnership will generally depend upon the status of the partner and the activities of the partnership. A prospective stockholder that is a partner of a partnership holding shares of our common stock should consult his, her or its tax advisers with respect to the purchase, ownership and disposition of shares of our common stock.

Tax matters are complicated and the tax consequences to an investor of an investment in our shares will depend on the facts of his, her or its particular situation. We encourage investors to consult their own tax advisers regarding the specific consequences of such an investment, including tax reporting requirements, the applicability of federal, state, local and foreign tax laws, eligibility for the benefits of any applicable tax treaty and the effect of any possible changes in the tax laws.

## **Election to be Taxed as a RIC**

We intend to elect to be treated as a RIC under Subchapter M of the Code. As a RIC, we generally will not have to pay corporate-level federal income taxes on any income that we distribute to our stockholders as dividends. To qualify as a RIC, we must, among other things, meet certain source-of-income and asset diversification requirements (as described below). In addition, in order to be eligible for pass-through tax treatment as a RIC, we must distribute to our stockholders, for each taxable year, at least 90% of our investment company taxable income, which is generally our net ordinary income plus the excess of realized net short-term capital gains over realized net long-term capital losses (the Annual Distribution Requirement ).

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## Taxation as a Regulated Investment Company

If we:

qualify as a RIC; and

satisfy the Annual Distribution Requirement,

then we will not be subject to federal income tax on the portion of our income we distribute (or are deemed to distribute) to stockholders. We will be subject to U.S. federal income tax at the regular corporate rates on any income or capital gains not distributed (or deemed distributed) to our stockholders.

We will be subject to a 4% nondeductible federal excise tax on certain undistributed income unless we distribute in a timely manner an amount at least equal to the sum of (1) 98% of our net ordinary income for each calendar year, (2) 98.2% of our capital gain net income for the one-year period ending October 31 in that calendar year and (3) any income recognized, but not distributed, in preceding years (the Excise Tax Avoidance Requirement). We generally will endeavor in each year to make sufficient distributions to our stockholders to avoid any U.S. federal excise tax on our earnings.

In order to qualify as a RIC for federal income tax purposes, we must, among other things:

derive in each taxable year at least 90% of our gross income from dividends, interest, payments with respect to loans of certain securities, gains from the sale of stock or other securities, net income from certain qualified publicly traded partnerships, or other income derived with respect to our business of investing in such stock or securities (the 90% Income Test); and

diversify our holdings so that at the end of each quarter of the taxable year:

at least 50% of the value of our assets consists of cash, cash equivalents, U.S. Government securities, securities of other RICs, and other securities if such other securities of any one issuer do not represent more than 5% of the value of our assets or more than 10% of the outstanding voting securities of the issuer; and  
no more than 25% of the value of our assets is invested in the securities, other than U.S. government securities or securities of other RICs, of one issuer, of two or more issuers that are controlled, as determined under applicable Code rules, by us and that are engaged in the same or similar or related trades or businesses, or of certain qualified publicly traded partnerships (the Diversification Tests).

We may be required to recognize taxable income in circumstances in which we do not receive cash. For example, if we hold debt obligations that are treated under applicable tax rules as having original issue discount (which may arise if we receive warrants in connection with the origination of a loan or possibly in other circumstances), we must include in income each year a portion of the original issue discount that accrues over the life of the obligation, regardless of whether cash representing such income is received by us in the same taxable year. We may also have to include in income other amounts that we have not yet received in cash, such as contractual payment-in-kind, or PIK, interest (which represents contractual interest added to the loan balance and due at the end of the loan term) and deferred loan origination fees that are paid after origination of the loan or are paid in non-cash compensation such as warrants or stock. Because any original issue discount or other amounts accrued will be included in our investment company taxable income for the year of accrual, we may be required to make a distribution to our stockholders in order to satisfy the Annual Distribution Requirement and the Excise Tax Avoidance Requirement, even though we will not have received any corresponding cash amount.

Although we do not presently expect to do so, we are authorized to borrow funds and to sell assets in order to satisfy distribution requirements. However, under the 1940 Act, we are not permitted to make distributions to our stockholders while our debt obligations and other senior securities are outstanding unless certain asset coverage tests

are met. See Regulation as a Registered Closed-End Management Investment Company Senior Securities. Moreover, our ability to dispose of assets to meet our distribution requirements may be limited by (1) the illiquid nature of our portfolio and/or (2) other requirements relating to our status as a RIC, including the Diversification Tests. If we dispose of assets in order to meet the Annual

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Distribution Requirement or the Excise Tax Avoidance Requirement, we may make such dispositions at times that, from an investment standpoint, are not advantageous.

Certain of our investment practices may be subject to special and complex U.S. federal income tax provisions that may, among other things: (i) disallow, suspend or otherwise limit the allowance of certain losses or deductions; (ii) convert lower taxed long-term capital gain into higher taxed short-term capital gain or ordinary income; (iii) convert an ordinary loss or a deduction into a capital loss (the deductibility of which is more limited); (iv) cause us to recognize income or gain without a corresponding receipt of cash; (v) adversely affect the time as to when a purchase or sale of securities is deemed to occur; (vi) adversely alter the characterization of certain complex financial transactions; and (vii) produce income that will not be qualifying income for purposes of the 90% gross income test described above. We will monitor its transactions and may make certain tax elections in order to mitigate the potential adverse effect of these provisions.

Our investment in foreign securities may be subject to non-U.S. withholding taxes. In that case, our yield on those securities would be decreased. Stockholders will generally not be entitled to claim a credit or deduction with respect to non-U.S. taxes paid by us.

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. Additional charges in the nature of interest may be imposed on us in respect of deferred taxes arising from any such excess distributions or gains. If we invest in a PFIC and elect to treat the PFIC as a qualified electing fund under the Code (a QEF ), in lieu of the foregoing requirements, we will be required to include in income each year a our proportionate share of the ordinary earnings and net capital gain of the QEF, even if such income is not distributed to us. Alternatively, we can elect to mark-to-market at the end of each taxable year our shares in a PFIC; in this case, we will recognize as ordinary income any increase in the value of such shares, and as ordinary loss any decrease in such value to the extent it does not exceed prior increases included in our income. Under either election, we may be required to recognize in a year income in excess of our distributions from PFICs and our proceeds from dispositions of PFIC stock during that year, and we must distribute such income to satisfy the Annual Distribution Requirement and the Excise Tax Avoidance Requirement.

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 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), whether or not the corporation makes an actual distribution during such year. This deemed distribution is required to be included in the income of a U.S. Shareholder of a CFC regardless of whether the shareholder has made a QEF election with respect to such CFC. In general, a foreign corporation will be classified as a CFC if more than 50% of the shares of the corporation, measured by reference to combined voting power or value, is owned (directly, indirectly or by attribution) by U.S. Shareholders. A U.S. Shareholder, for this purpose, is any U.S. person that possesses (actually or constructively) 10% or more of the combined voting power of all classes of shares of a corporation. If we are treated as receiving a deemed distribution from a CFC, we will be required to include such distribution in our investment company taxable income regardless of whether we receive any actual distributions from such CFC, and we must distribute such income to satisfy the Annual Distribution Requirement and the Excise Tax Avoidance Requirement.

Under Section 988 of the Code, gains or losses attributable to fluctuations in exchange rates between the time we accrue income, expenses or other liabilities denominated in a foreign currency and the time we actually collect such

income or pay such expenses or liabilities are generally treated as ordinary income or loss. Similarly, gains or losses on foreign currency forward contracts and the disposition of debt obligations denominated in a foreign currency, to the extent attributable to fluctuations in exchange rates between the acquisition and disposition dates, are also treated as ordinary income or loss.



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Gain or loss realized by us from the sale or exchange of warrants acquired by us as well as any loss attributable to the lapse of such warrants generally will be treated as capital gain or loss. The treatment of such gain or loss as long-term or short-term will depend on how long we held a particular warrant. Upon the exercise of a warrant acquired by us, our tax basis in the stock purchased under the warrant will equal the sum of the amount paid for the warrant plus the strike price paid on the exercise of the warrant.

The remainder of this discussion assumes that we qualify as a RIC and have satisfied the Annual Distribution Requirement.

## **Taxation of U.S. Stockholders**

Distributions by us generally are taxable to U.S. stockholders as ordinary income or capital gains. Distributions of our investment company taxable income (which is, generally, our net ordinary income plus realized net short-term capital gains in excess of realized net long-term capital losses) will be taxable as ordinary income to U.S. stockholders to the extent of our current or accumulated earnings and profits, whether paid in cash or reinvested in additional common stock. To the extent such distributions paid by us in taxable years beginning before January 1, 2013, to non-corporate stockholders (including individuals) are attributable to dividends from U.S. corporations and certain qualified foreign corporations, such distributions ( Qualifying Dividends ) may be eligible for a maximum tax rate of 15%. In this regard, it is anticipated that distributions paid by us will generally not be attributable to dividends and, therefore, generally will not qualify for the 15% maximum rate applicable to Qualifying Dividends. Distributions of our net capital gains (which are generally our realized net long-term capital gains in excess of realized net short-term capital losses) made in taxable years beginning before January 1, 2013, and properly reported by us as capital gain dividends will be taxable to a U.S. stockholder as long-term capital gains that are currently taxable at a maximum rate of 15% in the case of individuals, trusts or estates, regardless of the U.S. stockholder's holding period for his, her or its common stock and regardless of whether paid in cash or reinvested in additional common stock. Distributions in excess of our earnings and profits first will reduce a U.S. stockholder's adjusted tax basis in such stockholder's common stock and, after the adjusted basis is reduced to zero, will constitute capital gains to such U.S. stockholder.

Under the dividend reinvestment plan, our stockholders who have not opted out of our dividend reinvestment plan will have their cash distributions automatically reinvested in additional shares of our common stock, rather than receiving the cash distributions. Any distributions reinvested under the plan will nevertheless remain taxable to U.S. stockholders. A U.S. stockholder will have an adjusted basis in the additional common shares purchased through the plan equal to the amount of the reinvested distribution. The additional shares will have a new holding period commencing on the day following the day on which the shares are credited to the U.S. stockholder's account.

We may retain some or all of our realized net long-term capital gains in excess of realized net short-term capital losses, but designate the retained net capital gain as a deemed distribution. In that case, among other consequences, we will pay tax on the retained amount, each U.S. stockholder will be required to include his, her or its share of the deemed distribution in income as if it had been actually distributed to the U.S. stockholder, and the U.S. stockholder will be entitled to claim a credit equal to his, her or its allocable share of the tax paid thereon by us. Because we expect to pay tax on any retained capital gains at our regular corporate tax rate, and because that rate is in excess of the maximum rate currently payable by individuals on long-term capital gains, the amount of tax that individual U.S. stockholders will be treated as having paid will exceed the tax they owe on the capital gain distribution and such excess generally may be refunded or claimed as a credit against the U.S. stockholder's other U.S. federal income tax obligations. The amount of the deemed distribution net of the tax paid by us on the retained capital gains will be added to the U.S. stockholder's cost basis for his, her or its common stock. In order to utilize the deemed distribution approach, we must provide written notice to our stockholders prior to the expiration of 60 days after the close of the

relevant taxable year. We cannot treat any of our investment company taxable income as a deemed distribution.

As a RIC, we will be subject to the alternative minimum tax ( AMT ), but any items that are treated differently for AMT purposes must be apportioned between us and our stockholders and this may affect our stockholders' AMT liabilities. Although regulations explaining the precise method of apportionment have not yet been issued by the Internal Revenue Service, we intend in general to apportion these items in the same

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proportion that dividends paid to each stockholder bear to our taxable income (determined without regard to the dividends paid deduction), unless we determines that a different method for a particular item is warranted under the circumstances.

For purposes of determining (1) whether the Annual Distribution Requirement is satisfied for any year and (2) the amount of capital gain dividends paid for that year, we may, under certain circumstances, elect to treat a dividend that is paid during the following taxable year as if it had been paid during the taxable year in question. If we make such an election, the U.S. stockholder will still be treated as receiving the dividend in the taxable year in which the distribution is made. However, any dividend declared by us in October, November or December of any calendar year, payable to stockholders of record on a specified date in such a month and actually paid during January of the following year, will be treated as if it had been received by our U.S. stockholders on December 31 of the year in which the dividend was declared.

If an investor purchases shares of our common stock shortly before the record date of a distribution, the price of the shares will include the value of the distribution and the investor will be subject to tax on the distribution even though economically it may represent a return of his, her or its investment.

A stockholder generally will recognize taxable gain or loss if the stockholder sells or otherwise disposes of his, her or its shares of our common stock. The amount of gain or loss will be measured by the difference between such stockholder's adjusted tax basis in the common stock sold and the amount of the proceeds received in exchange. Any gain arising from such sale or disposition generally will be treated as long-term capital gain or loss if the stockholder has held his, her or its shares for more than one year. Otherwise, it will be classified as short-term capital gain or loss. However, any capital loss arising from the sale or disposition of shares of our common stock held for six months or less will be treated as long-term capital loss to the extent of the amount of capital gain dividends received, or undistributed capital gain deemed received, with respect to such shares. In addition, all or a portion of any loss recognized upon a disposition of shares of our common stock may be disallowed if other shares of our common stock are purchased (whether through reinvestment of distributions or otherwise) within 30 days before or after the disposition.

The maximum rate on long-term capital gains for non-corporate taxpayers is scheduled to return to 20% (from the current 15% maximum rate) for tax years beginning after December 31, 2012. In addition, for taxable years beginning after December 31, 2012, individuals with income in excess of \$200,000 (\$250,000 in the case of married individuals filing jointly) and certain estates and trusts are subject to an additional 3.8% tax on their net investment income, which generally includes net income from interest, dividends, annuities, royalties, and rents, and net capital gains (other than certain amounts earned from trades or businesses). Corporate U.S. stockholders currently are subject to federal income tax on net capital gain at the maximum 35% rate also applied to ordinary income. Non-corporate stockholders with net capital losses for a year (i.e., capital losses in excess of capital gains) generally may deduct up to \$3,000 of such losses against their ordinary income each year; any net capital losses of a non-corporate stockholder in excess of \$3,000 generally may be carried forward and used in subsequent years as provided in the Code. Corporate stockholders generally may not deduct any net capital losses for a year, but may carry back such losses for three years or carry forward such losses for five years.

We will report to each of our U.S. stockholders, as promptly as possible after the end of each calendar year, the amounts includible in such U.S. stockholder's taxable income for such year as ordinary income and as long-term capital gain. In addition, the federal tax status of each year's distributions generally will be reported to the Internal Revenue Service (including the amount of dividends, if any, eligible for the 15% maximum rate). Dividends paid by us generally will not be eligible for the dividends-received deduction or the preferential tax rate applicable to Qualifying Dividends because our income generally will not consist of dividends. Distributions may also be subject to

additional state, local and foreign taxes depending on a U.S. stockholder's particular situation.

We may be required to withhold federal income tax ( backup withholding ) from all distributions to any U.S. stockholder (other than a corporation, a financial institution, or a stockholder that otherwise qualifies for an exemption) (1) who fails to furnish us with a correct taxpayer identification number or a certificate that such stockholder is exempt from backup withholding or (2) with respect to whom the Internal Revenue Service notifies us that such stockholder has failed to properly report certain interest and dividend income to

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the Internal Revenue Service and to respond to notices to that effect. An individual's taxpayer identification number is his or her social security number. Any amount withheld under backup withholding is allowed as a credit against the U.S. stockholder's federal income tax liability, provided that proper information is provided to the Internal Revenue Service.

## **Taxation of Non-U.S. Stockholders**

Whether an investment in the shares is appropriate for a Non-U.S. stockholder will depend upon that person's particular circumstances. An investment in the shares by a Non-U.S. stockholder may have adverse tax consequences.

Non-U.S. stockholders should consult their tax advisers before investing in our common stock.

Distributions of our investment company taxable income to Non-U.S. stockholders (including interest income and realized net short-term capital gains in excess of realized long-term capital losses, which generally would be free of withholding if paid to Non-U.S. stockholders directly) will be subject to withholding of federal tax at a 30% rate (or lower rate provided by an applicable treaty) to the extent of our current and accumulated earnings and profits unless an applicable exception applies. If the distributions are effectively connected with a U.S. trade or business of the Non-U.S. stockholder, we will not be required to withhold federal tax if the Non-U.S. stockholder complies with applicable certification and disclosure requirements, although the distributions will be subject to federal income tax at the rates applicable to U.S. persons. (Special certification requirements apply to a Non-U.S. stockholder that is a foreign partnership or a foreign trust, and such entities are urged to consult their own tax advisers.)

In addition, for taxable years prior to December 31, 2011, U.S. source withholding taxes was not imposed on dividends paid by RICs to the extent the dividends are reported as interest-related dividends or short-term capital gain dividends. Under this exemption, interest-related dividends and short-term capital gain dividends generally represented distributions of interest or short-term capital gains that would not have been subject to U.S. withholding tax at the source if they had been received directly by a foreign person, and that satisfied certain other requirements.

The exemption applied to dividends with respect to taxable years of RICs beginning before January 1, 2012. No assurance can be given as to whether this extension of the exemption will be extended for taxable years after 2011. In addition, no assurance can be given whether any of our distributions will be reported as eligible for this exemption from withholding tax (if extended).

Actual or deemed distributions of our net capital gains to a stockholder that is a Non-U.S. stockholder, and gains realized by a Non-U.S. stockholder upon the sale or redemption of our common stock, will not be subject to U.S. federal income tax unless the distributions or gains, as the case may be, are effectively connected with a U.S. trade or business of the Non-U.S. stockholder (and, if an income tax treaty applies, are attributable to a permanent establishment maintained by the Non-U.S. stockholder in the United States,) or, in the case of an individual, the Non-U.S. stockholder was present in the United States for 183 days or more during the taxable year and certain other conditions are met.

If we distribute our net capital gains in the form of deemed rather than actual distributions, a stockholder that is a Non-U.S. stockholder will be entitled to a U.S. federal income tax credit or tax refund equal to the stockholder's allocable share of the corporate-level tax we pay on the capital gains deemed to have been distributed; however, in order to obtain the refund, the Non-U.S. stockholder must obtain a U.S. taxpayer identification number and file a U.S. federal income tax return even if the Non-U.S. stockholder would not otherwise be required to obtain a U.S. taxpayer identification number or file a U.S. federal income tax return.

For a corporate Non-U.S. stockholder, distributions (both actual and deemed), and gains realized upon the sale or redemption of our common stock that are effectively connected to a U.S. trade or business may, under certain circumstances, be subject to an additional branch profits tax at a 30% rate (or at a lower rate if provided for by an applicable treaty).

Under the dividend reinvestment plan, our stockholders who have not opted out of our dividend reinvestment plan will have their cash distributions automatically reinvested in additional shares of our common stock, rather than receiving the cash distributions. If the distribution is a distribution of our investment company taxable income, is not properly reported by us as a short-term capital gains dividend or interest-related dividend (assuming extension of the exemption discussed above), and is not effectively connected with a U.S. trade or business of the Non-U.S. stockholder (and, if a treaty applies, is not

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attributable to a permanent establishment), the amount distributed (to the extent of our current and accumulated earnings and profits) will be subject to U.S. federal withholding tax at a 30% rate (or lower rate provided by an applicable treaty) and only the net after-tax amount will be reinvested in common shares. If the distribution is effectively connected with a U.S. trade or business of the Non-U.S. stockholder (and no withholding applies because applicable certifications are provided by the Non-U.S. stockholder), generally the full amount of the distribution will be reinvested in the plan and will nevertheless be subject to U.S. federal income tax at the ordinary income rates applicable to U.S. persons. The Non-U.S. stockholder will have an adjusted basis in the additional common shares purchased through the plan equal to the amount reinvested. The additional shares will have a new holding period commencing on the day following the day on which the shares are credited to the Non-U.S. stockholder's account.

A Non-U.S. stockholder who is a non-resident alien individual, and who is otherwise subject to withholding of federal tax, may be subject to information reporting and backup withholding of federal income tax on dividends unless the Non-U.S. stockholder provides us or the dividend paying agent with an IRS Form W-8BEN (or an acceptable substitute form) or otherwise meets documentary evidence requirements for establishing that it is a Non-U.S. stockholder or otherwise establishes an exemption from backup withholding.

Recently enacted legislation that generally imposes a 30% withholding tax on payments of certain types of income to foreign financial institutions that fail to enter into an agreement with the United States Treasury to report certain required information with respect to accounts held by United States persons (or held by foreign entities that have United States persons as substantial owners). The types of income subject to the tax include U.S. source interest and dividends paid after December 31, 2013, and the gross proceeds from the sale of any property that could produce U.S.-source interest or dividends received after December 31, 2014. The information required to be reported includes the identity and taxpayer identification number of each account holder that is a U.S. person and transaction activity within the holder's account. In addition, subject to certain exceptions, this legislation also imposes a 30% withholding on payments to foreign entities that are not financial institutions unless the foreign entity certifies that it does not have a greater than 10% U.S. owner or provides the withholding agent with identifying information on each greater than 10% U.S. owner. When these provisions become effective, depending on the status of a Non-U.S. stockholder and the status of the intermediaries through which it holds its units, a Non-U.S. stockholder could be subject to this 30% withholding tax with respect to distributions on our stock and proceeds from the sale of our stock. Under certain circumstances, a Non-U.S. stockholder might be eligible for refunds or credits of such taxes.

Non-U.S. persons should consult their own tax advisers with respect to the U.S. federal income tax and withholding tax, and state, local and foreign tax consequences of an investment in the shares.

## **Failure to Qualify as a Regulated Investment Company**

If we were unable to qualify for treatment as a RIC, we would be subject to tax on all of our taxable income at regular corporate rates, regardless of whether we make any distributions to our stockholders. Distributions would not be required, and any distributions made in taxable years beginning before January 1, 2013, would be taxable to our stockholders as ordinary dividend income, and provided that certain holding periods and other requirements are met, could be eligible for the 15% maximum rate to the extent of our current and accumulated earnings and profits. Subject to certain limitations under the Code, corporate distributees would be eligible for the dividends-received deduction. Distributions in excess of our current and accumulated earnings and profits would be treated first as a return of capital to the extent of the stockholder's tax basis, and any remaining distributions would be treated as a capital gain. To requalify as a RIC in a subsequent taxable year, we would be required to satisfy the RIC qualification requirements for that year and dispose of any earnings and profits from any year in which we failed to qualify as a RIC. Subject to a limited exception applicable to RICs that qualified as such under Subchapter M of the Code for at least one year prior

to disqualification and that requalify as a RIC no later than the second year following the non-qualifying year, we could be subject to tax on any unrealized net built-in gains in the assets held by it during the period in which it failed to qualify as a RIC that are recognized within the subsequent 10 years, unless we made a special election to pay corporate-level tax on such built-in gain at the time of its requalification as a RIC.



TABLE OF CONTENTS**DESCRIPTION OF SECURITIES**

The following description is based on relevant portions of the Maryland General Corporation Law and on our charter and bylaws. This summary is not necessarily complete, and we refer you to the Maryland General Corporation Law and our charter and bylaws for a more detailed description of the provisions summarized below.

**Stock**

The authorized stock of Oxford Lane Capital consists of 100,000,000 shares of stock, par value \$0.01 per share, all of which are initially designated as common stock. Our common stock is traded on the NASDAQ Global Select Market under the ticker symbol OXLC. There are no outstanding options or warrants to purchase our stock. No stock has been authorized for issuance under any equity compensation plans. Under Maryland law, our stockholders generally are not personally liable for our debts or obligations.

The following are our outstanding classes of securities as of March 26, 2012:

(1) Title of Class	(2) Amount Authorized	(3) Amount Held by Us or for Our Account	(4) Amount Outstanding Exclusive of Amounts Shown Under (3)
Common stock	100,000,000		2,455,858

Under our charter our Board of Directors is authorized to classify and reclassify any unissued shares of stock into other classes or series of stock without obtaining stockholder approval. As permitted by the Maryland General Corporation Law, our charter provides that the Board of Directors, without any action by our stockholders, may amend the charter from time to time to increase or decrease the aggregate number of shares of stock or the number of shares of stock of any class or series that we have authority to issue.

**Common Stock**

All shares of our common stock have equal rights as to earnings, assets, voting, and dividends and, when they are issued, will be duly authorized, validly issued, fully paid and nonassessable. Distributions may be paid to the holders of our common stock if, as and when authorized by our Board of Directors and declared by us out of assets legally available therefor. Shares of our common stock have no preemptive, conversion or redemption rights and are freely transferable, except where their transfer is restricted by federal and state securities laws or by contract. In the event of our liquidation, dissolution or winding up, each share of our common stock would be entitled to share ratably in all of our assets that are legally available for distribution after we pay all debts and other liabilities and subject to any preferential rights of holders of our preferred stock, if any preferred stock is outstanding at such time. Each share of our common stock is entitled to one vote on all matters submitted to a vote of stockholders, including the election of directors. Except as provided with respect to any other class or series of stock, the holders of our common stock will possess exclusive voting power. There is no cumulative voting in the election of directors, which means that holders of a majority of the outstanding shares of common stock can elect all of our directors, and holders of less than a majority of such shares will be unable to elect any director.

## Preferred Stock

Our charter authorizes our Board of Directors to classify and reclassify any unissued shares of stock into other classes or series of stock, including preferred stock. The cost of any such reclassification would be borne by our existing common stockholders. Prior to issuance of shares of each class or series, the Board of Directors is required by Maryland law and by 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. You should note, however, that any issuance of preferred stock must comply with the requirements of the 1940 Act. The 1940 Act requires, among other things, that (1) immediately after issuance and before any dividend or other distribution is made with respect to our

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common stock and before any purchase of common stock is made, such preferred stock together with all other senior securities must not exceed an amount equal to 50% of our gross assets after deducting the amount of such dividend, distribution or purchase price, as the case may be, and (2) the holders of shares of preferred stock, if any are issued, must be entitled as a class to elect two directors at all times and to elect a majority of the directors if dividends on such preferred stock are in arrears by two full years or more. Certain matters under the 1940 Act require the separate vote of the holders of any issued and outstanding preferred stock. We believe that the availability for issuance of preferred stock will provide us with increased flexibility in structuring future financings and acquisitions. However, we do not currently have any plans to issue preferred stock.

## **Limitation on Liability of Directors and Officers; Indemnification and Advance of Expenses**

Maryland law permits a Maryland corporation to include in its charter a provision limiting the liability of its directors and officers to the corporation and its stockholders for money damages except for liability resulting from (a) actual receipt of an improper benefit or profit in money, property or services or (b) active and deliberate dishonesty established by a final judgment as being material to the cause of action. Our charter contains such a provision which eliminates directors and officers liability to the maximum extent permitted by Maryland law, subject to the requirements of the 1940 Act.

Our charter authorizes us, to the maximum extent permitted by Maryland law and subject to the requirements of the 1940 Act, to indemnify any present or former director or officer or any individual who, while serving as our director or officer and at our request, serves or has served another corporation, real estate investment trust, partnership, joint venture, trust, employee benefit plan or other enterprise as a director, officer, partner or trustee, from and against any claim or liability to which that person may become subject or which that person may incur by reason of his or her service in any such capacity and to pay or reimburse their reasonable expenses in advance of final disposition of a proceeding. Our bylaws obligate us, to the maximum extent permitted by Maryland law and subject to the requirements of the 1940 Act, to indemnify any present or former director or officer or any individual who, while serving as our director or officer and at our request, serves or has served another corporation, real estate investment trust, partnership, joint venture, trust, employee benefit plan or other enterprise as a director, officer, partner or trustee and who is made, or threatened to be made, a party to the proceeding by reason of his or her service in that capacity from and against any claim or liability to which that person may become subject or which that person may incur by reason of his or her service in any such capacity and to pay or reimburse his or her reasonable expenses in advance of final disposition of a proceeding. The charter and bylaws also permit us to indemnify and advance expenses to any person who served a predecessor of us in any of the capacities described above and any of our employees or agents or any employees or agents of our predecessor. In accordance with the 1940 Act, we will not indemnify any person for any liability to which such person would be subject by reason of such person's willful misfeasance, bad faith, gross negligence or reckless disregard of the duties involved in the conduct of his or her office.

Maryland law requires a corporation (unless its charter provides otherwise, which our charter does not) to indemnify a director or officer who has been successful in the defense of any proceeding to which he or she is made, or threatened to be made, a party by reason of his or her service in that capacity. Maryland law permits a corporation to indemnify its present and former directors and officers, among others, against judgments, penalties, fines, settlements and reasonable expenses actually incurred by them in connection with any proceeding to which they may be made, or threatened to be made, a party by reason of their service in those or other capacities unless it is established that (a) the act or omission of the director or officer was material to the matter giving rise to the proceeding and (1) was committed in bad faith or (2) was the result of active and deliberate dishonesty, (b) the director or officer actually received an improper personal benefit in money, property or services or (c) in the case of any criminal proceeding, the

director or officer had reasonable cause to believe that the act or omission was unlawful. However, under Maryland law, a Maryland corporation may not indemnify for an adverse judgment in a suit by or in the right of the corporation or for a judgment of liability on the basis that a personal benefit was improperly received unless, in either, case a court orders indemnification, and then only for expenses. In addition, Maryland law permits a corporation to advance reasonable expenses to a director or officer in advance of final disposition of a proceeding upon the corporation's receipt of (a) a written affirmation by the director or officer of his or her good faith belief that

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he or she has met the standard of conduct necessary for indemnification by the corporation and (b) a written undertaking by him or her or on his or her behalf to repay the amount paid or reimbursed by the corporation if it is ultimately determined that the standard of conduct was not met.

We have entered into indemnification agreements with our directors. The indemnification agreements provide our directors the maximum indemnification permitted under Maryland law and the 1940 Act.

Our insurance policy does not currently provide coverage for claims, liabilities and expenses that may arise out of activities that our present or former directors or officers have performed for another entity at our request. There is no assurance that such entities will in fact carry such insurance. However, we note that we do not expect to request our present or former directors or officers to serve another entity as a director, officer, partner or trustee unless we can obtain insurance providing coverage for such persons for any claims, liabilities or expenses that may arise out of their activities while serving in such capacities.

## **Certain Provisions of the Maryland General Corporation Law and Our Charter and Bylaws**

The Maryland General Corporation Law and our charter and bylaws contain provisions that could make it more difficult for a potential acquirer to acquire us by means of a tender offer, proxy contest or otherwise. These provisions are expected to discourage certain coercive takeover practices and inadequate takeover bids and to encourage persons seeking to acquire control of us to negotiate first with our Board of Directors. We believe that the benefits of these provisions outweigh the potential disadvantages of discouraging any such acquisition proposals because, among other things, the negotiation of such proposals may improve their terms.

### **Classified Board of Directors**

Our Board of Directors is divided into three classes of directors serving staggered three-year terms. The terms of the classes expire in 2012, 2013, and 2014, and in each case, those directors will serve until their successors are elected and qualify. Upon expiration of their current terms, directors of each class will be elected to serve for three-year terms and until their successors are duly elected and qualify and each year one class of directors will be elected by the stockholders. A classified board may render a change in control of us or removal of our incumbent management more difficult. We believe, however, that the longer time required to elect a majority of a classified Board of Directors will help to ensure the continuity and stability of our management and policies.

### **Election of Directors**

Our charter and bylaws provide that the affirmative vote of the holders of a plurality of the outstanding shares of stock entitled to vote in the election of directors cast at a meeting of stockholders duly called and at which a quorum is present will be required to elect a director. Pursuant to our charter our Board of Directors may amend the bylaws to alter the vote required to elect directors.

### **Number of Directors; Vacancies; Removal**

Our charter provides that the number of directors will be set only by the Board of Directors in accordance with our bylaws. Our bylaws provide that a majority of our entire Board of Directors may at any time increase or decrease the number of directors. However, unless our bylaws are amended, the number of directors may never be less than one nor

more than nine. Our charter provides that, at such time as we have at least three independent directors and our common stock is registered under the Securities Exchange Act of 1934, as amended, we elect to be subject to the provision of Subtitle 8 of Title 3 of the Maryland General Corporation Law regarding the filling of vacancies on the Board of Directors. Accordingly, at such time, except as may be provided by the Board of Directors in setting the terms of any class or series of preferred stock, any and all vacancies on the Board of Directors may be filled only by the affirmative vote of a majority of the remaining directors in office, even if the remaining directors do not constitute a quorum, and any director elected to fill a vacancy will serve for the remainder of the full term of the directorship in which the vacancy occurred and until a successor is elected and qualifies, subject to any applicable requirements of the 1940 Act.

Our charter provides that a director may be removed only for cause, as defined in our charter, and then only by the affirmative vote of at least two-thirds of the votes entitled to be cast in the election of directors.

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## **Action by Stockholders**

Under the Maryland General Corporation Law, stockholder action can be taken only at an annual or special meeting of stockholders or (unless the charter provides for stockholder action by less than unanimous written consent, which our charter does not) by unanimous written consent in lieu of a meeting. These provisions, combined with the requirements of our bylaws regarding the calling of a stockholder-requested special meeting of stockholders discussed below, may have the effect of delaying consideration of a stockholder proposal until the next annual meeting.

### **Advance Notice Provisions for Stockholder Nominations and Stockholder Proposals**

Our bylaws provide that with respect to an annual meeting of stockholders, nominations of persons for election to the Board of Directors and the proposal of business to be considered by stockholders may be made only (1) pursuant to our notice of the meeting, (2) by the Board of Directors or (3) by a stockholder who is entitled to vote at the meeting and who has complied with the advance notice procedures of our bylaws. With respect to special meetings of stockholders, only the business specified in our notice of the meeting may be brought before the meeting.

Nominations of persons for election to the Board of Directors at a special meeting may be made only (1) pursuant to our notice of the meeting, (2) by the Board of Directors or (3) provided that the Board of Directors has determined that directors will be elected at the meeting, by a stockholder who is entitled to vote at the meeting and who has complied with the advance notice provisions of the bylaws.

The purpose of requiring stockholders to give us advance notice of nominations and other business is to afford our Board of Directors a meaningful opportunity to consider the qualifications of the proposed nominees and the advisability of any other proposed business and, to the extent deemed necessary or desirable by our Board of Directors, to inform stockholders and make recommendations about such qualifications or business, as well as to provide a more orderly procedure for conducting meetings of stockholders. Although our bylaws do not give our Board of Directors any power to disapprove stockholder nominations for the election of directors or proposals recommending certain action, they may have the effect of precluding a contest for the election of directors or the consideration of stockholder proposals if proper procedures are not followed and of discouraging or deterring a third party from conducting a solicitation of proxies to elect its own slate of directors or to approve its own proposal without regard to whether consideration of such nominees or proposals might be harmful or beneficial to us and our stockholders.

### **Calling of Special Meetings of Stockholders**

Our bylaws provide that special meetings of stockholders may be called by our Board of Directors and certain of our officers. Additionally, our bylaws provide that, subject to the satisfaction of certain procedural and informational requirements by the stockholders requesting the meeting, a special meeting of stockholders will be called by the secretary of the corporation upon the written request of stockholders entitled to cast not less than a majority of all the votes entitled to be cast at such meeting.

### **Approval of Extraordinary Corporate Action; Amendment of Charter and Bylaws**

Under Maryland law, a Maryland corporation generally cannot dissolve, amend its charter, merge, sell all or substantially all of its assets, engage in a share exchange or engage in similar transactions outside the ordinary course

of business, unless approved by the affirmative vote of stockholders entitled to cast at least two-thirds of the votes entitled to be cast on the matter. However, a Maryland corporation may provide in its charter for approval of these matters by a lesser percentage, but not less than a majority of all of the votes entitled to be cast on the matter. Our charter generally provides for approval of charter amendments and extraordinary transactions by the stockholders entitled to cast at least a majority of the votes entitled to be cast on the matter. Our charter also provides that certain charter amendments, any proposal for our conversion, whether by charter amendment, merger or otherwise, from a closed-end company to an open-end company and any proposal for our liquidation or dissolution requires the approval of the stockholders entitled to cast at least 80% of the votes entitled to be cast on such matter. However, if such amendment or proposal is approved by a majority of our continuing directors (in addition to approval by our Board of Directors), such amendment or proposal may be approved by a majority of the votes entitled to be cast on such a matter. In either event, in accordance with the requirements of the 1940 Act, any such amendment or proposal that would have the effect of changing the nature of our business so as to cause us to cease to be a registered



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management investment company would be required to be approved by a majority of our outstanding voting securities, as defined under the 1940 Act. The continuing directors are defined in our charter as (1) our current directors, (2) those directors whose nomination for election by the stockholders or whose election by the directors to fill vacancies is approved by a majority of our current directors then on the Board of Directors or (3) any successor directors whose nomination for election by the stockholders or whose election by the directors to fill vacancies is approved by a majority of continuing directors or the successor continuing directors then in office.

Our charter and bylaws provide that the Board of Directors will have the exclusive power to make, alter, amend or repeal any provision of our bylaws.

### **No Appraisal Rights**

Except with respect to appraisal rights arising in connection with the Control Share Act discussed below, as permitted by the Maryland General Corporation Law, our charter provides that stockholders will not be entitled to exercise appraisal rights unless a majority of the Board of Directors shall determine such rights apply.

### **Control Share Acquisitions**

The Maryland General Corporation Law provides that control shares of a Maryland corporation acquired in a control share acquisition have no voting rights except to the extent approved by a vote of two-thirds of the votes entitled to be cast on the matter (the Control Share Act). Shares owned by the acquirer, by officers or by directors who are employees of the corporation are excluded from shares entitled to vote on the matter. Control shares are voting shares of stock which, if aggregated with all other shares of stock owned by the acquirer or in respect of which the acquirer is able to exercise or direct the exercise of voting power (except solely by virtue of a revocable proxy), would entitle the acquirer to exercise voting power in electing directors within one of the following ranges of voting power:

one-tenth or more but less than one-third;  
one-third or more but less than a majority; or  
a majority or more of all voting power.

The requisite stockholder approval must be obtained each time an acquirer crosses one of the thresholds of voting power set forth above. Control shares do not include shares the acquiring person is then entitled to vote as a result of having previously obtained stockholder approval. A control share acquisition means the acquisition of control shares, subject to certain exceptions.

A person who has made or proposes to make a control share acquisition may compel the Board of Directors of the corporation to call a special meeting of stockholders to be held within 50 days of demand to consider the voting rights of the shares. The right to compel the calling of a special meeting is subject to the satisfaction of certain conditions, including an undertaking to pay the expenses of the meeting. If no request for a meeting is made, the corporation may itself present the question at any stockholders meeting.

If voting rights are not approved at the meeting or if the acquiring person does not deliver an acquiring person statement as required by the statute, then the corporation may redeem for fair value any or all of the control shares, except those for which voting rights have previously been approved. The right of the corporation to redeem control shares is subject to certain conditions and limitations, including, as provided in our bylaws compliance with the 1940 Act. Fair value is determined, without regard to the absence of voting rights for the control shares, as of the date of the last control share acquisition by the acquirer or of any meeting of stockholders at which the voting rights of the shares are considered and not approved. If voting rights for control shares are approved at a stockholders meeting and the

acquirer becomes entitled to vote a majority of the shares entitled to vote, all other stockholders may exercise appraisal rights. The fair value of the shares as determined for purposes of appraisal rights may not be less than the highest price per share paid by the acquirer in the control share acquisition.

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The Control Share Act does not apply (a) to shares acquired in a merger, consolidation or share exchange if the corporation is a party to the transaction or (b) to acquisitions approved or exempted by the charter or bylaws of the corporation. Our bylaws contain a provision exempting from the Control Share Act any and all acquisitions by any person of our shares of stock. There can be no assurance that such provision will not be amended or eliminated at any time in the future. However, we will amend our bylaws to be subject to the Control Share Act only if the Board of Directors determines that it would be in our best interests and if the SEC staff does not object to our determination that our being subject to the Control Share Act does not conflict with the 1940 Act.

### **Business Combinations**

Under Maryland law, business combinations between a Maryland corporation and an interested stockholder or an affiliate of an interested stockholder are prohibited for five years after the most recent date on which the interested stockholder becomes an interested stockholder (the Business Combination Act). These business combinations include a merger, consolidation, share exchange or, in circumstances specified in the statute, an asset transfer or issuance or reclassification of equity securities. An interested stockholder is defined as:

any person who beneficially owns 10% or more of the voting power of the corporation's outstanding voting stock; or an affiliate or associate of the corporation who, at any time within the two-year period prior to the date in question, was the beneficial owner of 10% or more of the voting power of the then outstanding voting stock of the corporation.

A person is not an interested stockholder under this statute if the Board of Directors approved in advance the transaction by which the stockholder otherwise would have become an interested stockholder. However, in approving a transaction, the board of directors may provide that its approval is subject to compliance, at or after the time of approval, with any terms and conditions determined by the board.

After the five-year prohibition, any business combination between the Maryland corporation and an interested stockholder generally must be recommended by the board of directors of the corporation and approved by the affirmative vote of at least:

80% of the votes entitled to be cast by holders of outstanding shares of voting stock of the corporation; and two-thirds of the votes entitled to be cast by holders of voting stock of the corporation other than shares held by the interested stockholder with whom or with whose affiliate the business combination is to be effected or held by an affiliate or associate of the interested stockholder.

These super-majority vote requirements do not apply if the corporation's common stockholders receive a minimum price, as defined under Maryland law, for their shares in the form of cash or other consideration in the same form as previously paid by the interested stockholder for its shares.

The statute permits various exemptions from its provisions, including business combinations that are exempted by the board of directors before the time that the interested stockholder becomes an interested stockholder. Our Board of Directors has adopted a resolution that any business combination between us and any other person is exempted from the provisions of the Business Combination Act, provided that the business combination is first approved by the Board of Directors, including a majority of the directors who are not interested persons as defined in the 1940 Act. This resolution may be altered or repealed in whole or in part at any time; however, our Board of Directors will adopt resolutions so as to make us subject to the provisions of the Business Combination Act only if the Board of Directors determines that it would be in our best interests and if the SEC staff does not object to our determination that our being subject to the Business Combination Act does not conflict with the 1940 Act. If this resolution is repealed, or the Board of Directors does not otherwise approve a business combination, the statute may discourage others from trying to acquire control of us and increase the difficulty of consummating any offer.

## **Conflict with 1940 Act**

Our bylaws provide that, if and to the extent that any provision of the Maryland General Corporation Law, including the Control Share Act (if we amend our bylaws to be subject to such Act) and the Business Combination Act, or any provision of our charter or bylaws conflicts with any provision of the 1940 Act, the applicable provision of the 1940 Act will control.

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## **CUSTODIAN, TRANSFER AND DISTRIBUTION PAYING AGENT AND REGISTRAR**

Our securities are held under a custody agreement by State Street Bank and Trust Company. The address of the custodian is 225 Franklin Street, Boston, MA 02110. Computershare Trust Company, N.A. will act as our transfer agent, distribution paying agent and registrar. The principal business address of our transfer agent is 250 Royall Street, Canton, MA 02021.

## **BROKERAGE ALLOCATION AND OTHER PRACTICES**

Since we generally acquire and dispose of our investments in privately negotiated transactions, we infrequently use brokers in the normal course of our business. Subject to policies established by our Board of Directors, our investment adviser is primarily responsible for the execution of the publicly traded securities portion of our portfolio transactions and the allocation of brokerage commissions. Our investment adviser does not expect to execute transactions through any particular broker or dealer, but will seek to obtain the best net results for Oxford Lane Capital, taking into account such factors as price (including the applicable brokerage commission or dealer spread), size of order, difficulty of execution, and operational facilities of the firm and the firm's risk and skill in positioning blocks of securities. While our investment adviser generally will seek reasonably competitive trade execution costs, Oxford Lane Capital will not necessarily pay the lowest spread or commission available. Subject to applicable legal requirements, our investment adviser may select a broker based partly upon brokerage or research services provided to the investment adviser and Oxford Lane Capital and any other clients. In return for such services, we may pay a higher commission than other brokers would charge if the investment adviser determines in good faith that such commission is reasonable in relation to the services provided.

## **LEGAL MATTERS**

Certain legal matters in connection with the securities offered hereby will be passed upon for us by Sutherland Asbill & Brennan LLP, Washington, DC. Certain legal matters in connection with the offering will be passed upon for the dealer managers by Blank Rome LLP, New York, New York.

## **EXPERTS**

The financial statements as of March 31, 2011 and for the period January 25, 2011 (commencement of operations) through March 31, 2011 included in this Prospectus have been so included in reliance on the report of PricewaterhouseCoopers LLP, an independent registered public accounting firm, given on the authority of said firm as experts in auditing and accounting.

## **AVAILABLE INFORMATION**

We have filed with the SEC a registration statement on Form N-2, together with all amendments and related exhibits, under the Securities Act, with respect to our shares of common stock offered by this prospectus. The registration statement contains additional information about us and our shares of common stock being offered by this prospectus.

We are required to file with or submit to the SEC annual, semi-annual and quarterly reports, proxy statements and other information meeting the informational requirements of the Exchange Act. You may inspect and copy these reports, proxy statements and other information, as well as the registration statement and related exhibits and schedules, at the Public Reference Room of the SEC at 100 F Street, NE, Washington, D.C. 20549. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC maintains an Internet site that contains reports, proxy and information statements and other information filed electronically by us with the SEC which are available on the SEC's website at <http://www.sec.gov>. Copies of these reports, proxy and information statements and other information may be obtained, after paying a duplicating fee, by electronic request at the following e-mail address: [publicinfo@sec.gov](mailto:publicinfo@sec.gov), or by writing to the SEC's Public Reference Section, Washington, D.C. 20549. This information is also 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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# 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 Fund ) at March 31, 2011, and the results of its operations, the changes in its net assets, its cash flows and the financial highlights 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 Fund s management; our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit 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 audit, which included confirmation of securities at March 31, 2011 by correspondence with the custodian and brokers, provides a reasonable basis for our opinion.

PricewaterhouseCoopers LLP  
New York, New York  
May 27, 2011

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**OXFORD LANE CAPITAL CORP.**  
**STATEMENT OF ASSETS AND LIABILITIES**  
**AS OF MARCH 31, 2011**

	March 31, 2011
<b>ASSETS</b>	
Investments, at fair value (identified cost: \$30,711,761)	\$30,669,261
Cash and cash equivalents	6,064,982
Interest receivable, including accrued interest purchased	513,598
Prepaid expenses and other assets	31,186
Total assets	37,279,027
<b>LIABILITIES</b>	
Payable for securities purchased, not settled	2,543,932
Investment advisory fee payable to affiliate	126,849
Distribution payable	465,313
Directors' fees payable	30,500
Administrator expenses payable	29,123
Accrued expenses	220,514
Total liabilities	3,416,231
NET ASSETS applicable to 1,861,250 shares of \$0.01 par value common stock outstanding	\$33,862,796
NET ASSETS consist of:	
Paid in capital	\$34,266,459
Net unrealized depreciation on investments	(42,500 )
Distribution in excess of net investment income	(361,163 )
Total net assets	\$33,862,796
Net asset value per common share ( $\$33,862,796 \div 1,861,250$ shares outstanding)	\$18.19
Market price per share	\$18.75
Market price premium to net asset value per share.	3.08 %

SEE ACCOMPANYING NOTES.

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# OXFORD LANE CAPITAL CORP.

## SCHEDULE OF INVESTMENTS

### MARCH 31, 2011

COMPANY <sup>(1)</sup>	INDUSTRY <sup>(1)</sup>	INVESTMENT	PRINCIPAL AMOUNT	COST	FAIR VALUE <sup>(2)(5)</sup>
		CLO secured notes			
Bridgeport CLO II	structured finance	Class D <sup>(3)(4)(6)</sup> (4.56%, due June 18, 2021)	\$1,130,501	\$877,484	\$870,485
Canaras Summit CLO 2007-1	structured finance	CLO income notes <sup>(4)(6)</sup> (Maturity June 19, 2021)	1,500,000	1,341,126	1,395,000
		CLO secured notes			
Cent CDO 15	structured finance	Class D <sup>(3)(4)(6)</sup> (4.46%, due March 13, 2021)	1,625,000	1,211,782	1,210,625
		CLO secured notes			
CIFC Funding 2006-1X	structured finance	Class B2L <sup>(3)(4)(6)</sup> (4.30%, due October 20, 2020)	1,671,396	1,253,703	1,328,760
		CLO secured notes			
Emporia III, Ltd. 2007-3A	structured finance	Class E <sup>(3)(4)(6)</sup> (4.00%, due April 23, 2021)	3,594,000	2,714,987	2,695,500
		CLO income notes <sup>(4)(6)</sup>			
Gale Force 4 CLO 2007-4A	structured finance	(Maturity August 20, 2021)	1,500,000	1,122,215	1,065,000
		CLO secured notes			
GSC VIII	structured finance	Class D <sup>(3)(4)(6)</sup> (3.70%, due April 18, 2021)	2,112,137	1,309,553	1,309,525
Harbourview CLO 2006-1	structured finance	CLO income notes <sup>(4)(6)</sup> (Maturity December 27,	2,380,000	1,858,245	1,832,600

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		2019) CLO secured notes			
Hewett s Island CLO III	structured finance	Class D <sup>(3)(4)(6)</sup> (6.06%, due August 09, 2017) CLO secured notes	3,616,227	2,824,729	3,146,118
Hewett s Island CLO IV	structured finance	Class E <sup>(3)(4)(6)</sup> (4.86%, due May 09, 2018) CLO income notes <sup>(4)(6)</sup>	1,500,000	1,292,297	1,236,050
Hillmark Funding Ltd. 2006 -1A	structured finance	(Maturity May 21, 2021) CLO income notes <sup>(4)(6)</sup>	2,000,000	1,813,857	1,820,000
Jersey Street CLO 2007-1A	structured finance	(Maturity October 20, 2018) CLO income notes <sup>(4)(6)</sup>	3,185,000	2,747,402	2,643,550
Kingsland IV, Ltd. 2007-4A	structured finance	(Maturity April 16, 2021) CLO secured notes	1,850,000	1,662,320	1,572,500
Kingsland V, Ltd. 2007-5X	structured finance	Class E <sup>(3)(4)(6)</sup> (4.55%, due July 14, 2021) CLO income notes <sup>(4)(6)</sup>	1,750,000	1,260,159	1,260,000
Lightpoint CLO VII, Ltd. 2007 -7X	structured finance	(Maturity May 15, 2021) CLO income notes <sup>(4)(6)</sup>	1,500,000	1,202,105	1,192,500
Octagon XI CLO 2007-1A	structured finance	(Maturity August 25, 2021) CLO secured notes	2,025,000	1,899,414	1,923,750
PPM Grayhawk CLO 2007	structured finance	Class D <sup>(3)(4)(6)</sup> (3.90%, due April 18, 2021) CLO income notes <sup>(4)(6)</sup>	1,869,138	1,361,250	1,359,798
Rampart CLO 2007-1A	structured finance	(Maturity October 25, 2021) CLO secured notes	1,500,000	1,491,926	1,425,000
Waterfront CLO 2007	structured finance	Class D <sup>(3)(4)(6)</sup> (5.05%, due October 15, 2020)	1,750,000	1,467,207	1,382,500
Total Investments				\$ 30,711,761	\$ 30,669,261

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The Fund does not control and is not an affiliate of any of its investments, each as defined in the Investment Company Act of 1940 (the 1940 Act ). For those investments which have an industry designation of structured finance, such investments represent interests in CLO vehicles, which generally are diversified across several industries. See footnote (6) below.

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

(3) Notes bear interest at variable rates. The rate shown reflects the rate in effect at March 31, 2011.

(4) Cost value reflects accretion of discount and amortization of premium.

(5) As a percentage of net assets at March 31, 2011, investments at fair value are categorized as follows: CLO debt (46.66%) and CLO equity (43.91%).

(6) The Fund invests in the junior debt (secured notes) and equity tranches of collateralized loan obligation ( CLO ) vehicles. CLO vehicles are entities that were formed to purchase and manage a portfolio of loans. The CLO secured notes generally bear interest at a rate determined by reference to LIBOR, plus a

SEE ACCOMPANYING NOTES.

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pre-determined spread, which resets quarterly. For each CLO debt investment, the rate provided is as of March 31, 2011. The CLO subordinated notes and income notes are considered equity positions in the CLO funds. Equity investments are entitled to recurring dividend distributions which generally equal remaining cash flow of the payments made by the underlying entity's securities less contractual payments to debt holders and the entity's expenses.

SEE ACCOMPANYING NOTES.

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**OXFORD LANE CAPITAL CORP.  
STATEMENT OF OPERATIONS**

	Period January 25, 2011 (Commencement of Operations) through March 31, 2011
<b>INVESTMENT INCOME</b>	
Interest income CLO debt and equity investments	\$ 516,285
Total investment income	516,285
<b>EXPENSES</b>	
Investment advisory fees	126,849
Professional fees	135,338
General and administrative	40,881
Directors' fees	36,500
Administrator expense	29,123
Insurance expense	13,530
Transfer agent and custodian fees	9,914
Total expenses	392,135
Net investment income	124,150
Net change in unrealized appreciation (depreciation) on investments	(42,500 )
Net realized gain (loss) on investments	
Net realized and unrealized loss on investments	(42,500 )
Net increase in net assets resulting from operations	\$ 81,650

SEE ACCOMPANYING NOTES.

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**OXFORD LANE CAPITAL CORP.**  
**STATEMENT OF CHANGES IN NET ASSETS**

	Period January 25, 2011 (Commencement of Operations) through March 31, 2011
Increase in net assets from operations:	
Net investment income	\$ 124,150
Net realized gain on investments	
Net change in unrealized appreciation/depreciation on investments	(42,500 )
Net increase in net assets resulting from operations	81,650
Distributions from net investment income	(465,313 )
Capital share transaction:	
Net increase in net assets from common share transactions	34,141,459
Total increase in net assets	33,757,796
Net assets at beginning of period	105,000
Net assets at end of period (including distributions in excess of net investment income of \$361,163)	\$ 33,862,796

SEE ACCOMPANYING NOTES.

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# OXFORD LANE CAPITAL CORP.

## STATEMENT OF CASH FLOWS

	Period January 25, 2011 (Commencement of Operations) through March 31, 2011
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Net increase in net assets resulting from operations	\$ 81,650
Adjustments to reconcile net increase in net assets resulting from operations to net cash provided by operating activities:	
Amortization of discounts and premiums	(420,806 )
Purchases of investments	(28,382,039 )
Repayments of principal and reductions to investment cost value	635,016
Net change in unrealized depreciation on investments	42,500
Increase in interest receivable	(513,598 )
Increase in prepaid expenses and other assets	(31,186 )
Increase in investment advisory fee payable	126,849
Increase in accrued expenses	260,137
Net cash used by operating activities	(28,201,477 )
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>	
Proceeds from the issuance of common stock	37,100,000
Underwriting commissions and offering expenses for the issuance of common stock	(2,958,541 )
Net cash provided by financing activities	34,141,459
Net increase in cash and cash equivalents	5,939,982
Cash and cash equivalents, beginning of period	125,000
Cash and cash equivalents, end of period	\$ 6,064,982
<b>SUPPLEMENTAL DISCLOSURES</b>	
Securities purchased, not settled	\$ 2,543,932
Distributions payable	\$ 465,313

SEE ACCOMPANYING NOTES.



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**OXFORD LANE CAPITAL CORP.**

**NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2011**

**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, or 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 Advisers Act of 1940, as amended. BDC Partners LLC ( BDC Partners ) is the managing member of OXLC Management and serves as the administrator of OXLC.

**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**USE OF ESTIMATES**

The financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America that 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 estimate inherent in the preparation of the Fund's financial statements is the valuation of investments and the related amounts of unrealized appreciation and depreciation of investments recorded. There is no single 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.

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

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**OXFORD LANE CAPITAL CORP.**

**NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2011**

**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(continued)**

valued based upon Level 3 inputs as of March 31, 2011. 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.

The Fund has acquired a number of debt and equity positions in collateralized loan obligation (CLO) investment vehicles, which are special purpose financing vehicles. In valuing such investments, the Fund considers the operating metrics of the specific investment vehicle, including compliance with collateralization tests, defaulted and restructured securities, and payment defaults, if any. In addition, the Fund considers the indicative prices provided by the broker who arranges transactions in such investment vehicles, as well as any available information on other relevant transactions in the market. Members of OXLC Management's portfolio management team also prepare portfolio company valuations using the most recent trustee reports and note valuation reports. OXLC Management or the Valuation Committee of the Board of Directors may request an additional analysis by a third-party firm to assist in the valuation process of CLO investment vehicles. All information is presented to the Board 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. All available information, including non-binding indicative bids obtained from 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, 2011, 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 CLO investment or senior secured loan, respectively. The Fund has considered the factors described in ASC 820-10 and has determined that it is properly valuing the securities in its portfolio.

The Fund's assets measured at fair value on a recurring basis subject to the disclosure requirements of ASC 820-10-35

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at March 31, 2011, were as follows:

(\$ in millions)	Fair Value Measurements at Reporting Date				
	Using Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Other Unobservable Inputs (Level 3)	Significant Unobservable Inputs (Level 3)	Total
Assets					
CLO debt	\$ 0.0	\$ 0.0		\$ 15.8	\$ 15.8
CLO equity	0.0	0.0		14.9	14.9
Total	\$ 0.0	\$ 0.0		\$ 30.7	\$ 30.7

A reconciliation of the fair value of investments for the period ended March 31, 2011, utilizing significant unobservable inputs, is as follows:

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TABLE OF CONTENTS**OXFORD LANE CAPITAL CORP.****NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2011****NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(continued)**

(\$ in millions)	Collateralized	Collateralized	Total
	Loan Obligation Debt Investments	Loan Obligation Equity Investments	
Balance at January 25, 2011 (commencement of operations)	\$ 0.0	\$ 0.0	\$0.0
Realized gains included in earnings	0.0	0.0	0.0
Unrealized appreciation (depreciation) included in earnings	0.2	(0.2 )	0.0
Amortization of premium	0.0	0.0	0.0
Accretion of discount	0.0	0.4	0.4
Purchases	15.6	15.3	30.9
Repayments and sales	0.0	(0.6 )	(0.6 )
Transfers in and/or out of level 3	0.0	0.0	0.0
Balance at March 31, 2011	\$ 15.8	\$ 14.9	\$30.7

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

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	\$ 0.2	(\$0.2 )	\$0.0
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The Fund's policy is to recognize transfers in and transfers out of the valuation levels as of the beginning of the reporting period. There were no significant transfers between Level 1, Level 2 and Level 3 during the period ended March 31, 2011. Transfers from Level 2 to Level 3 or from Level 3 to Level 2 may be due to a decline or an increase in market activity (e.g., frequency of trades), which may result in a lack of or increase in available market inputs to determine price. Transfers in and transfers out of Level 3 are included in the Level 3 reconciliation.

**OTHER ASSETS**

Other assets consist of prepaid expenses associated primarily with insurance costs.

**INVESTMENT INCOME RECOGNITION**

Interest income, including the amortization of premium or accretion of discount using the effective yield method, is recorded on the accrual basis to the extent that such amounts are expected to be collected.

Interest income from investments in the equity class of security of CLO Funds (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 inflows from its CLO equity investments, including the expected residual payments, and the effective yield is determined and updated periodically.

## **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

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**OXFORD LANE CAPITAL CORP.**

**NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2011**

**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(continued)**

realized gains recognized for financial reporting purposes. Differences may be permanent or temporary. Permanent differences are reclassified among capital accounts in the financial statements 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.

As a newly formed entity, the Fund has not yet filed any federal tax returns. Management has analyzed the tax positions it expects to take on its return for the period ended March 31, 2011 and has concluded that there were no uncertain tax positions requiring accrual or disclosure in the financial statements.

The Fund declared a dividend of \$0.25 per share for the quarter ended March 31, 2011, payable April 1, 2011. For tax purposes, the dividend will be considered to have occurred in fiscal 2012. There was no distributable taxable income for the period ended March 31, 2011 due to (i) temporary book to tax differences for the recognition of income on CLO equity, (ii) ordinary losses deemed to arise on the first day of fiscal 2012, and (iii) amortization of organization expenses.

For tax purposes, ordinary losses of \$273,995 are treated as arising on the first day of the fiscal 2012.

For tax purposes, net unrealized appreciation is \$350,394 because of the book to tax basis adjustment for accreted discount on equity CLOs. Aggregate gross unrealized appreciation for tax purposes is \$688,851; aggregate gross unrealized depreciation for tax purposes is \$338,457.

For tax purposes, the cost basis of the portfolio investments at March 31, 2011 was approximately \$30,318,867.

**DIVIDENDS AND DISTRIBUTIONS TO SHAREHOLDERS**

Dividends from net investment income and capital gain distributions are determined in accordance with U.S. federal income tax regulations, which may 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 carryforward, 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.

Distributions paid by the Fund are subject to recharacterization for tax purposes.

## **CONCENTRATION OF CREDIT RISK**

At March 31, 2011, the Fund maintained a significant 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.

## **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.

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**OXFORD LANE CAPITAL CORP.**

**NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2011**

**NOTE 3. RELATED PARTY TRANSACTIONS (continued)**

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 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). The Fund's 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%;

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 period from January 25, 2011 (commencement of operations) through March 31, 2011, there was no incentive fee accrued.

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

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**OXFORD LANE CAPITAL CORP.**

**NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2011**

**NOTE 3. RELATED PARTY TRANSACTIONS (continued)**

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 the Fund's allocable portion of the compensation of 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 13.3% of the Fund at March 31, 2011.

**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 period ended March 31, 2011.

**NOTE 5. ORGANIZATION AND OFFERING COSTS**

Organization costs of \$20,000 were expensed prior to the commencement of operations.

On January 25, 2011, the Fund closed its initial public offering and sold 1,825,000 shares of its common stock at a price of \$20.00 per share, less an underwriting discount of \$1.40 per share and offering expenses of \$361,541. Certain of OXLC's directors and officers purchased shares at the public offering price. On February 24, 2011, the Fund issued an additional 30,000 shares of its common stock at the same price pursuant to the underwriters' overallotment. The total net proceeds to the Fund from the initial public offering, including the exercise of the overallotment, were \$34,141,459. Prior to commencing operations on January 25, 2011, the Fund had no operations other than matters relating to its organization as a non-diversified closed-end management investment company registered under the 1940 Act.

## **NOTE 6. PURCHASES AND SALES OF SECURITIES**

Purchases and sales of securities, excluding short-term investments, for the period January 25, 2011 (commencement of operations) through March 31, 2011, totaled \$30,925,971 and \$17,444, respectively.

## **NOTE 7. 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, 2011, the Fund had not issued any commitments to purchase additional debt investments and/or warrants from any portfolio companies.

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MARCH 31, 2011****NOTE 8. SUBSEQUENT EVENTS**

The Fund has evaluated events and transactions that occurred after March 31, 2011 and through the date that the financial statements were issued, and determined that there were no matters requiring adjustment to, or disclosure in, the financial statements, except as noted below.

On April 6, 2011, a dividend of \$0.50 per share was declared to common shareholders payable June 30, 2011 to shareholders of record on June 16, 2011. This dividend is subject to recharacterization as a return of capital or a distribution of net realized gain based upon the results of operations of the Fund for the fiscal year ending March 31, 2012.

**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**

	January 25, 2011 (Commencement of Operations) to March 31, 2011
<u>Per Share Data</u>	
Net asset value at beginning of period <sup>(1)</sup>	\$ 16.80
Net investment income	0.07
Net realized and unrealized capital losses	(0.03 )
Total from investment operations	0.04
Less distributions to shareholders from investment income	(0.25 )
Effect of shares issued, net of underwriting costs	1.79
Effect of offering costs	(0.19 )
Effect of shares issued, net	1.60
Net asset value at end of period	\$ 18.19
Per share market value at beginning of period	\$ 20.00
Per share market value at end of period	\$ 18.75
Total return <sup>(2)(4)</sup>	(5.0%)

Shares outstanding at end of period	1,861,250	
<u>Ratios/Supplemental Data</u>		
Net assets at end of period (000 s)	\$ 33,863	
Ratio of net investment income to average daily net assets <sup>(3)</sup>	3.51	%
Ratio of expenses to average daily net assets <sup>(3)</sup>	4.79	%
Portfolio turnover rate	0.05	%

Financial highlights for the year ending March 31, 2011 are as follows:

(1) Represents the net asset value per share prior to commencement of operations.

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 (2)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.

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**OXFORD LANE CAPITAL CORP.**

**NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2011**

**NOTE 10. FINANCIAL HIGHLIGHTS (continued)**

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

(4) Not Annualized.

**NOTE 11. RISK DISCLOSURES**

The U.S. capital markets have experienced periods of extreme volatility and disruption over the past three 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, Greenwich Loan Income Fund Limited, a publicly-traded Guernsey fund that invests primarily in Senior Loans across a variety of industries globally, 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 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 such relief is sought, there can be no assurance when, or if, such relief may be obtained. No co-investments that would require exemptive relief were made.

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 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 the Fund 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. The Fund 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 the Fund intends to initially target 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 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.

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**OXFORD LANE CAPITAL CORP.**

**NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2011**

**NOTE 11. RISK DISCLOSURES (continued)**

The interests the Fund intends 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 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.

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.

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 Material U.S. Federal Income Tax Considerations Taxation as a Regulated Investment Company.

TABLE OF CONTENTS**OXFORD LANE CAPITAL CORP.****STATEMENT OF ASSETS AND LIABILITIES  
(Unaudited)**

	September 30, 2011
<b>ASSETS</b>	
Investments, at fair value (identified cost: \$39,638,353)	\$35,578,035
Cash and cash equivalents	2,042,203
Interest receivable, including accrued interest purchased	283,227
Prepaid expenses and other assets	18,209
Total assets	37,921,674
<b>LIABILITIES</b>	
Payable for securities purchased	370,000
Investment advisory fee payable to affiliate	174,346
Incentive fees payable	25,431
Directors' fees payable	27,500
Administrator expense payable	3,000
Accrued expenses	155,992
Total liabilities	756,269
NET ASSETS applicable to 2,455,238 shares of \$0.01 par value common stock outstanding	\$37,165,405
NET ASSETS consist of:	
Paid in capital	42,583,636
Net realized gain (loss) on investments	
Net unrealized depreciation on investments	(4,060,318 )
Distribution in excess of net investment income	(1,357,913 )
Total net assets	\$37,165,405
Net asset value per common share	\$15.14
Market price per share	\$13.64
Market price discount to net asset value per share	(9.91%)

See Accompanying Notes

TABLE OF CONTENTS**OXFORD LANE CAPITAL CORP.****SCHEDULE OF INVESTMENTS  
SEPTEMBER 30, 2011  
(Unaudited)**

COMPANY <sup>(1)</sup>	INDUSTRY	INVESTMENT	PRINCIPAL AMOUNT	COST	FAIR VALUE <sup>(2)(5)</sup>
Bridgeport CLO II	structured finance	CLO secured notes Class D <sup>(3)(4)(6)</sup> (4.55%, due June 18, 2021)	\$1,130,501	\$885,953	\$610,470
Canaras Summit CLO 2007-1X	structured finance	CLO income notes <sup>(4)(7)</sup> (Estimated yield 22.95%, maturity June 19, 2021)	1,500,000	1,224,202	1,230,000
Canaras Summit CLO 2007-1A	structured finance	CLO secured notes Class E <sup>(3)(4)(6)</sup> (4.60%, due June 19, 2021)	750,000	506,911	496,875
Cent CDO 15	structured finance	CLO secured notes Class D <sup>(3)(4)(6)</sup> (4.46%, due March 11, 2021)	1,625,000	1,225,497	1,040,000
CIFC Funding 2006-1X	structured finance	CLO secured notes Class B2L <sup>(3)(4)(6)</sup> (4.30%, due October 20, 2020)	5,730,501	4,057,838	3,538,298
Emporia III, Ltd. 2007-3A	structured finance	CLO secured notes Class E <sup>(3)(4)(6)</sup> (4.00%, due April 23, 2021)	3,594,000	2,744,759	2,192,340
Gale Force 4 CLO 2007-4A	structured finance	CLO income notes <sup>(4)(7)</sup> (Estimated yield 16.30%, maturity August 20, 2021)	1,500,000	1,026,480	975,000

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GSC VIII	structured finance	CLO secured notes Class D <sup>(3)(4)(6)</sup> (3.70%, due April 18, 2021)	2,112,137	1,331,787	1,013,826
Harbourview CLO 2006-1	structured finance	CLO income notes <sup>(4)(7)</sup> (Estimated yield 22.30%, maturity December 27, 2019)	4,380,000	3,013,247	2,879,850
Hewett's Island CLO III	structured finance	CLO secured notes Class D <sup>(3)(4)(6)</sup> (6.04%, due August 9, 2017)	3,568,592	2,821,182	2,651,107
Hewett's Island CLO IV	structured finance	CLO secured notes Class E <sup>(3)(4)(6)</sup> (4.86%, due May 9, 2018)	1,500,000	1,303,634	958,200
Hillmark Funding Ltd. 2006-1A	structured finance	CLO income notes <sup>(4)(7)</sup> (Estimated yield 18.90%, maturity May 21, 2021)	2,000,000	1,634,325	1,500,000
Jersey Street CLO 2007-1A	structured finance	CLO income notes <sup>(4)(7)</sup> (Estimated yield 20.00%, maturity October 20, 2018)	3,185,000	2,474,821	2,293,200
Kingsland IV, Ltd. 2007-4A	structured finance	CLO income notes <sup>(4)(7)</sup> (Estimated yield 16.70%, maturity April 16, 2021)	1,850,000	1,554,383	1,332,000
Kingsland V, Ltd. 2007-5X	structured finance	CLO secured notes Class E <sup>(3)(4)(6)</sup> (4.55%, due July 14, 2021)	2,250,000	1,639,444	1,361,250
Lightpoint CLO VII, Ltd. 2007-7X	structured finance	CLO income notes <sup>(4)(7)</sup> (Estimated yield 22.38%, maturity May 15, 2021)	2,000,000	1,442,439	1,470,000
Mountain Capital CLO IV, Ltd 2005-4X	structured finance	CLO secured notes Class B2L <sup>(3)(4)(6)</sup> (5.00%, due March 15, 2018)	2,820,248	1,978,766	1,917,769

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Octagon XI CLO 2007-1A	structured finance	CLO income notes <sup>(4)(7)</sup> (Estimated yield 19.76%, maturity August 25, 2021)	2,025,000	1,780,631	1,822,500
PPM Grayhawk CLO 2007	structured finance	CLO secured notes Class D <sup>(3)(4)(6)</sup> (3.90%, due April 18, 2021)	1,869,138	1,378,230	1,084,100
Rampart CLO 2007-1A	structured finance	CLO income notes <sup>(4)(7)</sup> (Estimated yield 15.30%, maturity October 25, 2021)	1,500,000	1,350,945	1,215,000
Waterfront CLO 2007	structured finance	CLO secured notes Class D <sup>(3)(4)(6)</sup> (5.05%, due October 15, 2020)	5,750,000	4,262,879	3,996,250
Total Investments				\$39,638,353	\$35,578,035

(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 Company.

(3) Notes bear interest at variable rates.

(4) Cost value reflects accretion of original issue discount or market discount, and amortization of premium.

See Accompanying Notes

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- (5) As a percentage of net assets at September 30, 2011, investments at fair value are categorized as follows: CLO debt 56.13% and CLO equity 39.60%.
- (6) 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 September 30, 2011. The CLO subordinated notes and income notes are considered equity positions in the CLO funds. Equity investments are entitled to recurring dividend distributions which are generally equal to remaining cash flow of the payments made by the underlying fund's securities less contractual payments to debt holders and fund expenses.
- (7) The estimated yield indicated is based upon current projection of the amount and timing of recurring dividend distributions and repayment of principal upon termination. Such payments 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  
(Unaudited)**

	Six Months Ended September 30, 2011
<b>INVESTMENT INCOME</b>	
From non-affiliated/non-control investments:	
Interest income CLO debt and equity investments	\$ 2,185,689
Total investment income from non-affiliated/non-control investments	2,185,689
<b>EXPENSES</b>	
Investment advisory fees	358,014
Incentive fees	104,506
Professional fees	201,093
Administrator expense	144,381
Directors' fees	88,000
General and administrative	75,670
Insurance expense	37,515
Transfer agent and custodian fees	15,262
Total expenses	1,024,441
Net investment income	1,161,248
Net change in unrealized depreciation on investments	(4,017,818 )
Net realized gain (loss) on investments	
Net realized and unrealized gain (loss) on investments	(4,017,818 )
Net decrease in net assets resulting from operations	\$ (2,856,570 )

See Accompanying Notes

TABLE OF CONTENTS**OXFORD LANE CAPITAL CORP.****STATEMENT OF CHANGES IN NET ASSETS  
(Unaudited)**

	Six Months Ended September 30, 2011	January 25, 2011 (Commencement of Operations) to March 31, 2011
Decrease in net assets from operations:		
Net investment income	\$ 1,161,248	\$ 124,150
Net realized gain (loss) on investments		
Net change in unrealized depreciation on investments	(4,017,818 )	(42,500 )
Net decrease in net assets resulting from operations	(2,856,570 )	81,650
Distributions from net investment income	(2,157,998 )	(465,313 )
Capital share transaction:		
Issuance of common stock (net of underwriting fees and offering costs)	8,283,291	34,141,459
Reinvestment of dividends	33,886	
Net increase in net assets from capital share transactions	8,317,177	34,141,459
Total increase in net assets	3,302,609	33,757,796
Net assets at beginning of period	33,862,796	105,000
Net assets at end of period (including distributions in excess of net investment income of \$1,357,913 and \$361,163)	\$ 37,165,405	\$ 33,862,796

See Accompanying Notes



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(Unaudited)**

	Six Months Ended September 30, 2011
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Net decrease in net assets resulting from operations	\$(2,856,570 )
Adjustments to reconcile net (decrease) increase in net assets resulting from operations to net cash used in operating activities:	
Amortization of discounts and premiums	(1,633,365 )
Purchases of investments	(12,228,874 )
Repayments of principal and reductions to investment cost value	2,761,715
Net change in unrealized depreciation on investments	4,017,818
Decrease in interest receivable	230,371
Decrease in prepaid expenses and other assets	12,977
Increase in investment advisory fee payable	47,497
Increase in incentive fee payable	25,431
Decrease in directors' fees payable	(3,000 )
Decrease in administrator expense payable	(26,123 )
Decrease in accrued expenses	(64,522 )
Net cash used in operating activities	(9,716,645 )
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>	
Distributions paid (net of stock issued under dividend reinvestment plan of \$33,886)	(2,589,425 )
Proceeds from the issuance of common stock	8,879,070
Underwriting commissions and offering expenses for the issuance of common stock	(595,779 )
Net cash provided by financing activities	5,693,866
Net decrease in cash and cash equivalents	(4,022,779 )
Cash and cash equivalents, beginning of period	6,064,982
Cash and cash equivalents, end of period	\$ 2,042,203
<b>SUPPLEMENTAL DISCLOSURES</b>	
Securities purchased, not settled	\$ 370,000

See Accompanying Notes

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**OXFORD LANE CAPITAL CORP**

**NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2011  
(Unaudited)**

**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, or 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 that 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 estimate inherent in the preparation of the Fund's financial statements is the valuation of investments and the related amounts of unrealized appreciation and depreciation of investments recorded. There is no single 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.

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

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**OXFORD LANE CAPITAL CORP**

**NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2011  
(Unaudited)**

**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(continued)**

valued based upon Level 3 inputs as of September 30, 2011. 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.

The Fund has acquired a number of debt and equity positions in collateralized loan obligation (CLO) investment vehicles, which are special purpose financing vehicles. In valuing such investments, the Fund considers the operating metrics of the specific investment vehicle, including compliance with collateralization tests, defaulted and restructured securities, and payment defaults, if any. In addition, the Fund considers the indicative prices provided by the broker who arranges transactions in such investment vehicles, as well as any available information on other relevant transactions in the market. Members of OXLC Management's portfolio management team also prepare portfolio company valuations using the most recent trustee reports and note valuation reports. OXLC Management or the Valuation Committee of the Board of Directors may request an additional analysis by a third-party firm to assist in the valuation process of CLO investment vehicles. All information is presented to the Board 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. All available information, including non-binding indicative bids obtained from 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 September 30, 2011, 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 CLO investment or senior secured loan, respectively. The Fund has considered the factors described in ASC 820-10 and has determined that it is properly valuing the securities in its portfolio.

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The Fund's assets measured at fair value on a recurring basis subject to the disclosure requirements of ASC 820-10-35 at September 30, 2011, were as follows:

(\$ in millions)	Fair Value Measurements at Reporting Date			
	Using Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Assets				
CLO Debt	0.0	0.0	20.9	20.9
CLO Equity	0.0	0.0	14.7	14.7
Total	\$ 0.0	\$ 0.0	\$ 35.6	\$ 35.6

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**NOTES TO FINANCIAL STATEMENTS  
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**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(continued)**

A reconciliation of the fair value of investments for the six months ended September 30, 2011, utilizing significant unobservable inputs, is as follows:

(\$ in millions)	Collateralized Loan Obligation Debt Investments	Collateralized Loan Obligation Equity Investments	Total
Balance at March 31, 2011	\$ 15.8	\$ 14.9	\$ 30.7
Realized gains included in earnings	0.0	0.0	0.0
Unrealized appreciation (depreciation) included in earnings	(3.5 )	(0.5 )	(4.0 )
Amortization of discounts and premiums	0.2	1.4	1.6
Purchases	8.4	1.6	10.0
Repayments, sales of principal and reductions to investment cost value	0.0	(2.7 )	(2.7 )
Transfers in and/or out of level 3	0.0	0.0	0.0
Balance at September 30, 2011	\$ 20.9	\$ 14.7	\$ 35.6
The amount of total gains for the period included in earnings attributable to the change in unrealized gains or losses related to our Level 3 assets still held at the reporting date and reported within the net change in unrealized gains or losses on investments in our Statement of Operations	\$ (3.5 )	\$ (0.5 )	\$ (4.0 )

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 significant transfers between Level 1, Level 2 and Level 3 during the six months ended September 30, 2011. Transfers from Level 2 to Level 3 or from Level 3 to Level 2 may be due to a decline or an increase in market activity (e.g., frequency of trades), which may result in a lack of or increase in available market inputs to determine price. Transfers in and transfers out of Level 3 are included in the Level 3 reconciliation.

**OTHER ASSETS**

Other assets consist of prepaid expenses associated primarily with insurance costs.

## **INVESTMENT INCOME RECOGNITION**

Interest income, including the amortization of premium or accretion of discount, is recorded on the accrual basis to the extent that such amounts are expected to be collected.

Interest income from investments in the equity class of security of CLO Funds (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 inflows from its CLO equity investments, including the expected residual payments and the effective yield is determined and updated periodically.

## **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.

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**OXFORD LANE CAPITAL CORP**

**NOTES TO FINANCIAL STATEMENTS  
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(Unaudited)**

**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(continued)**

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.

As a newly formed entity, the Fund has not yet filed any federal tax returns. Management has analyzed the tax positions it expects to take on its return for the period ended March 31, 2011 and has concluded that there were no uncertain tax positions requiring accrual or disclosure in the financial statements.

For tax purposes, net unrealized depreciation is \$4,796,072 because of the book to tax basis adjustment for accreted discount on equity CLOs. Aggregate gross unrealized appreciation for tax purposes is \$27,561; aggregate gross unrealized depreciation for tax purposes is \$4,823,633.

For tax purposes, the cost basis of the portfolio investments at September 30, 2011 was approximately \$40,374,107.

**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 carryforward, 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.

Dividends paid by the Fund are subject to re-characterization for tax purposes.

**CONCENTRATION OF CREDIT RISK**

At September 30, 2011, the Fund maintained a significant 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.

### **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 asset, which

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**OXFORD LANE CAPITAL CORP**

**NOTES TO FINANCIAL STATEMENTS  
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(Unaudited)**

**NOTE 3. RELATED PARTY TRANSACTIONS (continued)**

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%;

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 six months ended September 30, 2011, the Fund accrued incentive fees of \$104,506. At September 30, 2011, the Fund has an incentive fee payable in the amount of \$25,431.

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

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**OXFORD LANE CAPITAL CORP**

**NOTES TO FINANCIAL STATEMENTS  
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(Unaudited)**

**NOTE 3. RELATED PARTY TRANSACTIONS (continued)**

compensation of the Fund's chief financial officer, chief compliance officer, controller and treasurer, and the Fund's allocable portion of the compensation of 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 10.9% of the Fund at September 30, 2011.

**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 six months ended September 30, 2011.

**NOTE 5. RIGHTS OFFERING**

On August 3, 2011 (the Record Date) the Fund issued 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 entitle the holders to purchase one new share of common stock for every three rights held. On August 26, 2011, the Fund closed its rights offering and sold 591,938 shares of its common stock at a price of \$15.00 per share, less underwriting fees and offering costs of \$595,779. The total net proceeds to the Fund from the issuance of transferable rights of common stock to Record Date Stockholders were \$8,283,291.

## **NOTE 6. PURCHASES AND SALES OF SECURITIES**

Purchases and sales of securities, excluding short-term investments, for the six months ended September 30, 2011, totaled \$10,054,942 and \$0, respectively.

## **NOTE 7. 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 September 30, 2011, the Fund had not issued any commitments to purchase additional debt investments and/or warrants from any portfolio companies.

## **NOTE 8. SUBSEQUENT EVENTS**

The Fund has evaluated events and transactions that occurred after September 30, 2011 and through the date that the financial statements were issued, and determined that there were no matters requiring adjustment to, or disclosure in, the financial statements.

On October 24, 2011, a dividend of \$0.50 per share was declared to common shareholders payable December 30, 2011 to shareholders of record on December 16, 2011. All dividends are subject to

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SEPTEMBER 30, 2011  
(Unaudited)****NOTE 8. SUBSEQUENT EVENTS (continued)**

recharacterization as a return of capital or a distribution of net realized gain based upon the results of operations of the Fund for the fiscal year ending March 31, 2012.

**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 six months ended September 30, 2011 and for the period January 25, 2011 (Commencement of Operations) to March 31, 2011 are as follows:

	Six months ended September 30, 2011	January 25, 2011 (Commencement of Operations) to March 31, 2011
<u>Per Share Data</u>		
Net asset value at beginning of period <sup>(1)</sup>	\$ 18.19	\$ 16.80
Net investment income <sup>(2)</sup>	0.57	0.07
Net realized and unrealized capital losses <sup>(3)</sup>	(1.61 )	(0.03 )
Total from investment operations	(1.04 )	0.04
Less distributions to shareholders from investment income	(1.00 )	(0.25 )
Effect of shares issued, net of underwriting costs	(0.91 )	1.79
Effect of offering costs	(0.10 )	(0.19 )
Effect of shares issued, net	(1.01 )	1.60
Net asset value at end of period	\$ 15.14	\$ 18.19
Per share market value at beginning of period.	\$ 18.75	\$ 20.00
Per share market value at end of period	\$ 13.64	\$ 18.75
Total return <sup>(4)</sup>	(22.55%)	(5.00%)

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Shares outstanding at end of period	2,455,238		1,861,250	
<u>Ratios/Supplemental Data</u>				
Net assets at end of period (000 s)	\$37,165		\$33,863	
Ratio of net investment income to average daily net assets <sup>(5)</sup>	6.49	%	3.51	%
Ratio of expenses to average daily net assets <sup>(5)</sup>	5.73	%	4.79	%
Portfolio turnover rate	0.00	%	0.05	%

(1) The \$16.80 represents the net asset value per share prior to commencement of operations, January 25, 2011.

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

(3) Net realized and unrealized capital losses includes adjustment to reconcile changes in net asset value per share.

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

(4) 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. Not annualized.

(5) Annualized. With respect to the period January 25, 2011 (Commencement of Operations) to March 31, 2011, annualized after adjusting for certain annual periodic expenses recorded during the period ended March 31, 2011.

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**OXFORD LANE CAPITAL CORP**

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**NOTE 11. RISK DISCLOSURES**

The U.S. capital markets have experienced periods of extreme volatility and disruption over the past three 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, Greenwich Loan Income Fund Limited, a publicly-traded Guernsey fund that invests primarily in Senior Loans across a variety of industries globally, 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 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 were made.

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 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 the Fund 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. The Fund 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 the



Fund intends to initially target 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 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 the Fund intends 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

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**OXFORD LANE CAPITAL CORP**

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(Unaudited)**

**NOTE 11. RISK DISCLOSURES (continued)**

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.

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.

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.

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**OXFORD LANE CAPITAL CORP.  
SCHEDULE OF INVESTMENTS  
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(unaudited)**

COMPANY <sup>(1)</sup>	INDUSTRY	INVESTMENT	PRINCIPAL AMOUNT	COST	FAIR VALUE <sup>(2)(5)</sup>
Bridgeport CLO II	structured finance	CLO secured notes - Class D(3)(4)(6) (4.81%, due June 18, 2021)	\$1,130,500	\$890,435	\$616,123
Canaras Summit CLO 2007-1X	structured finance	CLO income notes(4)(7) (Estimated yield 22.95%, maturity June 19, 2021)	1,500,000	1,138,659	1,275,000
Canaras Summit CLO 2007-1A	structured finance	CLO secured notes - Class E(3)(4)(6) (4.91%, due June 19, 2021)	750,000	510,738	461,250
Cent CDO 15	structured finance	CLO secured notes - Class D(3)(4)(6) (4.69%, due March 11, 2021)	1,625,000	1,232,605	975,000
CIFC Funding 2006-1X	structured finance	CLO secured notes - Class B2L(3)(4)(6) (4.41%, due October 20, 2020)	5,730,501	4,087,995	3,638,582
Emporia III, Ltd. 2007-3A	structured finance	CLO secured notes - Class E(3)(4)(6) (4.12%, due April 23, 2021)	3,594,000	2,760,177	2,120,460
Gale Force 4 CLO 2007-4A	structured finance	CLO income notes(4)(7) (Estimated yield 16.30%, maturity August 20, 2021)	1,500,000	972,460	975,000
GSC VIII	structured finance	CLO secured notes - Class D(3)(4)(6) (3.80%, due April 18, 2021)	2,112,137	1,344,545	1,277,843
Harbourview CLO 2006-1	structured finance	CLO income notes(4)(7)	4,380,000	2,903,911	2,704,650

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Hewett's Island CLO III	structured finance	(Estimated yield 22.30%, maturity December 27, 2019) CLO secured notes - Class D(3)(4)(6) (6.19%, due August 9, 2017)	3,538,048	2,813,495	2,779,696
Hewett's Island CLO IV	structured finance	CLO secured notes - Class E(3)(4)(6) (4.99%, due May 9, 2018)	1,500,000	1,309,465	983,200
Hillmark Funding Ltd. 2006-1A	structured finance	CLO income notes(4)(7) (Estimated yield 18.90%, maturity May 21, 2021)	2,000,000	1,545,047	1,460,000
Jersey Street CLO 2007-1A	structured finance	CLO income notes(4)(7) (Estimated yield 20.00%, maturity October 20, 2018)	3,185,000	2,341,501	2,277,275
Kingsland IV, Ltd. 2007-4A	structured finance	CLO income notes(4)(7) (Estimated yield 16.70%, maturity April 16, 2021)	2,350,000	1,888,555	1,768,375
Kingsland V, Ltd. 2007-5X	structured finance	CLO secured notes - Class E(3)(4)(6) (4.65%, due July 14, 2021)	2,250,000	1,649,468	1,327,500
Lightpoint CLO VII, Ltd. 2007-7X	structured finance	CLO income notes(4)(7) (Estimated yield 22.38%, maturity May 15, 2021)	2,000,000	1,352,154	1,360,000
Mountain Capital CLO IV, Ltd 2005-4X	structured finance	CLO secured notes - Class B2L(3)(4)(6) (5.30%, due March 15, 2018)	2,820,248	2,001,023	1,861,364
Octagon XI CLO 2007-1A	structured finance	CLO income notes(4)(7) (Estimated yield 19.76%, maturity August 25, 2021)	2,025,000	1,683,719	1,923,750
PPM Grayhawk CLO 2007	structured finance	CLO secured notes - Class D(3)(4)(6) (4.00%, due April 18, 2021)	1,869,138	1,386,991	1,065,408
Rampart CLO 2007-1A	structured finance	CLO income notes(4)(7) (Estimated yield	1,500,000	1,268,631	1,230,000

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		15.30%, maturity October 25, 2021)			
		CLO secured notes -			
Waterfront CLO 2007	structured finance	Class D(3)(4)(6) (5.15%, due October 15, 2020)	5,750,000	4,289,816	3,680,000
TOTAL INVESTMENTS				\$39,371,390	\$35,760,476
OTHER ASSETS IN EXCESS OF LIABILITIES					1,285,376
NET ASSETS (Equivalent to \$15.08 per share based on 2,455,858 shares of common stock outstanding)					\$37,045,852

(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 Company.

(3) Notes bear interest at variable rates.

(4) Cost value reflects accretion of original issue discount or market discount, and amortization of premium.

(5) As a percentage of net assets at December 31, 2011, investments at fair value are categorized as follows: CLO debt 56.11% and CLO equity 40.42%.

(6) The CLO secured notes generally bear interest at a rate determined by reference to LIBOR which resets quarterly.

(6) For each CLO debt investment, the rate provided is as of December 31, 2011.

(7) The CLO 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.

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**OXFORD LANE CAPITAL CORP.  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2011  
(unaudited)**

**NOTE 1. INVESTMENT VALUATION**

The most significant estimate inherent in the preparation of Oxford Lane Capital Corp.'s (the Fund's) financial statements is the valuation of investments and the related amounts of unrealized appreciation and depreciation of investments recorded. There is no single 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.

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 December 31, 2011. 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.

The Fund has acquired a number of debt and equity positions in collateralized loan obligation (CLO) investment vehicles, which are special purpose financing vehicles. In valuing such investments, the Fund considers the operating metrics of the specific investment vehicle, including compliance with collateralization tests, defaulted and restructured securities, and payment defaults, if any. In addition, the Fund considers the indicative prices provided by the broker who arranges transactions in such investment vehicles, as well as any available information on other relevant transactions in the market. Members of OXLC Management's portfolio management team also prepare portfolio company valuations using the most recent trustee reports and note valuation reports. OXLC Management or the Valuation Committee of the Board of Directors may request an additional analysis by a third-party firm to assist in the valuation process of CLO investment vehicles. All information is presented to the Board 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. All available information, including non-binding indicative bids obtained from 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 December 31, 2011, the Fund did not have any direct investments in senior secured loans.

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**OXFORD LANE CAPITAL CORP.  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2011  
(unaudited)**

**NOTE 1. INVESTMENT VALUATION (continued)**

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 CLO investment or senior secured loan, respectively. The Fund has considered the factors described in ASC 820-10 and has determined that it is properly valuing the securities in its portfolio.

The Fund's assets measured at fair value on a recurring basis subject to the disclosure requirements of ASC 820-10-35 at December 31, 2011, were as follows:

Assets	Fair Value Measurements at Reporting Date			Total
	Using Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
CLO Debt	\$	\$	\$ 20,786,426	\$ 20,786,426
CLO Equity			14,974,050	14,974,050
Total	\$	\$	\$ 35,760,476	\$ 35,760,476

**NOTE 2. FEDERAL INCOME TAXES**

For tax purposes, net unrealized depreciation is \$5,942,057 because of the book to tax basis adjustment for accreted discount on equity CLOs. Aggregate gross unrealized appreciation for tax purposes is \$0; aggregate gross unrealized depreciation for tax purposes is \$5,942,057.

For tax purposes, the cost basis of the portfolio investments at December 31, 2011 was approximately \$41,702,533.





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**Oxford Lane Capital Corp.**

**PRELIMINARY PROSPECTUS**

**, 2012**



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**PART C OTHER INFORMATION**

**ITEM 25. FINANCIAL STATEMENTS AND EXHIBITS**

**1. Financial Statements**

The following financial statements of Oxford Lane Capital Corp. (the Registrant or the Company ) are included in Part A Information Required to be in the Prospectus of the Registration Statement.

**INDEX TO FINANCIAL STATEMENTS**

	Page
<u>Report of Independent Registered Public Accounting Firm</u>	<u>F-2</u>
<u>Statement of Assets and Liabilities as of March 31, 2011</u>	<u>F-3</u>
<u>Schedule of Investments as of March 31, 2011</u>	<u>F-4</u>
<u>Statement of Operations for the period January 25, 2011 (Commencement of Operations) through March 31, 2011</u>	<u>F-6</u>
<u>Statement of Changes in Net Assets for the period January 25, 2011 (Commencement of Operations) through March 31, 2011</u>	<u>F-7</u>
<u>Statement of Cash Flows for the period January 25, 2011 (Commencement of Operations) through March 31, 2011</u>	<u>F-8</u>
<u>Notes to Financial Statements</u>	<u>F-9</u>
<u>Statement of Assets and Liabilities as of September 30, 2011</u>	<u>F-18</u>
<u>Schedule of Investments as of September 30, 2011</u>	<u>F-19</u>
<u>Statement of Operations for the six months ended September 30, 2011</u>	<u>F-21</u>
<u>Statement of Changes in Net Assets for the six months ended September 30, 2011 and for the period January 25, 2011 (Commencement of Operations) through March 31, 2011</u>	<u>F-22</u>
<u>Statement of Cash Flows for the six months ended September 30, 2011</u>	<u>F-23</u>
<u>Notes to Financial Statements</u>	<u>F-24</u>
<u>Schedule of Investments as of December 31, 2011</u>	<u>F-33</u>

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**2. Exhibits**

Exhibit Number	Description
a.	Articles of Amendment and Restatement*
b.	Amended and Restated Bylaws*
d.1	Form of Common Stock Certificate*
d.2	Form of Subscription Certificate
d.3	Form of Notice of Guaranteed Delivery
d.4	Form of Subscription Agent Agreement
d.5	Form of Information Agent Agreement
d.6	Form of Notice to Stockholders
d.7	Form of Notice to Beneficial Stockholders of Common Stock
d.8	Form of Notice to Brokers, Banks and Other Nominees
d.9	Form of Beneficial Owner Election
d.10	Form of Nominee Holder Certification Form
d.11	Form of Nominee Holder Over-Subscription Exercise Form
e.	Distribution Reinvestment Plan*
g.	Form of Investment Advisory Agreement by and between Registrant and Oxford Lane Management, LLC*
h.	Form of Dealer Manager Agreement
j.	Form of Custodian Agreement*
k.	Form of Administration Agreement by and between Registrant and BDC Partners, LLC*
l.	Opinion of Sutherland Asbill & Brennan LLP
n.1	Consent of Sutherland Asbill & Brennan LLP (Incorporated by reference to exhibit l hereto)
n.2	Consent of Independent Registered Public Accounting Firm
r.	Code of Ethics*

\* Incorporated by reference to Pre-Effective Amendment No. 2 to the Registrant's Registration Statement on Form N-2 (File No. 333-167803) filed on November 30, 2010.

**ITEM 26. MARKETING ARRANGEMENTS**

The information contained under the heading "The Offer Distribution Arrangements" on this Registration Statement is incorporated herein by reference.

**ITEM 27. OTHER EXPENSES OF ISSUANCE AND DISTRIBUTION**

SEC registration fee	\$ 17,878
FINRA filing fee	16,100
NASDAQ Global Select Market	25,000
Printing and postage	50,000
Legal fees and expenses	185,000
Accounting fees and expenses	110,000
Miscellaneous	96,022
Total	\$ 500,000

Note: Except the SEC registration fee and the FINRA filing fee, all listed amounts are estimates.

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## ITEM 28. PERSONS CONTROLLED BY OR UNDER COMMON CONTROL

Charles M. Royce owns more than 5% of Oxford Lane Capital Corp. s outstanding common stock.

See Management, Certain Relationships and Transactions and Control Persons and Principal Stockholders in the Prospectus contained herein.

## ITEM 29. NUMBER OF HOLDERS OF SECURITIES

The following table sets forth the number of record holders of the Registrant s common stock at March 26, 2012:

Title of Class	Number of Record Holders
Common Stock, par value \$0.01 per share	50

## ITEM 30. INDEMNIFICATION

### Directors and Officers

Reference is made to Section 2-418 of the Maryland General Corporation Law, Article VII of the Registrant s charter and Article XI of the Registrant s Amended and Restated Bylaws.

Maryland law permits a Maryland corporation to include in its charter a provision limiting the liability of its directors and officers to the corporation and its stockholders for money damages except for liability resulting from (a) actual receipt of an improper benefit or profit in money, property or services or (b) active and deliberate dishonesty established by a final judgment as being material to the cause of action. The Registrant s charter contains such a provision which eliminates directors and officers liability to the maximum extent permitted by Maryland law, subject to the requirements of the Investment Company Act of 1940, as amended (the 1940 Act ).

The Registrant s charter authorizes the Registrant, to the maximum extent permitted by Maryland law and subject to the requirements of the 1940 Act, to indemnify any present or former director or officer or any individual who, while serving as the Registrant s director or officer and at the Registrant s request, serves or has served another corporation, real estate investment trust, partnership, joint venture, trust, employee benefit plan or other enterprise as a director, officer, partner or trustee, from and against any claim or liability to which that person may become subject or which that person may incur by reason of his or her service in any such capacity and to pay or reimburse their reasonable expenses in advance of final disposition of a proceeding. The Registrant s bylaws obligate the Registrant, to the maximum extent permitted by Maryland law and subject to the requirements of the 1940 Act, to indemnify any present or former director or officer or any individual who, while serving as the Registrant s director or officer and at the Registrant s request, serves or has served another corporation, real estate investment trust, partnership, joint venture, trust, employee benefit plan or other enterprise as a director, officer, partner or trustee and who is made, or threatened to be made, a party to the proceeding by reason of his or her service in that capacity from and against any claim or liability to which that person may become subject or which that person may incur by reason of his or her service in any such capacity and to pay or reimburse his or her reasonable expenses in advance of final disposition of a

proceeding. The charter and bylaws also permit the Registrant to indemnify and advance expenses to any person who served a predecessor of the Registrant in any of the capacities described above and any of the Registrant's employees or agents or any employees or agents of the Registrant's predecessor. In accordance with the 1940 Act, the Registrant will not indemnify any person for any liability to which such person would be subject by reason of such person's willful misfeasance, bad faith, gross negligence or reckless disregard of the duties involved in the conduct of his or her office.

Maryland law requires a corporation (unless its charter provides otherwise, which the Registrant's charter does not) to indemnify a director or officer who has been successful in the defense of any proceeding to which he or she is made, or threatened to be made, a party by reason of his or her service in that capacity. Maryland law permits a corporation to indemnify its present and former directors and officers, among others, against judgments, penalties, fines, settlements and reasonable expenses actually incurred by them in connection with any proceeding to which they may be made, or threatened to be made, a party by reason of their service in those or other capacities unless it is established that (a) the act or omission of the director or

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officer was material to the matter giving rise to the proceeding and (1) was committed in bad faith or (2) was the result of active and deliberate dishonesty, (b) the director or officer actually received an improper personal benefit in money, property or services or (c) in the case of any criminal proceeding, the director or officer had reasonable cause to believe that the act or omission was unlawful. However, under Maryland law, a Maryland corporation may not indemnify for an adverse judgment in a suit by or in the right of the corporation or for a judgment of liability on the basis that a personal benefit was improperly received unless, in either case, a court orders indemnification, and then only for expenses. In addition, Maryland law permits a corporation to advance reasonable expenses to a director or officer in advance of final disposition of a proceeding upon the corporation's receipt of (a) a written affirmation by the director or officer of his or her good faith belief that he or she has met the standard of conduct necessary for indemnification by the corporation and (b) a written undertaking by him or her or on his or her behalf to repay the amount paid or reimbursed by the corporation if it is ultimately determined that the standard of conduct was not met.

## **Adviser and Administrator**

The Investment Advisory Agreement provides that, absent willful misfeasance, bad faith or gross negligence in the performance of its duties or by reason of the reckless disregard of its duties and obligations, Oxford Lane Management, LLC (the investment adviser) and its officers, managers, agents, employees, controlling persons, members and any other person or entity affiliated with it are entitled to indemnification from the Registrant for any damages, liabilities, costs and expenses (including reasonable attorneys' fees and amounts reasonably paid in settlement) arising from the rendering of the investment adviser's services under the Investment Advisory Agreement or otherwise as an investment adviser of the Registrant.

The Administration Agreement provides that, absent willful misfeasance, bad faith or gross negligence in the performance of its duties or by reason of the reckless disregard of its duties and obligations, BDC Partners, LLC and its officers, managers, agents, employees, controlling persons, members and any other person or entity affiliated with it are entitled to indemnification from the Registrant for any damages, liabilities, costs and expenses (including reasonable attorneys' fees and amounts reasonably paid in settlement) arising from the rendering of BDC Partners, LLC's services under the Administration Agreement or otherwise as administrator for the Registrant.

The law also provides for comparable indemnification for corporate officers and agents. Insofar as indemnification for liability arising under the Securities Act of 1933, as amended (the Securities Act) may be permitted to directors, officers and controlling persons of the Registrant pursuant to the foregoing provisions, or otherwise, the Registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the Registrant of expenses incurred or paid by a director, officer or controlling person of the Registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the Registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issue.

The Registrant has entered into indemnification agreements with its directors. The indemnification agreements are intended to provide the Registrant's directors the maximum indemnification permitted under Maryland law and the 1940 Act. Each indemnification agreement provides that the Registrant shall indemnify the director who is a party to the agreement (an Indemnitee), including the advancement of legal expenses, if, by reason of his or her corporate status, the Indemnitee is, or is threatened to be, made a party to or a witness in any threatened, pending, or completed proceeding, other than a proceeding by or in the right of the Registrant.

## **ITEM 31. BUSINESS AND OTHER CONNECTIONS OF INVESTMENT ADVISER**

A description of any other business, profession, vocation, or employment of a substantial nature in which the investment adviser, and each managing director, director or executive officer of the investment adviser, is or has been during the past two fiscal years, engaged in for his or her own account or in the capacity of director, officer, employee, partner or trustee, is set forth in Part A of this Registration Statement in the

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sections entitled Management Board of Directors and Executive Officers, Investment Advisory Agreement and Portfolio Management Investment Personnel. Additional information regarding the investment adviser and its officers and directors is set forth in its Form ADV, as filed with the Securities and Exchange Commission (SEC File No. 801-71654), under the Investment Advisers Act of 1940, as amended, and is incorporated herein by reference.

## ITEM 32. LOCATION OF ACCOUNTS AND RECORDS

All accounts, books, and other documents required to be maintained by Section 31(a) of the 1940 Act, and the rules thereunder are maintained at the offices of:

- (1) the Registrant, Oxford Lane Capital Corp., 8 Sound Shore Drive, Suite 255, Greenwich, CT 06830;
- (2) the Transfer Agent, Computershare Trust Company, N.A., 250 Royall Street, Canton, MA 02021;
- (3) the Custodian, State Street Bank and Trust Company, 225 Franklin Street, Boston, MA 02110; and
- (4) the Investment Adviser, Oxford Lane Management, LLC, 8 Sound Shore Drive, Suite 255, Greenwich, CT 06830.

## ITEM 33. MANAGEMENT SERVICES

Not applicable.

## ITEM 34. UNDERTAKINGS

- Registrant undertakes to suspend the offering of the shares of common stock covered hereby until it amends its prospectus contained herein if (a) subsequent to the effective date of this Registration Statement, its net asset value (1) per share of common stock declines more than 10% from its net asset value per share of common stock as of the effective date of this Registration Statement, or (b) its net asset value per share of common stock increases to an amount greater than its net proceeds as stated in the prospectus contained herein.

(2) Not applicable.

- Registrant undertakes in the event that the securities being registered are to be offered to existing stockholders pursuant to warrants or rights, and any securities not taken by shareholders are to be reoffered to the public, to supplement the prospectus, after the expiration of the subscription period, to set forth the results of the subscription offer, the transactions by the underwriters during the subscription period, the amount of unsubscribed securities to (3) be purchased by underwriters, and the terms of any subsequent underwriting thereof. Registrant further undertakes that if any public offering by the underwriters of the securities being registered is to be made on terms differing from those set forth on the cover page of the prospectus, the Registrant shall file a post-effective amendment to set forth the terms of such offering.

(4) Not applicable.

(5) Registrant undertakes that:

- For purposes of determining any liability under the Securities Act of 1933, as amended, the information omitted (a) from the form of prospectus filed as part of the Registration Statement in reliance upon Rule 430A and contained in the form of prospectus filed by the Registrant pursuant to Rule 497(h) under the Securities Act of 1933, as amended, shall be deemed to be part of this Registration Statement as of the time it was declared effective.

- For purposes of determining any liability under the Securities Act of 1933, as amended, each post-effective (b) amendment that contains a form of prospectus shall be deemed to a new registration statement relating to the securities at that time shall be deemed to be the initial bona fide offering thereof.

(6) Not applicable.

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## SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, as amended, the Registrant has duly caused Amendment No. 1 to this Registration Statement on Form N-2 to be signed on its behalf by the undersigned, thereunto duly authorized, in the Township of Greenwich, in the State of Connecticut, on the 27<sup>th</sup> day of March, 2012.

OXFORD LANE CAPITAL CORP.

By:

/s/ Jonathan H. Cohen

Jonathan H. Cohen  
Chief Executive Officer

Pursuant to the requirements of the Securities Act of 1933, as amended, Amendment No. 1 to this Registration Statement on Form N-2 has been signed by the following persons on behalf of the Registrant, and in the capacities indicated, on the 27<sup>th</sup> day of March, 2012.

Signature	Title
/s/ Jonathan H. Cohen	
Jonathan H. Cohen	Chief Executive Officer and Director (Principal Executive Officer)
*	
Mark J. Ashenfelter	Chairman of the Board and Director
*	
John Reardon	Director
*	
Saul B. Rosenthal	President and Director
*	
David S. Shin	Director
/s/ Patrick F. Conroy	
Patrick F. Conroy	Chief Financial Officer, Chief Compliance Officer and Corporate Secretary (Principal Financial and Accounting Officer)

\* Signed by Jonathan H. Cohen pursuant to a power of attorney signed by each individual and filed with this Registration Statement on February 9, 2012.

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