

APOLLO INVESTMENT CORP  
Form 10-Q  
August 08, 2012  
[Table of Contents](#)

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**Washington, D.C. 20549**  
**FORM 10-Q**

☒ **Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**  
**For the Quarter Ended June 30, 2012**

☐ **Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**  
**Commission File Number: 814-00646**

**APOLLO INVESTMENT CORPORATION**

(Exact name of registrant as specified in its charter)

**Maryland**  
(State or other jurisdiction of incorporation or organization)

**52-2439556**  
(I.R.S. Employer Identification No.)

**9 West 57<sup>th</sup> Street**

**37th Floor**

**New York, N.Y.**  
(Address of principal executive office)

**10019**  
(Zip Code)

**(212) 515-3450**

**(Registrant's telephone number, including area code)**

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☐ No ☐

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Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ☒ Accelerated filer ☐ Non-accelerated filer ☐ Smaller Reporting Company ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

The number of shares of the registrant's Common Stock, \$.001 par value, outstanding as of August 7, 2012 was 202,891,351.

**Table of Contents**

**APOLLO INVESTMENT CORPORATION**  
**FORM 10-Q FOR THE QUARTER ENDED JUNE 30, 2012**

**TABLE OF CONTENTS**

|          |                                                                                                                       | PAGE |
|----------|-----------------------------------------------------------------------------------------------------------------------|------|
|          | PART I. FINANCIAL INFORMATION                                                                                         |      |
| Item 1.  | <u>FINANCIAL STATEMENTS</u>                                                                                           | 3    |
|          | <u>Statements of Assets and Liabilities as of June 30, 2012 and March 31, 2012</u>                                    | 3    |
|          | <u>Statements of Operations for the three months ended June 30, 2012 and June 30, 2011</u>                            | 4    |
|          | <u>Statements of Changes in Net Assets for the three months ended June 30, 2012 and the year ended March 31, 2012</u> | 5    |
|          | <u>Statements of Cash Flows for the three months ended June 30, 2012 and June 30, 2011</u>                            | 6    |
|          | <u>Schedule of Investments as of June 30, 2012</u>                                                                    | 7    |
|          | <u>Schedule of Investments as of March 31, 2012</u>                                                                   | 15   |
|          | <u>Notes to Financial Statements</u>                                                                                  | 22   |
|          | <u>Report of Independent Registered Public Accounting Firm</u>                                                        | 41   |
| Item 2.  | <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>                          | 42   |
| Item 3.  | <u>Quantitative and Qualitative Disclosures About Market Risk</u>                                                     | 54   |
| Item 4.  | <u>Controls and Procedures</u>                                                                                        | 54   |
|          | PART II. OTHER INFORMATION                                                                                            |      |
| Item 1.  | <u>Legal Proceedings</u>                                                                                              | 55   |
| Item 1A. | <u>Risk Factors</u>                                                                                                   | 55   |
| Item 2.  | <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>                                                    | 55   |
| Item 3.  | <u>Defaults Upon Senior Securities</u>                                                                                | 55   |
| Item 4.  | <u>Mine Safety Disclosures</u>                                                                                        | 55   |
| Item 5.  | <u>Other Information</u>                                                                                              | 55   |
| Item 6.  | <u>Exhibits</u>                                                                                                       | 56   |
|          | <u>Signatures</u>                                                                                                     | 57   |

**Table of Contents****PART I. FINANCIAL INFORMATION**

In this Quarterly Report, Apollo Investment, the Company, AIC, we, us and our refer to Apollo Investment Corporation unless the context otherwise states.

**Item 1. Financial Statements****APOLLO INVESTMENT CORPORATION****STATEMENTS OF ASSETS AND LIABILITIES**

(in thousands, except per share amounts)

|                                                                                                                                                                    | June 30,<br>2012<br>(unaudited) | March 31, 2012 |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------|----------------|
| <b>Assets</b>                                                                                                                                                      |                                 |                |
| Non-controlled/non-affiliated investments, at fair value (cost \$2,534,935 and \$2,642,702, respectively)                                                          | \$ 2,353,980                    | \$ 2,490,672   |
| Controlled investments, at fair value (cost \$258,530 and \$208,882, respectively)                                                                                 | 225,604                         | 186,408        |
| Cash equivalents, at fair value (cost \$99,990 and \$0, respectively)                                                                                              | 99,988                          |                |
| Cash                                                                                                                                                               | 1,380                           | 1,665          |
| Foreign currency (cost \$1,104 and \$1,013, respectively)                                                                                                          | 1,422                           | 1,013          |
| Receivable for investments sold                                                                                                                                    | 126,018                         | 19,606         |
| Interest receivable                                                                                                                                                | 48,811                          | 54,409         |
| Dividends receivable                                                                                                                                               | 761                             | 2,898          |
| Miscellaneous income receivable                                                                                                                                    | 476                             | 1,150          |
| Prepaid expenses and other assets                                                                                                                                  | 27,253                          | 17,442         |
| Total assets                                                                                                                                                       | \$ 2,885,693                    | \$ 2,775,263   |
| <b>Liabilities</b>                                                                                                                                                 |                                 |                |
| Debt (see note 7, 9 & 10)                                                                                                                                          | \$ 1,019,887                    | \$ 1,009,337   |
| Payable for investments and cash equivalents purchased                                                                                                             | 102,581                         |                |
| Dividends payable                                                                                                                                                  | 40,578                          | 39,409         |
| Management and performance-based incentive fees payable (see note 3)                                                                                               | 22,671                          | 24,402         |
| Interest payable                                                                                                                                                   | 9,852                           | 10,102         |
| Accrued administrative expenses                                                                                                                                    | 3,543                           | 3,420          |
| Other liabilities and accrued expenses                                                                                                                             | 3,570                           | 3,362          |
| Total liabilities                                                                                                                                                  | \$ 1,202,682                    | \$ 1,090,032   |
| <b>Net Assets</b>                                                                                                                                                  |                                 |                |
| Common stock, par value \$.001 per share, 400,000 and 400,000 common shares authorized, respectively, and 202,891 and 197,043 issued and outstanding, respectively | \$ 203                          | \$ 197         |
| Paid-in capital in excess of par (see note 2f)                                                                                                                     | 2,936,321                       | 2,886,327      |
| Over-distributed net investment income (see note 2f)                                                                                                               | (36,742)                        | (34,896)       |
| Accumulated net realized loss (see note 2f)                                                                                                                        | (1,014,270)                     | (995,426)      |
| Net unrealized depreciation                                                                                                                                        | (202,501)                       | (170,971)      |
| Total net assets                                                                                                                                                   | \$ 1,683,011                    | \$ 1,685,231   |
| Total liabilities and net assets                                                                                                                                   | \$ 2,885,693                    | \$ 2,775,263   |

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|                           |    |      |    |      |
|---------------------------|----|------|----|------|
| Net asset value per share | \$ | 8.30 | \$ | 8.55 |
|---------------------------|----|------|----|------|

See notes to financial statements.

**Table of Contents****APOLLO INVESTMENT CORPORATION****STATEMENTS OF OPERATIONS (unaudited)****(in thousands, except per share amounts)**

|                                                                                                       | <b>Three months ended</b> |                 |
|-------------------------------------------------------------------------------------------------------|---------------------------|-----------------|
|                                                                                                       | <b>June 30,</b>           | <b>June 30,</b> |
|                                                                                                       | <b>2012</b>               | <b>2011</b>     |
| <b>INVESTMENT INCOME:</b>                                                                             |                           |                 |
| From non-controlled/non-affiliated investments:                                                       |                           |                 |
| Interest                                                                                              | \$ 72,637                 | \$ 81,619       |
| Dividends                                                                                             | 1,006                     | 3,195           |
| Other income                                                                                          | 4,044                     | 7,275           |
| From non-controlled/affiliated investments:                                                           |                           |                 |
| Interest                                                                                              |                           | 405             |
| From controlled investments:                                                                          |                           |                 |
| Interest                                                                                              | 1,278                     | 14              |
| Dividends                                                                                             | 1,368                     | 2,084           |
| Total Investment Income                                                                               | \$ 80,333                 | \$ 94,592       |
| <b>EXPENSES:</b>                                                                                      |                           |                 |
| Management fees (see note 3)                                                                          | \$ 13,426*                | \$ 15,929       |
| Performance-based incentive fees (see note 3)                                                         | 9,245*                    | 8,381           |
| Interest and other debt expenses                                                                      | 15,577                    | 15,951          |
| Administrative services expense                                                                       | 750                       | 887             |
| Other general and administrative expenses                                                             | 2,603                     | 5,782           |
| Total expenses                                                                                        | 41,601                    | 46,930          |
| Net investment income                                                                                 | \$ 38,732                 | \$ 47,662       |
| <b>REALIZED AND UNREALIZED GAIN (LOSS) FROM INVESTMENTS, CASH EQUIVALENTS AND FOREIGN CURRENCIES:</b> |                           |                 |
| Net realized loss:                                                                                    |                           |                 |
| Investments and cash equivalents                                                                      | \$ (18,241)               | \$ (44,197)     |
| Foreign currencies                                                                                    | (603)                     | (1,751)         |
| Net realized loss                                                                                     | (18,844)                  | (45,948)        |
| Net change in unrealized gain (loss):                                                                 |                           |                 |
| Investments and cash equivalents                                                                      | (39,392)                  | (2,544)         |
| Foreign currencies                                                                                    | 7,862                     | 886             |
| Net change in unrealized loss                                                                         | (31,530)                  | (1,658)         |
| Net realized and unrealized loss from investments, cash equivalents and foreign currencies            | (50,374)                  | (47,606)        |
| <b>NET INCREASE (DECREASE) IN NET ASSETS RESULTING FROM OPERATIONS</b>                                | <b>\$ (11,642)</b>        | <b>\$ 56</b>    |
| <b>EARNINGS (LOSS) PER SHARE BASIC AND DILUTED (see note 5)</b>                                       | <b>\$ (0.06)</b>          | <b>\$ 0.00</b>  |

- \* Net of voluntary fee waiver on proceeds from common shares issued on April 2, 2012. Management and performance-based incentive fees without the waiver would be \$13,820 and \$9,517, respectively.  
See notes to financial statements.

**Table of Contents**

**APOLLO INVESTMENT CORPORATION**  
**STATEMENTS OF CHANGES IN NET ASSETS**

(in thousands, except shares)

|                                                            | Three months ended<br>June 30, 2012<br>(unaudited) | Year ended<br>March 31, 2012 |
|------------------------------------------------------------|----------------------------------------------------|------------------------------|
| <b>Increase (decrease) in net assets from operations:</b>  |                                                    |                              |
| Net investment income                                      | \$ 38,732                                          | \$ 172,742                   |
| Net realized loss                                          | (18,844)                                           | (341,443)                    |
| Net change in unrealized gain (loss)                       | (31,530)                                           | 82,437                       |
| Net decrease in net assets resulting from operations       | (11,642)                                           | (86,264)                     |
| <b>Dividends and distributions to stockholders:</b>        |                                                    |                              |
| From net investment income                                 | (38,732)                                           | (172,742)                    |
| From other sources                                         | (1,846)                                            | (31,685)                     |
| Net dividends and distributions to stockholders:           | (40,578)                                           | (204,427)                    |
| <b>Capital share transactions:</b>                         |                                                    |                              |
| Net proceeds from shares sold                              | 50,000                                             |                              |
| Less offering costs                                        |                                                    | (6)                          |
| Reinvestment of dividends                                  |                                                    | 14,897                       |
| Net increase in net assets from capital share transactions | 50,000                                             | 14,891                       |
| <b>Total decrease in net assets:</b>                       | (2,220)                                            | (275,800)                    |
| Net assets at beginning of period                          | 1,685,231                                          | 1,961,031                    |
| Net assets at end of period                                | \$ 1,683,011                                       | \$ 1,685,231                 |
| <b>Capital share activity:</b>                             |                                                    |                              |
| Shares sold                                                | 5,847,953                                          |                              |
| Shares issued from reinvestment of dividends               |                                                    | 1,541,849                    |
| Net increase in capital share activity                     | 5,847,953                                          | 1,541,849                    |

See notes to financial statements.

**Table of Contents**

**APOLLO INVESTMENT CORPORATION**  
**STATEMENTS OF CASH FLOWS (unaudited)**  
(in thousands)

|                                                                                       | Three months ended June 30,<br>2012 | 2011                |
|---------------------------------------------------------------------------------------|-------------------------------------|---------------------|
| <b>Cash Flows from Operating Activities:</b>                                          |                                     |                     |
| Net Increase (Decrease) in Net Assets Resulting from Operations                       | \$ (11,642)                         | \$ 56               |
| <i>Adjustments to reconcile net decrease:</i>                                         |                                     |                     |
| PIK interest and dividends                                                            | (9,751)                             | (5,117)             |
| Net amortization on investments                                                       | (6,756)                             | (4,205)             |
| Decrease from foreign currency transactions                                           | (470)                               | (1,861)             |
| Net change in unrealized loss on investments, cash equivalents and foreign currencies | 31,530                              | 1,658               |
| Net realized loss on investments, cash equivalents and foreign currencies             | 18,844                              | 45,948              |
| <i>Changes in operating assets and liabilities:</i>                                   |                                     |                     |
| Purchase of investments                                                               | (198,613)                           | (835,810)           |
| Proceeds from disposition of investments and cash equivalents                         | 254,936                             | 725,376             |
| Decrease in interest and dividends receivable                                         | 7,735                               | 4,323               |
| Decrease in prepaid expenses and other assets                                         | 2,832                               | 3,213               |
| Decrease in management and performance-based incentive fees payable                   | (1,731)                             | (459)               |
| Increase (decrease) in interest payable                                               | (250)                               | 157                 |
| Increase (decrease) in accrued expenses and other liabilities                         | 331                                 | (1,739)             |
| Increase (decrease) in payable for investments purchased                              | 102,581                             | (33,547)            |
| Increase in receivable for investments sold                                           | (106,412)                           | (42,044)            |
| <b>Net Cash Provided (Used) by Operating Activities</b>                               | <b>\$ 83,164</b>                    | <b>\$ (144,051)</b> |
| <b>Cash Flows from Financing Activities:</b>                                          |                                     |                     |
| Net proceeds from the issuance of common stock                                        | \$ 50,000                           | \$                  |
| Offering costs from the issuance of common stock                                      |                                     | (7)                 |
| Dividends paid in cash                                                                | (39,409)                            | (49,733)            |
| Proceeds from debt                                                                    | 205,210                             | 1,150,480           |
| Payments on debt*                                                                     | (199,171)                           | (953,846)           |
| <b>Net Cash Provided by Financing Activities</b>                                      | <b>\$ 16,630</b>                    | <b>\$ 146,894</b>   |
| <b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>                                      | <b>\$ 99,794</b>                    | <b>\$ 2,843</b>     |
| Effect of exchange rates on cash balances                                             | 318                                 | 8                   |
| <b>CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD</b>                                 | <b>\$ 2,678</b>                     | <b>\$ 6,354</b>     |
| <b>CASH AND CASH EQUIVALENTS, END OF PERIOD</b>                                       | <b>\$ 102,790</b>                   | <b>\$ 9,205</b>     |

Non-cash financing activities consist of the reinvestment of dividends totaling \$0 and \$5,008, respectively.

\* Includes deferred financing costs of \$12 and \$27, respectively.  
See notes to financial statements.



**Table of Contents****APOLLO INVESTMENT CORPORATION****SCHEDULE OF INVESTMENTS (unaudited)****June 30, 2012****(in thousands)**

| <b>INVESTMENTS IN NON-CONTROLLED/NON-AFFILIATED INVESTMENTS 139.9%</b>          | <b>Industry</b>                     | <b>Par Amount*</b> | <b>Cost</b>       | <b>Fair Value (1)</b> |
|---------------------------------------------------------------------------------|-------------------------------------|--------------------|-------------------|-----------------------|
| <b><u>CORPORATE DEBT 132.1%</u></b>                                             |                                     |                    |                   |                       |
| <b><u>BANK DEBT/SENIOR SECURED LOANS 46.6%</u></b>                              |                                     |                    |                   |                       |
| <b><u>1st Lien Bank Debt/Senior Secured Loans 7.6%</u></b>                      |                                     |                    |                   |                       |
| Advantage Sales & Marketing, Inc., P+300, 12/17/15 (Revolving loan)             | Grocery                             | \$ 5,500           | \$ 715            | \$ 661                |
| ATI Acquisition Company, P+1400 (P+1000 Cash / 4.00% PIK), 6/30/12***           | Education                           | 4,539              | 3,895             | 2,350                 |
| ATI Acquisition Company, P+900 (P+500 Cash / 4.00% PIK), 12/30/14***            | Education                           | 15,037             | 12,596            |                       |
| Aventine Renewable Energy Holdings, Inc., L+850, 12/22/15                       | Chemicals                           | 24,874             | 20,197            | 18,531                |
| Grocery Outlet Inc., L+900, 12/15/17                                            | Grocery                             | 18,315             | 18,315            | 18,663                |
| Miller Energy Resources, Inc., 18.00% (15.00% Cash / 3.00% PIK Option), 6/29/17 | Energy                              | 40,000             | 40,000            | 40,000                |
| Pelican Energy, LLC, 10.00% or 11.00% PIK, 12/31/2018                           | Energy                              | 5,344              | 5,345             | 5,344                 |
| Penton Media, Inc., L+400 (L+300 Cash / 1.00% PIK), 8/1/14                      | Media                               | 34,911             | 30,465            | 26,779                |
| RBS Holding Company, LLC, L+500, 3/23/17                                        | Business Services                   | 15,800             | 15,668            | 9,875                 |
| Travelport LLC, L+950, 11/22/15                                                 | Business Services                   | 5,000              | 5,000             | 5,006                 |
| <b>Total 1st Lien Bank Debt/Senior Secured Loans</b>                            |                                     |                    | <b>\$ 152,196</b> | <b>\$ 127,209</b>     |
| <b><u>2nd Lien Bank Debt/Senior Secured Loans 39.0%</u></b>                     |                                     |                    |                   |                       |
| Advantage Sales & Marketing, Inc., L+775, 6/18/18                               | Grocery                             | \$ 58,000          | \$ 57,584         | \$ 58,072             |
| Allied Security Holdings, LLC, L+750, 2/2/18                                    | Business Services                   | 31,000             | 30,737            | 31,039                |
| Asurion Corporation, L+750, 5/24/19                                             | Insurance                           | 73,111             | 72,985            | 75,030                |
| Brock Holdings III, Inc., L+825, 3/16/18                                        | Environmental & Facilities Services | 39,000             | 38,324            | 38,708                |
| Clean Earth, Inc., 13.00%, 8/1/14                                               | Environmental & Facilities Services | 25,000             | 25,000            | 24,875                |
| Garden Fresh Restaurant Corp., L+975, 12/11/13                                  | Retail                              | 46,600             | 47,095            | 47,532                |
| Insight Pharmaceuticals, LLC, L+1175, 8/25/17                                   | Consumer Products                   | 20,000             | 19,639            | 19,900                |
| IPC Systems, Inc., L+525, 6/1/15                                                | Telecommunications                  | 44,250             | 42,310            | 37,281                |
| Kronos, Inc., L+1000, 6/11/18                                                   | Electronics                         | 35,000             | 35,000            | 35,175                |
| Ozburn-Hessey Holding Company LLC, L+950, 10/8/16                               | Logistics                           | 38,000             | 37,972            | 33,060                |
| Ranpak Corp., L+750, 10/20/17                                                   | Packaging                           | 85,000             | 85,000            | 83,300                |
| Ranpak Corp., E+775, 10/20/17                                                   | Packaging                           | 40,000             | 58,042            | 49,747                |
| Sedgwick Holdings, Inc., L+750, 5/26/17                                         | Business Services                   | \$ 15,225          | 15,050            | 15,301                |
| TransFirst Holdings, Inc., L+600 Cash or L+675 PIK, 6/15/15                     | Financial Services                  | 19,012             | 18,413            | 18,133                |

See notes to financial statements.

**Table of Contents****APOLLO INVESTMENT CORPORATION****SCHEDULE OF INVESTMENTS (unaudited) (continued)****June 30, 2012****(in thousands)**

| <b>INVESTMENTS IN NON-CONTROLLED/NON-AFFILIATED INVESTMENTS 139.9%</b>     | <b>Industry</b>              | <b>Par Amount*</b> | <b>Cost</b>       | <b>Fair Value (1)</b> |
|----------------------------------------------------------------------------|------------------------------|--------------------|-------------------|-----------------------|
| <b><u>2nd Lien Bank Debt/Senior Secured Loans (continued)</u></b>          |                              |                    |                   |                       |
| Valerus Compression Services, LP, 11.50%, 3/26/18                          | Industrial                   | \$ 40,000          | \$ 40,000         | \$ 40,640             |
| Vertafore, Inc., L+825, 10/29/17                                           | Software                     | 49,260             | 48,856            | 48,891                |
| <b>Total 2<sup>nd</sup> Lien Bank Debt/Senior Secured Loans</b>            |                              |                    | <b>\$ 672,007</b> | <b>\$ 656,684</b>     |
| <b>TOTAL BANK DEBT/SENIOR SECURED LOANS</b>                                |                              |                    | <b>\$ 824,203</b> | <b>\$ 783,893</b>     |
| <b><u>Subordinated Debt/Corporate Notes 85.5%</u></b>                      |                              |                    |                   |                       |
| Advantage Sales & Marketing, Inc., 13.00%, 12/31/18                        | Grocery                      | \$ 25,000          | \$ 25,000         | \$ 24,625             |
| Altegrity Inc., 0.00%, 8/2/16 "                                            | Diversified Service          | 3,545              | 2,151             | 1,928                 |
| Altegrity Inc., 11.75%, 5/1/16 "                                           | Diversified Service          | 14,639             | 11,299            | 12,956                |
| Altegrity Inc., 12.00%, 11/1/15 "                                          | Diversified Service          | 100,000            | 100,000           | 97,100                |
| Altegrity Inc., 10.50%, 11/1/15 "                                          | Diversified Service          | 13,475             | 12,457            | 12,330                |
| American Tire Distributors, Inc., 11.50%, 6/1/18 "                         | Distribution                 | 25,000             | 25,000            | 26,600                |
| Angelica Corporation, 15.00% (12.00% Cash / 3.00% PIK), 10/15/16           | Healthcare                   | 46,284             | 46,284            | 46,284                |
| ATI Acquisition Company, P+1400 (P+1000 Cash / 4.00% PIK), 12/30/15***     | Education                    | 45,153             | 37,867            |                       |
| Avaya Inc., 10.125% Cash or 10.875% PIK, 11/1/15                           | Telecommunications           | 18,577             | 16,399            | 15,500                |
| BCA Osprey II Limited (British Car Auctions), 12.50% PIK, 8/17/17          | Transportation               | £ 25,609           | 40,524            | 33,339                |
| BCA Osprey II Limited (British Car Auctions), 12.50% PIK, 8/17/17          | Transportation               | 15,528             | 21,449            | 16,355                |
| Catalina Marketing Corporation, 11.625%, 10/1/17 "                         | Grocery                      | \$ 5,000           | 4,648             | 4,450                 |
| Ceridian Corp., 12.25% Cash or 13.00% PIK, 11/15/15                        | Diversified Service          | 55,950             | 55,860            | 54,551                |
| Ceridian Corp., 11.25%, 11/15/15                                           | Diversified Service          | 9,300              | 9,083             | 8,998                 |
| Chesapeake Energy Corporation, L+700, 12/02/17                             | Energy                       | 58,477             | 57,191            | 58,057                |
| Clearwire Communications, 12.00%, 12/1/15 "                                | Telecommunications           | 24,843             | 24,330            | 22,659                |
| Clearwire Communications, 14.75%, 12/1/16 "                                | Telecommunications           | 1,000              | 1,000             | 986                   |
| Delta Educational Systems, Inc., 14.20% (13.00% Cash / 1.20% PIK), 5/12/13 | Education                    | 20,050             | 19,921            | 20,150                |
| Exova Limited, 10.50%, 10/15/18 "                                          | Market Research              | £ 18,000           | 28,823            | 25,974                |
| Exova Limited, 10.50%, 10/15/18                                            | Market Research              | 17,655             | 25,018            | 25,476                |
| FoxCo Acquisition Sub LLC, 13.375%, 7/15/16 "                              | Broadcasting & Entertainment | \$ 26,125          | 26,688            | 28,084                |
| Hub International Holdings, 10.25%, 6/15/15 "                              | Insurance                    | 36,232             | 35,292            | 37,138                |
| Intelsat Bermuda Ltd., 11.25%, 2/4/17                                      | Broadcasting & Entertainment | 79,000             | 81,123            | 81,913                |

See notes to financial statements.



**Table of Contents****APOLLO INVESTMENT CORPORATION****SCHEDULE OF INVESTMENTS (unaudited) (continued)****June 30, 2012****(in thousands)****INVESTMENTS IN NON-CONTROLLED/NON-AFFILIATED  
INVESTMENTS 139.9%**

|                                                                    | <b>Industry</b>              | <b>Par<br/>Amount*</b> | <b>Cost</b>         | <b>Fair<br/>Value (1)</b> |
|--------------------------------------------------------------------|------------------------------|------------------------|---------------------|---------------------------|
| <b><u>Subordinated Debt/Corporate Notes (continued)</u></b>        |                              |                        |                     |                           |
| Intelsat Bermuda Ltd., 11.50% Cash or 12.50% PIK, 2/4/17           | Broadcasting & Entertainment | \$ 20,000              | \$ 19,627           | \$ 20,775                 |
| inVentiv Health, Inc., 11.00%, 8/15/18                             | Market Research              | 160,000                | 160,000             | 136,000                   |
| Laureate Education, Inc., 12.75%, 8/15/17 "                        | Education                    | 53,540                 | 53,867              | 57,288                    |
| Lonestar Intermediate Super Holdings (Asurion), LLC, L+950, 9/2/19 | Insurance                    | 31,922                 | 31,276              | 33,518                    |
| Nara Cable Funding Limited, 8.875%, 12/01/18 "                     | Broadcasting & Entertainment | 22,334                 | 19,007              | 19,375                    |
| SeaCube Container Leasing Ltd., 11.00%, 4/28/16                    | Shipping                     | 50,000                 | 50,000              | 51,200                    |
| SquareTwo Financial Corp. (Collect America, Ltd.), 11.625%, 4/1/17 | Consumer Finance             | 40,000                 | 39,470              | 36,500                    |
| SRA International, Inc., 11.00%, 10/1/19                           | Consulting Services          | 25,000                 | 25,000              | 25,250                    |
| Texas Competitive Electric Holdings Company LLC, 11.50%, 10/1/20 " | Utilities                    | 50,000                 | 49,674              | 34,313                    |
| The ServiceMaster Company, 10.75% Cash or 11.50% PIK, 7/15/15 "    | Diversified Service          | 15,731                 | 15,841              | 16,232                    |
| TL Acquisitions, Inc. (Thomson Learning), 10.50%, 1/15/15 "        | Education                    | 120,500                | 102,919             | 92,032                    |
| Travelport LLC, 9.875%, 9/1/14                                     | Business Services            | 19,779                 | 18,711              | 14,686                    |
| Travelport LLC, L+462.5, 9/1/14                                    | Business Services            | 13,000                 | 11,151              | 8,353                     |
| Univar Inc., 12.00%, 6/30/18                                       | Distribution                 | 78,750                 | 79,845              | 78,590                    |
| U.S. Security Associates Holdings, Inc., 11.00%, 7/28/18           | Business Services            | 135,000                | 135,000             | 136,350                   |
| Varietal Distribution, 10.75%, 6/30/17                             | Distribution                 | 1,127                  | 1,412               | 1,448                     |
| Varietal Distribution, 10.75%, 6/30/17                             | Distribution                 | \$ 22,204              | 21,788              | 22,493                    |
| <b>Total Subordinated Debt/Corporate Notes</b>                     |                              |                        | <b>\$ 1,541,995</b> | <b>\$ 1,439,856</b>       |

|                             |                     |                     |
|-----------------------------|---------------------|---------------------|
| <b>TOTAL CORPORATE DEBT</b> | <b>\$ 2,366,198</b> | <b>\$ 2,223,749</b> |
|-----------------------------|---------------------|---------------------|

**COLLATERALIZED LOAN OBLIGATIONS 0.5%**

|                                                       |                  |           |                 |                 |
|-------------------------------------------------------|------------------|-----------|-----------------|-----------------|
| Westbrook CLO Ltd., Series 2006-1A, L+370, 12/20/20 " | Asset Management | \$ 11,000 | \$ 7,170        | \$ 7,626        |
| <b>TOTAL COLLATERALIZED LOAN OBLIGATIONS</b>          |                  |           | <b>\$ 7,170</b> | <b>\$ 7,626</b> |

See notes to financial statements.

**Table of Contents****APOLLO INVESTMENT CORPORATION****SCHEDULE OF INVESTMENTS (unaudited) (continued)****June 30, 2012****(in thousands, except shares)**

| <b>INVESTMENTS IN NON-CONTROLLED/NON-AFFILIATED INVESTMENTS 139.9%</b>                       |                     |               |                   |                       |
|----------------------------------------------------------------------------------------------|---------------------|---------------|-------------------|-----------------------|
|                                                                                              | <b>Industry</b>     | <b>Shares</b> | <b>Cost</b>       | <b>Fair Value (1)</b> |
| <b>PREFERRED EQUITY 1.9%</b>                                                                 |                     |               |                   |                       |
| AHC Mezzanine LLC (Advanstar) **                                                             | Media               |               | \$ 1,063          | \$ 273                |
| CA Holding, Inc. (Collect America, Ltd.) Series A **                                         | Consumer Finance    | 7,961         | 788               | 1,592                 |
| Gryphon Colleges Corporation (Delta Educational Systems, Inc.), 13.50% PIK, 5/12/14          | Education           | 12,360        | 26,717            | 27,087                |
| Gryphon Colleges Corporation (Delta Educational Systems, Inc.), 12.50% PIK (Convertible) *** | Education           | 332,500       | 6,863             |                       |
| Varietal Distribution Holdings, LLC, 8.00% PIK                                               | Distribution        | 3,097         | 4,603             | 2,969                 |
| <b>TOTAL PREFERRED EQUITY</b>                                                                |                     |               | <b>\$ 40,034</b>  | <b>\$ 31,921</b>      |
| <b>EQUITY 5.4%</b>                                                                           |                     |               |                   |                       |
| <b>Common Equity/Interests 4.7%</b>                                                          |                     |               |                   |                       |
| Accelerate Parent Corp. (American Tire) **                                                   | Distribution        | 3,125,000     | \$ 3,125          | \$ 4,630              |
| Altegrity Holding Corp. **                                                                   | Diversified Service | 353,399       | 13,797            | 6,199                 |
| CA Holding, Inc. (Collect America, Ltd.) Series A **                                         | Consumer Finance    | 25,000        | 2,500             | 1,410                 |
| CA Holding, Inc. (Collect America, Ltd.) Series AA **                                        | Consumer Finance    | 4,294         | 429               | 859                   |
| Clothesline Holdings, Inc. **                                                                | Healthcare          | 6,000         | 6,000             | 1,351                 |
| Explorer Coinvest LLC (Booz Allen) **                                                        | Consulting Services | 430           | 4,300             | 6,110                 |
| Garden Fresh Restaurant Holding, LLC **                                                      | Retail              | 50,000        | 5,000             | 6,205                 |
| Gryphon Colleges Corporation (Delta Educational Systems, Inc.) **                            | Education           | 17,500        | 175               |                       |
| GS Prysmian Co-Invest L.P. (Prysmian Cables & Systems) (2,3) **                              | Industrial          |               |                   | 198                   |
| JV Note Holdco LLC (DSI Renal Inc.)                                                          | Healthcare          | 9,303         | 85                | 86                    |
| New Omaha Holdings Co-Invest LP (First Data) **                                              | Financial Services  | 13,000,000    | 65,000            | 22,230                |
| Penton Business Media Holdings, LLC **                                                       | Media               | 124           | 4,950             | 8,319                 |
| RC Coinvestment, LLC (Ranpak Corp.) **                                                       | Packaging           | 50,000        | 5,000             | 8,363                 |
| Sorenson Communications Holdings, LLC Class A **                                             | Consumer Services   | 454,828       | 45                | 1,300                 |
| Univar Inc. **                                                                               | Distribution        | 900,000       | 9,000             | 11,830                |
| Varietal Distribution Holdings, LLC Class A **                                               | Distribution        | 28,028        | 28                |                       |
| <b>Total Common Equity/Interests</b>                                                         |                     |               | <b>\$ 119,434</b> | <b>\$ 79,090</b>      |

See notes to financial statements.

**Table of Contents****APOLLO INVESTMENT CORPORATION****SCHEDULE OF INVESTMENTS (unaudited) (continued)****June 30, 2012****(in thousands, except shares and warrants)**

| <b>INVESTMENTS IN NON-CONTROLLED/<br/>NON-AFFILIATED INVESTMENTS 139.9%</b>               | <b>Industry</b>  | <b>Warrants</b> | <b>Cost</b>         | <b>Fair<br/>Value (1)</b> |
|-------------------------------------------------------------------------------------------|------------------|-----------------|---------------------|---------------------------|
| <b><u>Warrants 0.7%</u></b>                                                               |                  |                 |                     |                           |
| CA Holding, Inc. (Collect America, Ltd.), Common **                                       | Consumer Finance | 7,961           | \$ 8                | \$                        |
| Fidji Luxco (BC) S.C.A., Common<br>(FCI) (2) **                                           | Electronics      | 48,769          | 491                 | 9,472                     |
| Gryphon Colleges Corporation (Delta Educational Systems, Inc.),<br>Common **              | Education        | 9,820           | 98                  |                           |
| Gryphon Colleges Corporation (Delta Educational Systems, Inc.),<br>Class A-1 Preferred ** | Education        | 45,947          | 459                 | 976                       |
| Gryphon Colleges Corporation (Delta Educational Systems, Inc.), Class<br>B-1 Preferred ** | Education        | 104,314         | 1,043               |                           |
| Osage Exploration & Development, Inc.                                                     | Energy           | 1,496,843       |                     | 1,146                     |
| <b>Total Warrants</b>                                                                     |                  |                 | <b>\$ 2,099</b>     | <b>\$ 11,594</b>          |
| <b>TOTAL EQUITY</b>                                                                       |                  |                 | <b>\$ 121,533</b>   | <b>\$ 90,684</b>          |
| <b>Total Investments in Non-Controlled/ Non-Affiliated Investments</b>                    |                  |                 | <b>\$ 2,534,935</b> | <b>\$ 2,353,980</b>       |

See notes to financial statements.

**Table of Contents****APOLLO INVESTMENT CORPORATION****SCHEDULE OF INVESTMENTS (unaudited) (continued)****June 30, 2012****(in thousands, except shares)**

|                                                                     |                                     |               |                     |           | <b>Fair<br/>Value (1)</b> |
|---------------------------------------------------------------------|-------------------------------------|---------------|---------------------|-----------|---------------------------|
| <b>INVESTMENTS IN CONTROLLED INVESTMENTS 13.4% (4)</b>              | <b>Industry</b>                     | <b>Shares</b> | <b>Cost</b>         |           |                           |
| <b><u>COLLATERALIZED LOAN OBLIGATIONS 2.8%</u></b>                  |                                     |               |                     |           |                           |
| Kirkwood Fund I LLC Common Interest (5)                             | Asset Management                    |               | \$ 40,385           | \$        | 40,475                    |
| Slater Mill Loan Fund LP 2012-1X LP Certificates                    | Asset Management                    | 8,375,000     | 7,370               |           | 7,370                     |
| <b>TOTAL COLLATERALIZED LOAN OBLIGATIONS</b>                        |                                     |               | <b>\$ 47,755</b>    | <b>\$</b> | <b>47,845</b>             |
| <b>Par Amount*</b>                                                  |                                     |               |                     |           |                           |
| <b><u>CORPORATE DEBT 2.3%</u></b>                                   |                                     |               |                     |           |                           |
| <b><u>Subordinated Debt/Corporate Notes 2.3%</u></b>                |                                     |               |                     |           |                           |
| Playpower Holdings Inc., 14.00% PIK, 12/15/15                       | Leisure Equipment                   | 17,196        | \$ 22,864           | \$        | 21,331                    |
| Playpower, Inc., 12.50% PIK, 12/31/15                               | Leisure Equipment                   | £ 11,225      | 16,950              |           | 17,166                    |
| <b>Total Subordinated Debt/Corporate Notes</b>                      |                                     |               | <b>\$ 39,814</b>    | <b>\$</b> | <b>38,497</b>             |
| <b>TOTAL CORPORATE DEBT</b>                                         |                                     |               | <b>\$ 39,814</b>    | <b>\$</b> | <b>38,497</b>             |
| <b>Shares</b>                                                       |                                     |               |                     |           |                           |
| <b><u>EQUITY 8.3%</u></b>                                           |                                     |               |                     |           |                           |
| <b><u>Common Equity/Interests 8.3%</u></b>                          |                                     |               |                     |           |                           |
| AIC Credit Opportunity Fund LLC (6)                                 | Asset Management                    |               | \$ 63,604           | \$        | 60,652                    |
| Generation Brands Holdings, Inc. (Quality Home Brands) **           | Consumer Products                   | 750           |                     |           | 73                        |
| Generation Brands Holdings, Inc. Series H (Quality Home Brands) **  | Consumer Products                   | 7,500         | 2,297               |           | 735                       |
| Generation Brands Holdings, Inc. Series 2L (Quality Home Brands) ** | Consumer Products                   | 44,957        | 11,242              |           | 4,405                     |
| LVI Parent Corp. (LVI Services, Inc.)                               | Environmental & Facilities Services | 14,981        | 16,096              |           | 20,772                    |
| Playpower Holdings Inc. **                                          | Leisure Equipment                   | 1,000         | 77,722              |           | 52,625                    |
| <b>Total Common Equity/Interests</b>                                |                                     |               | <b>\$ 170,961</b>   | <b>\$</b> | <b>139,262</b>            |
| <b>TOTAL EQUITY</b>                                                 |                                     |               | <b>\$ 170,961</b>   | <b>\$</b> | <b>139,262</b>            |
| <b>Total Investments in Controlled Investments</b>                  |                                     |               | <b>\$ 258,530</b>   | <b>\$</b> | <b>225,604</b>            |
| <b>Total Investments 153.3% (7)</b>                                 |                                     |               | <b>\$ 2,793,465</b> | <b>\$</b> | <b>2,579,584</b>          |
| <b>Par Amount*</b>                                                  |                                     |               |                     |           |                           |
| <b><u>CASH EQUIVALENTS 5.9%</u></b>                                 |                                     |               |                     |           |                           |
| US Treasury Bill, 0.056%, 9/6/12                                    | Government                          | \$ 100,000    | \$ 99,990           | \$        | 99,988                    |

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|                                               |                     |                     |                     |
|-----------------------------------------------|---------------------|---------------------|---------------------|
| <b>Total Investments and Cash Equivalents</b> | <b>159.2% (7,8)</b> | <b>\$ 2,893,455</b> | <b>\$ 2,679,572</b> |
| <b>Liabilities in Excess of Other Assets</b>  | <b>(59.2%)</b>      |                     | <b>(996,561)</b>    |
| <b>Net Assets</b>                             | <b>100.0%</b>       |                     | <b>\$ 1,683,011</b> |

- (1) Fair value is determined in good faith by or under the direction of the Board of Directors of the Company (see Note 2).
- (2) Denominated in Euro ( ).
- (3) The Company is the sole Limited Partner in GS Prysmian Co-Invest L.P.

See notes to financial statements.

**Table of Contents****APOLLO INVESTMENT CORPORATION****SCHEDULE OF INVESTMENTS (unaudited) (continued)****June 30, 2012****(in thousands)**

- (4) Denotes investments in which we are deemed to exercise a controlling influence over the management or policies of a company, as defined in the 1940 Act, due to beneficially owning, either directly or through one or more controlled companies, more than 25% of the outstanding voting securities of the investment. Transactions during the three months ended June 30, 2012 in these Controlled investments are as follows:

| <b>Name of Issuer</b>                                                          | <b>Fair Value at<br/>March 31, 2012</b> | <b>Gross<br/>Additions</b> | <b>Gross<br/>Reductions</b> | <b>Interest/Dividend/<br/>Other Income</b> | <b>Fair Value at<br/>June 30,<br/>2012</b> |
|--------------------------------------------------------------------------------|-----------------------------------------|----------------------------|-----------------------------|--------------------------------------------|--------------------------------------------|
| Playpower Holdings, Inc., 14.00% PIK                                           | \$ 21,576                               | \$ 734                     | \$                          | \$ 743                                     | \$ 21,331                                  |
| Playpower, Inc., 12.50% PIK                                                    | 16,960                                  | 531                        |                             | 535                                        | 17,166                                     |
| AIC Credit Opportunity Fund LLC Common Equity                                  | 56,034                                  | 575                        |                             | 618                                        | 60,652                                     |
| Generation Brands Holdings, Inc. (Quality Home Brands) Common Equity           | 130                                     |                            |                             |                                            | 73                                         |
| Generation Brands Holdings, Inc. (Quality Home Brands) Series H Common Equity  | 1,300                                   |                            |                             |                                            | 735                                        |
| Generation Brands Holdings, Inc. (Quality Home Brands) Series 2L Common Equity | 7,793                                   |                            |                             |                                            | 4,405                                      |
| Kirkwood Fund I LLC CLO Equity Interest                                        |                                         | 40,385                     |                             | 750                                        | 40,475                                     |
| LVI Parent Corp. Common Equity                                                 | 21,504                                  |                            |                             |                                            | 20,772                                     |
| Playpower Holdings Inc. Common Equity                                          | 61,111                                  |                            |                             |                                            | 52,625                                     |
| Slater Mill Loan Fund LP CLO Equity Interest                                   |                                         | 7,370                      |                             |                                            | 7,370                                      |
|                                                                                | \$ 186,408                              | \$ 49,595                  | \$                          | \$ 2,646                                   | \$ 225,604                                 |

As of June 30, 2012, the Company has a 100%, 32%, 98%, 33%, 100% and 26% equity ownership interest in AIC Credit Opportunity Fund LLC, Generation Brands Holdings, Inc., Kirkwood Fund I LLC, LVI Parent Corp., Playpower Holdings Inc. and Slater Mill Loan Fund LP, respectively.

(5) See Note 12.

(6) See Note 6.

(7) Aggregate gross unrealized appreciation for federal income tax purposes is \$70,144; aggregate gross unrealized depreciation for federal income tax purposes is \$389,278. Net unrealized depreciation is \$319,134 based on a tax cost of \$2,998,705.

(8) Substantially all securities are pledged as collateral to our multicurrency revolving credit facility (the "Facility"). As such these securities are not available as collateral to our general creditors.

.. These securities are exempt from registration under Rule 144A of the Securities Act of 1933. These securities may be resold in transactions that are exempt from registration, normally to qualified institutional buyers.

\* Denominated in USD unless otherwise noted.

\*\* Non-income producing security

\*\*\* Non-accrual status (see Note 2d)

Denotes debt securities where the Company owns multiple tranches of the same broad asset type but whose security characteristics differ. Such differences may include level of subordination, call protection and pricing, differing interest rate characteristics, among other factors. Such factors are usually considered in the determination of fair values.

Investments that the Company has determined are not "qualifying assets" under Section 55(a) of the 1940 Act. Under the 1940 Act, we may not acquire any non-qualifying asset unless, at the time such acquisition is made, qualifying assets represent at least 70% of our total assets. The status of these assets under the 1940 Act are subject to change. The Company monitors the status of these assets on an ongoing basis.

See notes to financial statements.



**Table of Contents****APOLLO INVESTMENT CORPORATION****SCHEDULE OF INVESTMENTS (unaudited) (continued)**

| <b>Industry Classification</b>      | <b>Percentage of Total Investments (at fair value) as of June 30, 2012</b> |
|-------------------------------------|----------------------------------------------------------------------------|
| Business Services                   | 8.5%                                                                       |
| Diversified Service                 | 8.2%                                                                       |
| Education                           | 7.7%                                                                       |
| Market Research                     | 7.3%                                                                       |
| Broadcasting & Entertainment        | 5.8%                                                                       |
| Distribution                        | 5.8%                                                                       |
| Insurance                           | 5.6%                                                                       |
| Packaging                           | 5.5%                                                                       |
| Asset Management                    | 4.5%                                                                       |
| Grocery                             | 4.1%                                                                       |
| Energy                              | 4.0%                                                                       |
| Leisure Equipment                   | 3.5%                                                                       |
| Environmental & Facilities Services | 3.3%                                                                       |
| Telecommunications                  | 3.0%                                                                       |
| Retail                              | 2.1%                                                                       |
| Shipping                            | 2.0%                                                                       |
| Transportation                      | 1.9%                                                                       |
| Software                            | 1.9%                                                                       |
| Healthcare                          | 1.8%                                                                       |
| Electronics                         | 1.7%                                                                       |
| Industrial                          | 1.6%                                                                       |
| Financial Services                  | 1.6%                                                                       |
| Consumer Finance                    | 1.6%                                                                       |
| Media                               | 1.4%                                                                       |
| Utilities                           | 1.3%                                                                       |
| Logistics                           | 1.3%                                                                       |
| Consulting Services                 | 1.2%                                                                       |
| Consumer Products                   | 1.0%                                                                       |
| Chemicals                           | 0.7%                                                                       |
| Consumer Services                   | 0.1%                                                                       |
| <b>Total Investments</b>            | <b>100.0%</b>                                                              |

See notes to financial statements.

**Table of Contents****APOLLO INVESTMENT CORPORATION****SCHEDULE OF INVESTMENTS****March 31, 2012****(in thousands)**

| <b>INVESTMENTS IN NON-CONTROLLED/NON<br/>AFFILIATED INVESTMENTS 147.8%</b> | <b>Industry</b>                        | <b>Par<br/>Amount*</b> | <b>Cost</b>       | <b>Fair<br/>Value (1)</b> |
|----------------------------------------------------------------------------|----------------------------------------|------------------------|-------------------|---------------------------|
| <b><u>CORPORATE DEBT 139.2%</u></b>                                        |                                        |                        |                   |                           |
| <b><u>BANK DEBT/SENIOR SECURED LOANS 47.0%</u></b>                         |                                        |                        |                   |                           |
| <b><u>1st Lien Bank Debt/Senior Secured Loans 5.6%</u></b>                 |                                        |                        |                   |                           |
| Advantage Sales & Marketing, Inc., P+300, 12/17/15 (Revolving loan)        | Grocery                                | \$ 5,500               | \$ 2,200          | \$ 2,035                  |
| ATI Acquisition Company, P+1400 (P+1000 Cash / 4.00% PIK), 6/30/12***      | Education                              | 4,494                  | 4,015             | 3,600                     |
| ATI Acquisition Company, P+900 (P+500 Cash / 4.00% PIK), 12/30/14***       | Education                              | 14,889                 | 12,596            |                           |
| Aventine Renewable Energy Holdings, Inc., L+850, 12/22/15                  | Chemicals                              | 24,937                 | 20,009            | 19,825                    |
| Eastman Kodak Company, DIP L+750, 7/20/13                                  | Technology                             | 11,231                 | 11,016            | 11,427                    |
| Grocery Outlet Inc., L+900, 12/15/17                                       | Grocery                                | 18,408                 | 18,408            | 18,812                    |
| Penton Media, Inc., L+400 (L+300 Cash / 1.00% PIK), 8/1/14                 | Media                                  | 34,906                 | 29,986            | 27,794                    |
| RBS Holding Company, LLC, L+500, 3/23/17                                   | Business Services                      | 15,840                 | 15,703            | 9,900                     |
| <b>Total 1st Lien Bank Debt/Senior Secured Loans</b>                       |                                        |                        | <b>\$ 113,933</b> | <b>\$ 93,393</b>          |
| <b><u>2nd Lien Bank Debt/Senior Secured Loans 41.4%</u></b>                |                                        |                        |                   |                           |
| Advantage Sales & Marketing, Inc., L+775, 6/18/18                          | Grocery                                | \$ 58,000              | \$ 57,571         | \$ 57,855                 |
| Allied Security Holdings, LLC, L+750, 2/2/18                               | Business Services                      | 31,000                 | 30,728            | 31,233                    |
| Asurion Corporation, L+750, 5/24/19                                        | Insurance                              | 78,111                 | 77,959            | 79,234                    |
| Brock Holdings III, Inc., L+825, 3/16/18                                   | Environmental &<br>Facilities Services | 39,000                 | 38,302            | 38,561                    |
| Clean Earth, Inc., 13.00%, 8/1/14                                          | Environmental &<br>Facilities Services | 25,000                 | 25,000            | 24,875                    |
| Garden Fresh Restaurant Corp., L+975, 12/11/13                             | Retail                                 | 46,600                 | 47,027            | 47,532                    |
| Insight Pharmaceuticals, LLC, L+1175, 8/25/17                              | Consumer Products                      | 20,000                 | 19,627            | 19,900                    |
| IPC Systems, Inc., L+525, 6/1/15                                           | Telecommunications                     | 44,250                 | 42,170            | 38,497                    |
| Kronos, Inc., L+1000, 6/11/18                                              | Electronics                            | 35,000                 | 35,000            | 35,700                    |
| Ozburn-Hessey Holding Company LLC, L+950, 10/8/16                          | Logistics                              | 38,000                 | 37,971            | 30,780                    |
| Ranpak Corp., L+750, 10/20/17                                              | Packaging                              | 85,000                 | 85,000            | 82,025                    |
| Ranpak Corp., E+775, 10/20/17                                              | Packaging                              | 40,000                 | 58,042            | 52,602                    |
| Sedgwick Holdings, Inc., L+750, 5/26/17                                    | Business Services                      | \$ 15,225              | 15,043            | 15,149                    |
| Sheridan Holdings, Inc., L+575 Cash or L+650 PIK, 6/15/15                  | Healthcare                             | 24,047                 | 23,446            | 23,518                    |
| TransFirst Holdings, Inc., L+600 Cash or L+675 PIK, 6/15/15                | Financial Services                     | 19,012                 | 18,372            | 17,795                    |
| Valerus Compression Services, LP, 11.50%, 3/26/18                          | Industrial                             | 40,000                 | 40,000            | 40,680                    |
| Vertafore, Inc., L+825, 10/29/17                                           | Software                               | 49,260                 | 48,842            | 49,383                    |
| Wall Street Systems Holdings, Inc., L+750, 6/20/18                         | Software                               | 13,000                 | 12,881            | 13,098                    |
| <b>Total 2nd Lien Bank Debt/Senior Secured Loans</b>                       |                                        |                        | <b>\$ 712,981</b> | <b>\$ 698,417</b>         |
| <b>TOTAL BANK DEBT/SENIOR SECURED LOANS</b>                                |                                        |                        | <b>\$ 826,914</b> | <b>\$ 791,810</b>         |

See notes to financial statements.



**Table of Contents****APOLLO INVESTMENT CORPORATION****SCHEDULE OF INVESTMENTS (continued)****March 31, 2012****(in thousands)****INVESTMENTS IN NON-CONTROLLED/NON AFFILIATED****INVESTMENTS 147.8%****Subordinated Debt/Corporate Notes 92.2%**

|                                                                                                     | <b>Industry</b>              | <b>Par Amount*</b> | <b>Cost</b> | <b>Fair Value (1)</b> |
|-----------------------------------------------------------------------------------------------------|------------------------------|--------------------|-------------|-----------------------|
| AB Acquisitions UK Topco 2 Limited (Alliance Boots), GBP L+650 (GBP L+300 Cash / 3.50% PIK), 7/9/17 | Retail                       | £ 22,580           | \$ 44,368   | \$ 33,612             |
| Advantage Sales & Marketing, Inc., 13.00%, 12/31/18                                                 | Grocery                      | \$ 25,000          | 25,000      | 24,625                |
| Altegrity Inc., 0.00%, 8/2/16 "                                                                     | Diversified Service          | 3,545              | 2,087       | 1,965                 |
| Altegrity Inc., 11.75%, 5/1/16 "                                                                    | Diversified Service          | 14,639             | 11,112      | 13,907                |
| Altegrity Inc., 12.00%, 11/1/15 "                                                                   | Diversified Service          | 100,000            | 100,000     | 100,600               |
| Altegrity Inc., 10.50%, 11/1/15 "                                                                   | Diversified Service          | 13,475             | 12,387      | 12,869                |
| American Tire Distributors, Inc., 11.50%, 6/1/18 "                                                  | Distribution                 | 25,000             | 25,000      | 26,450                |
| Angelica Corporation, 15.00% (12.00% Cash / 3.00% PIK), 10/15/16                                    | Healthcare                   | 53,343             | 53,343      | 52,756                |
| ATI Acquisition Company, P+1400 (P+1000 Cash / 4.00% PIK), 12/30/15***                              | Education                    | 43,296             | 37,867      |                       |
| Avaya Inc., 10.125% Cash or 10.875% PIK, 11/1/15                                                    | Telecommunications           | 43,577             | 40,713      | 43,468                |
| BCA Osprey II Limited (British Car Auctions), 12.50% PIK, 8/17/17                                   | Transportation               | £ 22,750           | 35,957      | 32,078                |
| BCA Osprey II Limited (British Car Auctions), 12.50% PIK, 8/17/17                                   | Transportation               | 13,773             | 19,138      | 16,186                |
| Catalina Marketing Corporation, 11.625%, 10/1/17 "                                                  | Grocery                      | \$ 27,175          | 27,157      | 25,001                |
| Ceridian Corp., 12.25% Cash or 13.00% PIK, 11/15/15                                                 | Diversified Service          | 55,950             | 55,845      | 51,334                |
| Ceridian Corp., 11.25%, 11/15/15                                                                    | Diversified Service          | 34,300             | 34,035      | 31,642                |
| Clearwire Communications, 12.00%, 12/1/15 "                                                         | Telecommunications           | 24,843             | 24,289      | 24,595                |
| Clearwire Communications, 14.75%, 12/1/16 "                                                         | Telecommunications           | 1,000              | 1,000       | 1,098                 |
| Delta Educational Systems, Inc., 14.20% (13.00% Cash / 1.20% PIK), 5/12/13                          | Education                    | 19,991             | 19,828      | 20,221                |
| Exova Limited, 10.50%, 10/15/18 "                                                                   | Market Research              | £ 18,000           | 28,823      | 25,524                |
| Exova Limited, 10.50%, 10/15/18                                                                     | Market Research              | 17,655             | 24,942      | 25,035                |
| FoxCo Acquisition Sub LLC, 13.375%, 7/15/16 "                                                       | Broadcasting & Entertainment | \$ 26,125          | 26,620      | 28,607                |
| Hub International Holdings, 10.25%, 6/15/15 "                                                       | Insurance                    | 36,232             | 35,228      | 37,410                |
| Intelsat Bermuda Ltd., 11.25%, 2/4/17                                                               | Broadcasting & Entertainment | 84,000             | 86,285      | 87,570                |
| Intelsat Bermuda Ltd., 11.50% Cash or 12.50% PIK, 2/4/17                                            | Broadcasting & Entertainment | 20,000             | 19,500      | 20,850                |
| inVentiv Health, Inc., 11.00%, 8/15/18                                                              | Market Research              | 160,000            | 160,000     | 144,000               |
| Laureate Education, Inc., 12.75%, 8/15/17 "                                                         | Education                    | 53,540             | 53,512      | 57,422                |
| Lonestar Intermediate Super Holdings (Asurion), LLC, L+950, 9/2/19                                  | Insurance                    | 26,922             | 26,116      | 27,376                |
| SeaCube Container Leasing Ltd., 11.00%, 4/28/16                                                     | Shipping                     | 50,000             | 50,000      | 51,250                |
| Sorenson Communications, Inc., 10.50%, 2/1/15 "                                                     | Consumer Services            | 16,500             | 16,303      | 13,695                |
| SquareTwo Financial Corp. (Collect America, Ltd.), 11.625%, 4/1/17 "                                | Consumer Finance             | 40,000             | 39,450      | 39,800                |

See notes to financial statements.

**Table of Contents****APOLLO INVESTMENT CORPORATION****SCHEDULE OF INVESTMENTS (continued)****March 31, 2012****(in thousands)****INVESTMENTS IN NON-CONTROLLED/NON AFFILIATED INVESTMENTS 147.8%**

|                                                                    | <b>Industry</b>     | <b>Par Amount*</b> | <b>Cost</b>         | <b>Fair Value (1)</b> |
|--------------------------------------------------------------------|---------------------|--------------------|---------------------|-----------------------|
| <b>Subordinated Debt/Corporate Notes (continued)</b>               |                     |                    |                     |                       |
| SRA International, Inc., 11.00%, 10/1/19                           | Consulting Services | \$ 25,000          | \$ 25,000           | \$ 26,500             |
| Texas Competitive Electric Holdings Company LLC, 11.50%, 10/1/20 " | Utilities           | 50,000             | 49,668              | 32,875                |
| The ServiceMaster Company, 10.75% Cash or 11.50% PIK, 7/15/15 "    | Diversified Service | 15,731             | 15,967              | 16,596                |
| TL Acquisitions, Inc. (Thomson Learning), 10.50%, 1/15/15 "        | Education           | 120,500            | 101,356             | 94,291                |
| Travelport LLC, 9.875%, 9/1/14                                     | Business Services   | 19,779             | 18,606              | 12,733                |
| Travelport LLC, L+462.5, 9/1/14                                    | Business Services   | 13,000             | 10,970              | 7,150                 |
| Univar Inc., 12.00%, 6/30/18                                       | Distribution        | 78,750             | 79,652              | 78,830                |
| U.S. Renal Care, Inc., 13.25% (11.25% Cash / 2.00% PIK), 6/2/17    | Healthcare          | 50,824             | 50,824              | 52,603                |
| U.S. Security Associates Holdings, Inc., 11.00%, 7/28/18           | Business Services   | 135,000            | 135,000             | 138,110               |
| Varietal Distribution, 10.75%, 6/30/17                             | Distribution        | 1,127              | 1,408               | 1,497                 |
| Varietal Distribution, 10.75%, 6/30/17                             | Distribution        | \$ 22,204          | 21,773              | 22,160                |
| <b>Total Subordinated Debt/Corporate Notes</b>                     |                     |                    | <b>\$ 1,646,129</b> | <b>\$ 1,554,291</b>   |
| <b>TOTAL CORPORATE DEBT</b>                                        |                     |                    | <b>\$ 2,473,043</b> | <b>\$ 2,346,101</b>   |
| <b>COLLATERALIZED LOAN OBLIGATIONS 0.5%</b>                        |                     |                    |                     |                       |
| Westbrook CLO Ltd., Series 2006-1A, L+370, 12/20/20 "              | Asset Management    | \$ 11,000          | \$ 7,109            | \$ 7,691              |
| <b>TOTAL COLLATERALIZED LOAN OBLIGATIONS</b>                       |                     |                    | <b>\$ 7,109</b>     | <b>\$ 7,691</b>       |

|                                                                                          | <b>Shares</b>    |          |                  |                  |
|------------------------------------------------------------------------------------------|------------------|----------|------------------|------------------|
| <b>PREFERRED EQUITY 2.1%</b>                                                             |                  |          |                  |                  |
| AHC Mezzanine LLC (Advanstar) **                                                         | Media            | \$ 1,063 | \$ 279           |                  |
| CA Holding, Inc. (Collect America, Ltd.) Series A **                                     | Consumer Finance | 7,961    | 788              | 1,592            |
| Gryphon Colleges Corporation (Delta Educational Systems, Inc.), 13.50% PIK, 5/12/14      | Education        | 12,360   | 25,789           | 26,207           |
| Gryphon Colleges Corporation (Delta Educational Systems, Inc.), 12.50% PIK (Convertible) | Education        | 332,500  | 6,863            | 3,708            |
| Varietal Distribution Holdings, LLC, 8.00% PIK                                           | Distribution     | 3,097    | 4,514            | 3,141            |
| <b>TOTAL PREFERRED EQUITY</b>                                                            |                  |          | <b>\$ 39,017</b> | <b>\$ 34,927</b> |

See notes to financial statements.



**Table of Contents****APOLLO INVESTMENT CORPORATION****SCHEDULE OF INVESTMENTS (continued)****March 31, 2012****(in thousands, except shares and warrants)****INVESTMENTS IN NON-CONTROLLED/NON AFFILIATED****INVESTMENTS 147.8%****EQUITY 6.0%****Common Equity/Interests 5.4%**

|                                                                  | Industry            | Shares     | Cost     | Fair Value (1) |
|------------------------------------------------------------------|---------------------|------------|----------|----------------|
| AB Capital Holdings LLC (Allied Security)                        | Business Services   | 2,000,000  | \$ 2,000 | \$ 3,040       |
| Accelerate Parent Corp. (American Tire) **                       | Distribution        | 3,125,000  | 3,125    | 4,750          |
| Altegrity Holding Corp.**                                        | Diversified Service | 353,399    | 13,797   | 9,063          |
| CA Holding, Inc. (Collect America, Ltd.) Series A **             | Consumer Finance    | 25,000     | 2,500    | 1,058          |
| CA Holding, Inc. (Collect America, Ltd.) Series AA **            | Consumer Finance    | 4,294      | 429      | 859            |
| Clothesline Holdings, Inc. **                                    | Healthcare          | 6,000      | 6,000    | 1,729          |
| Explorer Coinvest LLC (Booz Allen) **                            | Consulting Services | 430        | 4,300    | 6,810          |
| Garden Fresh Restaurant Holding, LLC **                          | Retail              | 50,000     | 5,000    | 7,600          |
| Gryphon Colleges Corporation (Delta Educational Systems, Inc.)** | Education           | 17,500     | 175      |                |
| GS Prysmian Co-Invest L.P. (Prysmian Cables & Systems) (2,3) **  | Industrial          |            |          | 208            |
| JV Note Holdco LLC (DSI Renal Inc.)                              | Healthcare          | 9,303      | 85       | 84             |
| New Omaha Holdings Co-Invest LP (First Data) **                  | Financial Services  | 13,000,000 | 65,000   | 24,960         |
| Penton Business Media Holdings, LLC **                           | Media               | 124        | 4,950    | 8,308          |
| RC Coinvestment, LLC (Ranpak Corp.) **                           | Packaging           | 50,000     | 5,000    | 8,535          |
| Sorenson Communications Holdings, LLC Class A **                 | Consumer Services   | 454,828    | 45       | 1,380          |
| Univar Inc. **                                                   | Distribution        | 900,000    | 9,000    | 13,840         |
| Varietal Distribution Holdings, LLC Class A **                   | Distribution        | 28,028     | 28       |                |

**Total Common Equity/Interests** **\$ 121,434 \$ 92,224**

**Warrants****Warrants 0.6%**

|                                                                                        |                  |         |       |       |
|----------------------------------------------------------------------------------------|------------------|---------|-------|-------|
| CA Holding, Inc. (Collect America, Ltd.), Common **                                    | Consumer Finance | 7,961   | \$ 8  | \$    |
| Fidji Luxco (BC) S.C.A., Common (FCI) (2) **                                           | Electronics      | 48,769  | 491   | 7,619 |
| Gryphon Colleges Corporation (Delta Educational Systems, Inc.), Common **              | Education        | 9,820   | 98    |       |
| Gryphon Colleges Corporation (Delta Educational Systems, Inc.), Class A-1 Preferred ** | Education        | 45,947  | 459   | 947   |
| Gryphon Colleges Corporation (Delta Educational Systems, Inc.), Class B-1 Preferred ** | Education        | 104,314 | 1,043 | 1,163 |

**Total Warrants** **\$ 2,099 \$ 9,729**

**TOTAL EQUITY** **\$ 123,533 \$ 101,953**

**Total Investments in****Non-Controlled/ Non-Affiliated Investments**

**\$ 2,642,702 \$ 2,490,672**

See notes to financial statements.



**Table of Contents****APOLLO INVESTMENT CORPORATION****SCHEDULE OF INVESTMENTS (continued)****March 31, 2012****(in thousands, except shares)****INVESTMENTS IN CONTROLLED**

|                                                      | <b>Industry</b>   | <b>Par<br/>Amount*</b> | <b>Cost</b>      | <b>Fair<br/>Value (1)</b> |
|------------------------------------------------------|-------------------|------------------------|------------------|---------------------------|
| <b>INVESTMENTS 11.1% (4)</b>                         |                   |                        |                  |                           |
| <b><u>CORPORATE DEBT 2.3%</u></b>                    |                   |                        |                  |                           |
| <b><u>Subordinated Debt/Corporate Notes 2.3%</u></b> |                   |                        |                  |                           |
| Playpower Holdings Inc., 14.00% PIK, 12/15/15        | Leisure Equipment | 16,617                 | \$ 22,129        | \$ 21,576                 |
| Playpower, Inc., 12.50% PIK, 12/31/15                | Leisure Equipment | £ 10,887               | 16,367           | 16,960                    |
| <b>Total Subordinated Debt/Corporate Notes</b>       |                   |                        | <b>\$ 38,496</b> | <b>\$ 38,536</b>          |
| <b>TOTAL CORPORATE DEBT</b>                          |                   |                        | <b>\$ 38,496</b> | <b>\$ 38,536</b>          |

|                                                                     |                                     |        |                     |                     |
|---------------------------------------------------------------------|-------------------------------------|--------|---------------------|---------------------|
| <b>Shares</b>                                                       |                                     |        |                     |                     |
| <b><u>EQUITY 8.8%</u></b>                                           |                                     |        |                     |                     |
| <b><u>Common Equity/Interests 8.8%</u></b>                          |                                     |        |                     |                     |
| AIC Credit Opportunity Fund LLC (5)                                 | Asset Management                    |        | \$ 63,029           | \$ 56,034           |
| Generation Brands Holdings, Inc. (Quality Home Brands) **           | Consumer                            |        |                     |                     |
|                                                                     | Products                            | 750    |                     | 130                 |
| Generation Brands Holdings, Inc. Series H (Quality Home Brands) **  | Consumer                            |        |                     |                     |
|                                                                     | Products                            | 7,500  | 2,297               | 1,300               |
| Generation Brands Holdings, Inc. Series 2L (Quality Home Brands) ** | Consumer                            |        |                     |                     |
|                                                                     | Products                            | 44,957 | 11,242              | 7,793               |
| LVI Parent Corp. (LVI Services, Inc.)                               | Environmental & Facilities Services | 14,981 | 16,096              | 21,504              |
| Playpower Holdings Inc.                                             | Leisure Equipment                   | 1,000  | 77,722              | 61,111              |
| <b>Total Common Equity/Interests</b>                                |                                     |        | <b>\$ 170,386</b>   | <b>\$ 147,872</b>   |
| <b>TOTAL EQUITY</b>                                                 |                                     |        | <b>\$ 170,386</b>   | <b>\$ 147,872</b>   |
| <b>Total Investments in Controlled Investments</b>                  |                                     |        | <b>\$ 208,882</b>   | <b>\$ 186,408</b>   |
| <b>Total Investments 158.9% (6,7)</b>                               |                                     |        | <b>\$ 2,851,584</b> | <b>\$ 2,677,080</b> |
| <b>Liabilities in Excess of Other Assets (58.9%)</b>                |                                     |        |                     | <b>(991,849)</b>    |
| <b>Net Assets 100.0%</b>                                            |                                     |        |                     | <b>\$ 1,685,231</b> |

(1) Fair value is determined in good faith by or under the direction of the Board of Directors of the Company (see Note 2).

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- (2) Denominated in Euro ( ).
- (3) The Company is the sole Limited Partner in GS Prysmian Co-Invest L.P.
- (4) Denotes investments in which we are deemed to exercise a controlling influence over the management or policies of a company, as defined in the 1940 Act, due to beneficially owning, either directly or through one or more controlled companies, more than 25% of the outstanding voting securities of the investment. Transactions during the fiscal year ended March 31, 2012 in these Controlled investments are as follows:

See notes to financial statements.

**Table of Contents****APOLLO INVESTMENT CORPORATION****SCHEDULE OF INVESTMENTS (continued)****March 31, 2012****(in thousands)**

| <b>Name of Issuer</b>                                                             | <b>Fair Value at<br/>March 31, 2011</b> | <b>Gross<br/>Additions</b> | <b>Gross<br/>Reductions</b> | <b>Interest/Dividend/<br/>Other Income</b> | <b>Fair Value at<br/>March 31,<br/>2012</b> |
|-----------------------------------------------------------------------------------|-----------------------------------------|----------------------------|-----------------------------|--------------------------------------------|---------------------------------------------|
| Playpower Holdings, Inc., 14.00% PIK                                              | \$                                      | \$ 22,129                  | \$                          | \$ 2,195                                   | \$ 21,576                                   |
| Playpower, Inc., 12.50% PIK                                                       |                                         | 16,366                     |                             | 1,551                                      | 16,960                                      |
| AIC Credit Opportunity Fund LLC Common<br>Equity                                  | 95,212                                  | 9,317                      | 20,889                      | 13,444                                     | 56,034                                      |
| Generation Brands Holdings, Inc. (Quality Home<br>Brands) Common Equity           | 8                                       |                            |                             |                                            | 130                                         |
| Generation Brands Holdings, Inc. (Quality Home<br>Brands) Series H Common Equity  | 77                                      |                            |                             |                                            | 1,300                                       |
| Generation Brands Holdings, Inc. (Quality Home<br>Brands) Series 2L Common Equity | 379                                     |                            |                             |                                            | 7,793                                       |
| LVI Parent Corp. Common Equity                                                    | 15,892                                  |                            |                             |                                            | 21,504                                      |
| Playpower Holdings Inc. Common Equity                                             |                                         | 77,722                     |                             |                                            | 61,111                                      |
|                                                                                   | \$ 111,568                              | \$ 125,534                 | \$ 20,889                   | \$ 17,190                                  | \$ 186,408                                  |

As of March 31, 2012, the Company has a 100%, 32%, 34% and 100% equity ownership interest in AIC Credit Opportunity Fund LLC, Generation Brands Holdings, Inc., LVI Parent Corp. and Playpower Holdings Inc., respectively.

- (5) See Note 6.
- (6) Aggregate gross unrealized appreciation for federal income tax purposes is \$85,025; aggregate gross unrealized depreciation for federal income tax purposes is \$363,967. Net unrealized depreciation is \$278,942 based on a tax cost of \$2,956,022.
- (7) Substantially all securities are pledged as collateral to our multicurrency revolving credit facility (the Facility). As such these securities are not available as collateral to our general creditors.
- .. These securities are exempt from registration under Rule 144A of the Securities Act of 1933. These securities may be resold in transactions that are exempt from registration, normally to qualified institutional buyers.
- \* Denominated in USD unless otherwise noted.
- \*\* Non-income producing security
- \*\*\* Non-accrual status (see Note 2d)
- Denotes debt securities where the Company owns multiple tranches of the same broad asset type but whose security characteristics differ. Such differences may include level of subordination, call protection and pricing, differing interest rate characteristics, among other factors. Such factors are usually considered in the determination of fair values.
- Investments that the Company has determined are not qualifying assets under Section 55(a) of the 1940 Act. Under the 1940 Act, we may not acquire any non-qualifying asset unless, at the time such acquisition is made, qualifying assets represent at least 70% of our total assets. The status of these assets under the 1940 Act are subject to change. The Company monitors the status of these assets on an ongoing basis.

See notes to financial statements.

**Table of Contents****APOLLO INVESTMENT CORPORATION****SCHEDULE OF INVESTMENTS (continued)**

| <b>Industry Classification</b>      | <b>Percentage of Total Investments (at fair value) as of March 31, 2012</b> |
|-------------------------------------|-----------------------------------------------------------------------------|
| Diversified Service                 | 8.9%                                                                        |
| Business Services                   | 8.1%                                                                        |
| Education                           | 7.8%                                                                        |
| Market Research                     | 7.3%                                                                        |
| Distribution                        | 5.6%                                                                        |
| Insurance                           | 5.4%                                                                        |
| Packaging                           | 5.4%                                                                        |
| Broadcasting & Entertainment        | 5.1%                                                                        |
| Healthcare                          | 4.9%                                                                        |
| Grocery                             | 4.8%                                                                        |
| Telecommunications                  | 4.0%                                                                        |
| Leisure Equipment                   | 3.7%                                                                        |
| Retail                              | 3.3%                                                                        |
| Environmental & Facilities Services | 3.2%                                                                        |
| Asset Management                    | 2.4%                                                                        |
| Software                            | 2.3%                                                                        |
| Shipping                            | 1.9%                                                                        |
| Transportation                      | 1.8%                                                                        |
| Electronics                         | 1.6%                                                                        |
| Consumer Finance                    | 1.6%                                                                        |
| Financial Services                  | 1.6%                                                                        |
| Industrial                          | 1.5%                                                                        |
| Media                               | 1.4%                                                                        |
| Consulting Services                 | 1.2%                                                                        |
| Utilities                           | 1.2%                                                                        |
| Logistics                           | 1.2%                                                                        |
| Consumer Products                   | 1.1%                                                                        |
| Chemicals                           | 0.7%                                                                        |
| Consumer Services                   | 0.6%                                                                        |
| Technology                          | 0.4%                                                                        |
| <b>Total Investments</b>            | <b>100.0%</b>                                                               |

See notes to financial statements.

## **Table of Contents**

### **APOLLO INVESTMENT CORPORATION**

#### **NOTES TO FINANCIAL STATEMENTS (unaudited)**

**(in thousands except share and per share amounts)**

#### **Note 1. Organization**

Apollo Investment Corporation ( Apollo Investment , the Company , AIC , we , us , or our ), a Maryland corporation organized on February 2, 2004, is a closed-end, externally managed, non-diversified management investment company that has elected to be treated as a business development company ( BDC ) under the Investment Company Act of 1940 (the 1940 Act ). In addition, for tax purposes we have elected to be treated as a regulated investment company ( RIC ), under the Internal Revenue Code of 1986, as amended ( the Code ). Our investment objective is to generate current income and capital appreciation. We invest primarily in the form of subordinated debt, sometimes referred to as mezzanine debt, and senior secured loans of private middle-market companies, that, in the case of senior secured loans, generally are not broadly syndicated and whose aggregate tranche size is typically less than \$300 million. From time to time, our portfolio also includes equity interests such as common stock, preferred stock, warrants or options.

Apollo Investment commenced operations on April 8, 2004 receiving net proceeds of \$870,000 from its initial public offering selling 62 million shares of common stock at a price of \$15.00 per share.

#### **Note 2. Significant Accounting Policies**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America ( GAAP ) requires management to make estimates and assumptions that affect the reported amount of assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the reported periods. Changes in the economic environment, financial markets and any other parameters used in determining these estimates could cause actual results to differ materially.

Interim financial statements are prepared in accordance with GAAP for interim financial information and pursuant to the requirements for reporting on Form 10-Q and Article 6 or 10 of Regulation S-X, as appropriate. In the opinion of management, all adjustments, which are of a normal recurring nature, considered necessary for the fair presentation of financial statements for the interim period, have been included.

The significant accounting policies consistently followed by Apollo Investment are:

(a) Security transactions are accounted for on the trade date;

(b) Under procedures established by our board of directors, we value investments, including certain senior secured debt, subordinated debt and other debt securities with maturities greater than 60 days, for which market quotations are readily available, at such market quotations (unless they are deemed not to represent fair value). We attempt to obtain market quotations from at least two brokers or dealers (if available, otherwise from a principal market maker or a primary market dealer or other independent pricing service). We utilize mid-market pricing as a practical expedient for fair value unless a different point within the range is more representative. If and when market quotations are deemed not to represent fair value, we typically utilize independent third party valuation firms to assist us in determining fair value. Accordingly, such investments go through our multi-step valuation process as described below. In each case, our independent valuation firms consider observable market inputs together with significant unobservable inputs in arriving at their valuation recommendations for such Level 3 categorized assets. Debt investments with remaining maturities of 60 days or less shall each be valued at cost with interest accrued or discount amortized to the date of maturity, unless such valuation, in the judgment of our investment adviser, does not represent fair value, in which case such investments shall be valued at fair value as determined in good faith by or under the direction of our board of directors. Investments that are not publicly traded or whose market quotations are not readily available are valued at fair value as determined in good faith by or under the direction of our board of directors. Such determination of fair values may involve subjective judgments and estimates.

**Table of Contents**

**APOLLO INVESTMENT CORPORATION**

**NOTES TO FINANCIAL STATEMENTS (unaudited) (continued)**

**(in thousands except share and per share amounts)**

With respect to investments for which market quotations are not readily available or when such market quotations are deemed not to represent fair value, our board of directors has approved a multi-step valuation process each quarter, as described below:

- (1) our quarterly valuation process begins with each portfolio company or investment being initially valued by the investment professionals of our investment adviser responsible for the portfolio investment;
- (2) preliminary valuation conclusions are then documented and discussed with senior management of our investment adviser;
- (3) independent valuation firms are engaged by our board of directors to conduct independent appraisals by reviewing our investment adviser's preliminary valuations and then making their own independent assessment;
- (4) the audit committee of the board of directors reviews the preliminary valuation of our investment adviser and the valuation prepared by the independent valuation firm and responds to the valuation recommendation of the independent valuation firm to reflect any comments; and
- (5) the board of directors discusses valuations and determines the fair value of each investment in our portfolio in good faith based on the input of our investment adviser, the respective independent valuation firm and the audit committee.

Investments in all asset classes are valued utilizing a market approach, an income approach, or both approaches, as appropriate. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities (including a business). The income approach uses valuation techniques to convert future amounts (for example, cash flows or earnings) to a single present amount (discounted). The measurement is based on the value indicated by current market expectations about those future amounts. In following these approaches, the types of factors that we may take into account in fair value pricing our investments include, as relevant: available current market data, including relevant and applicable market trading and transaction comparables, applicable market yields and multiples, security covenants, call protection provisions, information rights, the nature and realizable value of any collateral, the portfolio company's ability to make payments, its earnings and discounted cash flows, the markets in which the portfolio company does business, comparisons of financial ratios of peer companies that are public, M&A comparables, our principal market (as the reporting entity) and enterprise values, among other factors. When readily available, broker quotations and/or quotations provided by pricing services are considered as an input in the valuation process. For the quarter ended June 30, 2012, there has been no change to the Company's valuation techniques and related inputs considered in the valuation process.

Accounting Standards Codification (ASC) 820 classifies the inputs used to measure these fair values into the following hierarchy:

**Level 1:** Quoted prices in active markets for identical assets or liabilities, accessible by the Company at the measurement date.

**Level 2:** Quoted prices for similar assets or liabilities in active markets, or quoted prices for identical or similar assets or liabilities in markets that are not active, or other observable inputs other than quoted prices.

**Level 3:** Unobservable inputs for the asset or liability.

In all cases, the level in the fair value hierarchy within which the fair value measurement in its entirety falls has been determined based on the lowest level of input that is significant to the fair value measurement. Our

**Table of Contents**

**APOLLO INVESTMENT CORPORATION**

**NOTES TO FINANCIAL STATEMENTS (unaudited) (continued)**

**(in thousands except share and per share amounts)**

assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to each investment.

(c) Gains or losses on investments are calculated by using the specific identification method.

(d) The Company records interest and dividend income, adjusted for amortization of premium and accretion of discount, on an accrual basis. Some of our loans and other investments, including certain preferred equity investments, may have contractual payment-in-kind ( PIK ) interest or dividends. PIK interest and dividends computed at the contractual rate are accrued into income and reflected as receivable up to the capitalization date. PIK investments offer issuers the option at each payment date of making payments in cash or in additional securities. When additional securities are received, they typically have the same terms, including maturity dates and interest rates as the original securities issued. On these payment dates, the Company capitalizes the accrued interest or dividends receivable (reflecting such amounts as the basis in the additional securities received). PIK generally becomes due at maturity of the investment or upon the investment being called by the issuer. At the point the Company believes PIK is not expected to be realized, the PIK investment will be placed on non-accrual status. When a PIK investment is placed on non-accrual status, the accrued, uncapitalized interest or dividends are reversed from the related receivable through interest or dividend income, respectively. The Company does not reverse previously capitalized PIK interest or dividends. Upon capitalization, PIK is subject to the fair value estimates associated with their related investments. PIK investments on non-accrual status are restored to accrual status if the Company again believes that PIK is expected to be realized. For the three months ended June 30, 2012, accrued PIK totaled \$4,269, on total investment income of \$80,333. Loan origination fees, original issue discount, and market discounts are capitalized and amortized into income using the interest method or straight-line, as applicable. Upon the prepayment of a loan, any unamortized loan origination fees are recorded as interest income. We record prepayment premiums on loans and other investments as interest income when we receive such amounts. Structuring fees are recorded as other income when earned. Investments that are expected to pay regularly scheduled interest and/or dividends in cash are generally placed on non-accrual status when principal or interest/dividend cash payments are past due 30 days or more and/or when it is no longer probable that principal or interest/dividend cash payments will be collected. Such non-accrual investments are restored to accrual status if past due principal and interest or dividends are paid in cash, and in management s judgment, are likely to continue timely payment of their remaining interest or dividend obligations. Interest or dividend cash payments received on non-accrual designated investments may be recognized as income or applied to principal depending upon management s judgment.

(e) The Company intends to comply with the applicable provisions of the Code pertaining to regulated investment companies to make distributions of taxable income sufficient to relieve it of substantially all Federal income taxes. The Company, at its discretion, may carry forward taxable income in excess of calendar year distributions and pay a 4% excise tax on this income. The Company will accrue excise tax on estimated excess taxable income, if any, as required.

(f) Book and tax basis differences relating to stockholder dividends and distributions and other permanent book and tax differences are reclassified among the Company s capital accounts. In addition, the character of income and gains to be distributed is determined in accordance with income tax regulations that may differ from accounting principles generally accepted in the United States of America.

(g) Dividends and distributions to common stockholders are recorded as of the record date. The amount to be paid out as a dividend is determined by the board of directors each quarter. Net realized capital gains, if any, are generally distributed or deemed distributed at least annually.

(h) In accordance with Regulation S-X, the Company generally will not consolidate its interest in any company other than in investment company subsidiaries and controlled operating companies substantially

**Table of Contents**

**APOLLO INVESTMENT CORPORATION**

**NOTES TO FINANCIAL STATEMENTS (unaudited) (continued)**

**(in thousands except share and per share amounts)**

all of whose business consists of providing services to the Company. Consequently, the Company has not consolidated special purpose entities through which the special purpose entity acquired and holds investments subject to financing with third parties. At June 30, 2012, the Company did not have any subsidiaries or controlled operating companies that were consolidated. See additional information within note 6.

(i) The accounting records of the Company are maintained in U.S. dollars. All assets and liabilities denominated in foreign currencies are translated into U.S. dollars based on the rate of exchange of such currencies against U.S. dollars on the date of valuation. The Company does not isolate that portion of the results of operations resulting from changes in foreign exchange rates on investments from the fluctuations arising from changes in market prices of securities held. Such fluctuations are included with the net realized and unrealized gain or loss from investments. The Company's investments in foreign securities may involve certain risks, including without limitation: foreign exchange restrictions, expropriation, taxation or other political, social or economic risks, all of which could affect the market and/or credit risk of the investment. In addition, changes in the relationship of foreign currencies to the U.S. dollar can significantly affect the value of these investments and therefore the earnings of the Company.

(j) The Company may enter into forward exchange contracts in order to hedge against foreign currency risk. These contracts are marked-to-market by recognizing the difference between the contract exchange rate and the current market rate as unrealized appreciation or depreciation. Realized gains or losses are recognized when contracts are settled.

(k) The Company records origination and other expenses related to its debt obligations as prepaid assets. These expenses are deferred and amortized using the straight-line method over the stated life of the obligation which closely approximates the effective yield method.

(l) The Company records expenses related to shelf filings and applicable offering costs as prepaid assets. These expenses are charged as a reduction of capital upon utilization, in accordance with the ASC 946-20-25.

(m) The Company defines cash equivalents as securities that are readily convertible into known amounts of cash and so near their maturity that they present insignificant risk of changes in value because of changes in interest rates. Generally, only securities with a maturity of three months or less from the date of purchase would qualify, with limited exceptions. The Company deems that certain U.S. Treasury bills, repurchase agreements and other high-quality, short-term debt securities would qualify as cash equivalents.

**Note 3. Agreements**

The Company has an Investment Advisory and Management Agreement (the "Investment Advisory Agreement") with Apollo Investment Management, L.P. (the "Investment Adviser" or "AIM"), under which the Investment Adviser, subject to the overall supervision of our board of directors, will manage the day-to-day operations of, and provide investment advisory services to the Company. For providing these services, the Investment Adviser receives a fee from the Company, consisting of two components: a base management fee and a performance-based incentive fee. The base management fee is determined by taking the average value of our gross assets at the end of the two most recently completed calendar quarters calculated at an annual rate of 2.00%. The incentive fee has two parts, as follows: one part is calculated and payable quarterly in arrears based on our 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 (other than fees for providing managerial assistance), such as commitment, origination, structuring, diligence and consulting fees or other fees that we receive from portfolio companies accrued during the calendar quarter, minus our operating expenses for the quarter (including the base management fee, any expenses payable under an

**Table of Contents**

**APOLLO INVESTMENT CORPORATION**

**NOTES TO FINANCIAL STATEMENTS (unaudited) (continued)**

**(in thousands except share and per share amounts)**

administration agreement (the Administration Agreement) between the Company and Apollo Investment Administration, LLC (the Administrator), 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 does not include any realized capital gains computed net of all realized capital losses and unrealized capital depreciation. Pre-incentive fee net investment income, expressed as a rate of return on the value of our net assets at the end of the immediately preceding calendar quarter, is compared to the rate of 1.75% per quarter (7% annualized). Our net investment income used to calculate this part of the incentive fee is also included in the amount of our gross assets used to calculate the 2% base management fee. For a one year period commencing April 2, 2012, AIM has agreed to voluntarily waive the management fee on the proceeds of the April 2, 2012 common equity issuance.

The Company pays the Investment Adviser an incentive fee with respect to our pre-incentive fee net investment income in each calendar quarter as follows: (1) no incentive fee in any calendar quarter in which our pre-incentive fee net investment income does not exceed 1.75%, which we commonly refer to as the performance threshold; (2) 100% of our pre-incentive fee net investment income with respect to that portion of such pre-incentive fee net investment income, if any, that exceeds 1.75% but does not exceed 2.1875% in any calendar quarter; and (3) 20% of the amount of our pre-incentive fee net investment income, if any, that exceeds 2.1875% in any calendar quarter. These calculations are appropriately pro rated for any period of less than three months. The effect of the fee calculation described above is that if pre-incentive fee net investment income is equal to or exceeds 2.1875%, the Investment Adviser will receive a fee of 20% of our pre-incentive fee net investment income for the quarter. The second part of the incentive fee is determined and payable in arrears as of the end of each calendar year (or upon termination of the Investment Advisory Agreement, as of the termination date) and will equal 20% of our cumulative realized capital gains less cumulative realized capital losses, unrealized capital depreciation (unrealized depreciation on a gross investment-by-investment basis at the end of each calendar year) and all capital gains upon which prior performance-based capital gains incentive fee payments were previously made to the Investment Adviser. For accounting purposes only, we are required under GAAP to accrue a theoretical capital gains incentive fee based upon net realized capital gains and unrealized capital appreciation and depreciation on investments held at the end of each period.

The accrual of this theoretical capital gains incentive fee assumes all unrealized capital appreciation and depreciation is realized in order to reflect a theoretical capital gains incentive fee that would be payable to the Investment Adviser at each measurement date. There was no such accrual for the three months ended June 30, 2012 and 2011. It should be noted that a fee so calculated and accrued would not be payable under the Investment Advisers Act of 1940 (Advisers Act) or Investment Advisory Agreement, and would not be paid based upon such computation of capital gains incentive fees in subsequent periods. Amounts actually paid to the Investment Adviser will be consistent with the Advisers Act and formula reflected in the Investment Advisory Agreement which specifically excludes consideration of unrealized capital appreciation.

Effective April 1, 2012 and through March 31, 2014, AIM has agreed that any incentive fees attributable to deferred interest features shall be paid, together with interest thereon, from the date of deferral to the date of payment at the prime rate published from time to time by the Wall Street Journal, or in the absence thereof, a bank selected by our Board of Directors, only if, and to the extent, received in cash, and the accrual thereof shall be reversed if, and to the extent, such interest is reversed in connection with any write off or similar treatment of the investment giving rise to any deferred interest accrual, provided that any such deferred payment will not reduce the Incentive Fee payable in the quarter of deferred payment. For a one year period that commenced on April 2, 2012, AIM has agreed to voluntarily waive the incentive fee on the proceeds of the April 2, 2012 common equity issuance.

For the three months ended June 30, 2012 and 2011, the Company recognized \$13,426 and \$15,929, respectively, in base management fees and \$9,245 and \$8,381, respectively, in performance-based incentive fees. The fees for

**Table of Contents****APOLLO INVESTMENT CORPORATION****NOTES TO FINANCIAL STATEMENTS (unaudited) (continued)****(in thousands except share and per share amounts)**

the three months ended June 30, 2012 reflect a voluntary fee waiver. Absent the voluntary fee waiver, for the three months ended June 30, 2012, base management fees and performance-based incentive fees would have totaled \$13,820 and \$9,517, respectively. The fees for the three months ended June 30, 2011 reflect a reduction due to a prior payment of an unearned portion of the fees to the Investment Adviser of \$2,783.

The Company has also entered into an Administration Agreement with the Administrator under which the Administrator provides administrative services for the Company. For providing these services, facilities and personnel, the Company reimburses the Administrator for our allocable portion of overhead and other expenses incurred by the Administrator and requested to be reimbursed in performing its obligations under the Administration Agreement, including rent and the Company's allocable portion of its chief financial officer and chief compliance officer and their respective staffs that are requested to be reimbursed. The Administrator will also provide, on our behalf, managerial assistance to those portfolio companies to which the Company is required to provide such assistance. For the fiscal quarters ended June 30, 2012 and 2011, the Company recognized expenses under the Administration Agreement of \$750 and \$887, respectively.

**Note 4. Net Asset Value Per Share**

At June 30, 2012, the Company's total net assets and net asset value per share were \$1,683,011 and \$8.30, respectively. This compares to total net assets and net asset value per share at March 31, 2012 of \$1,685,231 and \$8.55, respectively.

**Note 5. Earnings Per Share**

The following table sets forth the computation of basic and diluted earnings (loss) per share, pursuant to ASC 260-10, for the three months ended June 30, 2012 and June 30, 2011, respectively:

|                                                                                                | <b>Three months ended June 30,</b> |             |
|------------------------------------------------------------------------------------------------|------------------------------------|-------------|
|                                                                                                | <b>2012</b>                        | <b>2011</b> |
| <b><u>Earnings per share - basic</u></b>                                                       |                                    |             |
| Numerator for increase (decrease) in net assets per share:                                     | \$ (11,642)                        | \$ 56       |
| Denominator for basic weighted average shares:                                                 | 202,827,088                        | 195,900,461 |
| Basic earnings (loss) per share:                                                               | (0.06)                             | 0.00        |
| <b><u>Earnings per share - diluted</u></b>                                                     |                                    |             |
| Numerator for increase (decrease) in net assets per share:                                     | \$ (11,642)                        | \$ 56       |
| Adjustment for interest on convertible notes and for incentive fees, net                       | 2,594                              | 2,575       |
| Numerator for increase (decrease) in net assets per share, as adjusted                         | \$ (9,048)                         | \$ 2,631    |
| Denominator for weighted average shares, as adjusted for dilutive effect of convertible notes: | 217,375,188                        | 210,448,561 |
| Diluted earnings (loss) per share:                                                             | (0.06)*                            | 0.00*       |

\* In applying the if-converted method, conversion shall not be assumed for purposes of computing diluted EPS if the effect would be anti-dilutive. For the three months ended June 30, 2012 and 2011, anti-dilution would total \$0.02 and \$0.01, respectively.

**Note 6. Investments**

**AIC Credit Opportunity Fund LLC** We own all of the common member interests in AIC Credit Opportunity Fund LLC ( AIC Holdco ). AIC Holdco was formed for the purpose of holding various financed investments.



**Table of Contents**

**APOLLO INVESTMENT CORPORATION**

**NOTES TO FINANCIAL STATEMENTS (unaudited) (continued)**

**(in thousands except share and per share amounts)**

AIC Holdco wholly owns three special purpose entities, each of which in 2008 acquired directly or indirectly an investment in a particular security from an unaffiliated entity that provided leverage for the investment as part of the sale. Each of these transactions is described in more detail below together with summary financial information.

In the first of these investments, in June 2008 we invested through AIC Holdco \$39,500 in AIC (FDC) Holdings LLC ( Apollo FDC ). Apollo FDC used the proceeds to purchase a Junior Profit-Participating Note due 2013 in principal amount of \$39,500 (the Junior Note ) issued by Apollo I Trust (the Trust ). The Trust also issued a Senior Floating Rate Note due 2013 (the Senior Note ) to an unaffiliated third party ( FDC Counterparty ) in principal amount of \$39,500 paying interest at Libor plus 1.50%, increasing over time to Libor plus 2.0%. The Trust used the aggregate \$79,000 proceeds to acquire \$100,000 face value of a senior subordinated loan of First Data Corporation (the FDC Loan ) due 2016. The FDC Loan pays interest at 11.25% per year. The Junior Note of the Trust owned by Apollo FDC pays to Apollo FDC all of the interest and other proceeds received by the Trust on the FDC Loan after satisfying the Trust's obligations on the Senior Note. The holder of the Senior Note has no recourse to Apollo FDC, AIC Holdco or us with respect to any interest on, or principal of, the Senior Note. However, if the value of the FDC Loan held by the Trust declines sufficiently, the investment would be unwound unless Apollo FDC posts additional collateral for the benefit of the Senior Note. Consequently, the maximum exposure on this investment is the amount of our investment in the Junior Note and any additional collateral we determine to post. During the fiscal year ended March 31, 2012, we sold \$47,145 face value of the FDC Loan. As a result of this transaction, as of June 30, 2012, the FDC Loan balance is \$52,855, the Junior Note balance is \$21,472 and the Senior Note balance is \$20,283.

In the second of these investments, in June 2008 we invested through AIC Holdco \$11,375 in AIC (TXU) Holdings LLC ( Apollo TXU ). Apollo TXU acquired exposure to \$50,000 notional amount of a Libor plus 3.5% senior secured delayed draw term loan of Texas Competitive Electric Holdings ( TXU ) due 2014 through a non-recourse total return swap (the TRS ) with an unaffiliated third party expiring on October 10, 2013. Pursuant to such delayed draw term loan, Apollo TXU pays an unaffiliated third-party interest at Libor plus 1.5% and generally receives all proceeds due under the delayed draw term loan of TXU (the TXU Term Loan ). Like Apollo FDC, Apollo TXU is entitled to 100% of any realized appreciation in the TXU Term Loan and, since the TRS is a non-recourse arrangement, Apollo TXU is exposed only up to the amount of its investment in the TRS, plus any additional margin we decide to post, if any, during the term of the financing. The TRS does not constitute a senior security or a borrowing of Apollo TXU. In connection with the amendment and extension of the TXU Term Loan in April 2011, for which Apollo TXU received a consent fee along with an increase in the rate of the TXU Term Loan to Libor plus 4.5%, Apollo TXU extended its TRS to 2016 at a rate of Libor plus 2.0%. As of June 30, 2012, Apollo TXU's notional exposure to the TXU term loan is \$47,471.

In the third of these investments, in September 2008 we invested through AIC Holdco \$10,022 in AIC (Boots) Holdings, LLC ( Apollo Boots ). Apollo Boots acquired 23,383 and £12,465 principal amount of senior term loans of AB Acquisitions Topco 2 Limited, a holding company for the Alliance Boots group of companies (the Boots Term Loans ), out of the proceeds of our investment and a multicurrency \$40,876 equivalent non-recourse loan to Apollo Boots (the Acquisition Loan ) by an unaffiliated third party that matures in September 2013 and pays interest at LIBOR plus 1.25% or, in certain cases, the higher of the Federal Funds Rate plus 0.50% or the lender's prime-rate. The Boots Term Loans pay interest at the rate of LIBOR plus 3% per year and mature in June 2015. During the quarter ended June 30, 2012, we sold 10,108 and £904 principal amount of the Boots Term Loans. At June 30, 2012, the outstanding principal balance of the Boots Term Loans was 13,275 and £11,561.

**Table of Contents****APOLLO INVESTMENT CORPORATION****NOTES TO FINANCIAL STATEMENTS (unaudited) (continued)****(in thousands except share and per share amounts)**

We do not consolidate AIC Holdco or its wholly owned subsidiaries and accordingly only the value of our investment in AIC Holdco is included on our statement of assets and liabilities. Our investment in AIC Holdco is valued in accordance with our normal valuation procedures and is based on the values of the underlying assets held by each of Apollo FDC, Apollo TXU and Apollo Boots net of associated liabilities.

The Senior Note, TRS and Acquisition Loan are non-recourse to AIC Holdco, its subsidiaries and us and have standard events of default including failure to pay contractual amounts when due and failure by each of the underlying Apollo special purpose entities to provide additional credit support, sell assets or prepay a portion of its obligations if the value of the FDC Term Loan, the TXU Term Loan or the Boots Term Loans, as applicable, declines below specified levels. We may unwind any of these transactions at any time without penalty. From time to time we may provide additional capital to AIC Holdco for purposes of reserving for or funding margin calls under one or more of the transactions described above among other reasons. During the fiscal year ended March 31, 2009, we provided \$18,480 in additional net capital to AIC Holdco. During the fiscal year ended March 31, 2010, \$9,336 of net capital was returned to us from AIC Holdco. During the fiscal year ended March 31, 2011, \$1,700 of net capital was provided to AIC Holdco. During the fiscal year ended March 31, 2012, \$8,712 of net capital was returned to us from AIC Holdco. During the three months ended June 30, 2012, \$575 of net capital was provided to AIC Holdco. The Junior Note, TRS and Boots Term Loans were performing assets as of the date of these financial statements.

Below is summarized financial information for AIC Holdco as of and for the three months ended June 30, 2012 and the fiscal year ended March 31, 2012.

|                           | <b>June 30, 2012<br/>(unaudited)</b> | <b>March 31, 2012</b> |
|---------------------------|--------------------------------------|-----------------------|
| <b>Assets</b>             |                                      |                       |
| Cash                      | \$ 10                                | \$ 15                 |
| Apollo FDC <sup>1</sup>   | 29,841                               | 27,947                |
| Apollo TXU <sup>2</sup>   | 26,641                               | 26,066                |
| Apollo Boots <sup>3</sup> | 47,214                               | 47,999                |
| Other Assets              |                                      | 2,886                 |
| <b>Total Assets</b>       | <b>\$ 103,706</b>                    | <b>\$ 104,913</b>     |
| <b>Liabilities</b>        |                                      |                       |
| Apollo FDC <sup>4</sup>   | \$                                   | \$                    |
| Apollo TXU <sup>5</sup>   | 14,178                               | 16,045                |
| Apollo Boots <sup>6</sup> | 28,876                               | 29,948                |
| Other Liabilities         |                                      | 2,886                 |
| <b>Total Liabilities</b>  | <b>\$ 43,054</b>                     | <b>\$ 48,879</b>      |
| <b>Net Assets</b>         |                                      |                       |
| Apollo FDC                | \$ 29,841                            | \$ 27,947             |
| Apollo TXU                | 12,463                               | 10,021                |
| Apollo Boots              | 18,338                               | 18,051                |
| Other                     | 10                                   | 15                    |
| <b>Total Net Assets</b>   | <b>\$ 60,652</b>                     | <b>\$ 56,034</b>      |



**Table of Contents****APOLLO INVESTMENT CORPORATION****NOTES TO FINANCIAL STATEMENTS (unaudited) (continued)**

(in thousands except share and per share amounts)

|                                            | Three Months Ended<br>June 30, 2012<br>(unaudited) | Fiscal Year Ended<br>March 31, 2012 |
|--------------------------------------------|----------------------------------------------------|-------------------------------------|
| Net Operating Income (Loss)                |                                                    |                                     |
| Apollo FDC <sup>7</sup>                    | \$                                                 | \$ 9,412                            |
| Apollo TXU <sup>7</sup>                    | 344                                                | 2,809                               |
| Apollo Boots <sup>7</sup>                  | 274                                                | 1,243                               |
| Other                                      | (5)                                                | (26)                                |
| Total Operating Income                     | \$ 613                                             | \$ 13,438                           |
| Net Realized Gain (Loss)                   |                                                    |                                     |
| Apollo FDC                                 | \$                                                 | \$ 2,862                            |
| Apollo Boots                               | (439)                                              |                                     |
| Total Net Realized Gain (Loss)             | \$ (439)                                           | \$ 2,862                            |
| Net Change in Unrealized Gain (Loss)       |                                                    |                                     |
| Apollo FDC                                 | \$ 1,894                                           | \$ (14,484)                         |
| Apollo TXU                                 | 1,867                                              | (13,126)                            |
| Apollo Boots                               | 727                                                | (2,852)                             |
| Total Net Change in Unrealized Gain (Loss) | \$ 4,488                                           | \$ (30,462)                         |
| Net Income (Loss) <sup>8</sup>             |                                                    |                                     |
| Apollo FDC                                 | \$ 1,894                                           | \$ (2,210)                          |
| Apollo TXU                                 | 2,211                                              | (10,317)                            |
| Apollo Boots                               | 562                                                | (1,609)                             |
| Other                                      | (5)                                                | (26)                                |
| Total Net Income (Loss)                    | \$ 4,662                                           | \$ (14,162)                         |

(1) Represents fair value of the Junior Note held by Apollo FDC. Cost: \$21,472 and \$21,472, respectively.

(2) Represents fair value of collateral posted in relation to the TRS held by Apollo TXU. Cost: \$26,641 and \$26,066, respectively.

(3) Represents fair value of the Boots Term Loans held by Apollo Boots and fair value of receivable for Boots Term Loans sold during the quarter. Cost: \$50,109 and \$50,109, respectively.

(4) Apollo FDC's interest is subject to a senior note of a separate entity of \$20,283 and \$20,283, respectively; However, Apollo FDC has no liability for such senior note.

(5) Represents liability on the TRS held by Apollo TXU.

(6) Represents liability of Apollo Boots on the Acquisition Loan.

(7) In the case of Apollo FDC, net operating income consists of interest income on the Junior Note less interest paid on the senior note together with immaterial administrative expenses. In the case of Apollo TXU, net operating income consists of net payments from (to) the swap counterparty of Apollo TXU's obligation to pay interest and its right to receive the proceeds in respect of the reference asset, together with immaterial administrative expenses. In the case of AIC Boots, net operating income consists of interest income on the Boots Term

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Loans, less interest payments on the Acquisition Loan together with immaterial administrative expenses. There are no management or incentive fees.

- (8) Net income is the sum of operating income, realized gain (loss) and net change in unrealized gain (loss).

**Table of Contents****APOLLO INVESTMENT CORPORATION****NOTES TO FINANCIAL STATEMENTS (unaudited) (continued)**

(in thousands except share and per share amounts)

**Investments and cash equivalents for the Company**

Investments and cash equivalents for the Company consisted of the following as of June 30, 2012 and March 31, 2012.

|                                               | June 30, 2012       |                     | March 31, 2012      |                     |
|-----------------------------------------------|---------------------|---------------------|---------------------|---------------------|
|                                               | Cost                | Fair Value          | Cost                | Fair Value          |
| Bank Debt/Senior Secured Loans                | \$ 824,203          | \$ 783,893          | \$ 826,914          | \$ 791,810          |
| Subordinated Debt/Corporate Notes             | 1,581,809           | 1,478,353           | 1,684,625           | 1,592,827           |
| Collateralized Loan Obligations               | 54,925              | 55,471              | 7,109               | 7,691               |
| Preferred Equity                              | 40,034              | 31,921              | 39,017              | 34,927              |
| Common Equity/Interests                       | 290,395             | 218,352             | 291,820             | 240,096             |
| Warrants                                      | 2,099               | 11,594              | 2,099               | 9,729               |
| <b>Total Investments</b>                      | <b>\$ 2,793,465</b> | <b>\$ 2,579,584</b> | <b>\$ 2,851,584</b> | <b>\$ 2,677,080</b> |
| Cash Equivalents                              | 99,990              | 99,988              |                     |                     |
| <b>Total Investments and Cash Equivalents</b> | <b>\$ 2,893,455</b> | <b>\$ 2,679,572</b> | <b>\$ 2,851,584</b> | <b>\$ 2,677,080</b> |

At June 30, 2012, our investments and cash equivalents were categorized as follows in the fair value hierarchy for ASC 820 purposes:

| Description                                   | June 30, 2012       | Fair Value Measurement 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) |
| Bank Debt/Senior Secured Loans                | \$ 783,893          | \$                                                             | \$                                            | \$ 783,893                                |
| Subordinated Debt/Corporate Notes             | 1,478,353           |                                                                |                                               | 1,478,353                                 |
| Collateralized Loan Obligations               | 55,471              |                                                                |                                               | 55,471                                    |
| Preferred Equity                              | 31,921              |                                                                |                                               | 31,921                                    |
| Common Equity/Interests                       | 218,352             |                                                                |                                               | 218,352                                   |
| Warrants                                      | 11,594              |                                                                |                                               | 11,594                                    |
| <b>Total Investments</b>                      | <b>\$ 2,579,584</b> | <b>\$</b>                                                      | <b>\$</b>                                     | <b>\$ 2,579,584</b>                       |
| Cash Equivalents                              | 99,988              | 99,988                                                         |                                               |                                           |
| <b>Total Investments and Cash Equivalents</b> | <b>\$ 2,679,572</b> | <b>\$ 99,988</b>                                               | <b>\$</b>                                     | <b>\$ 2,579,584</b>                       |

**Table of Contents****APOLLO INVESTMENT CORPORATION****NOTES TO FINANCIAL STATEMENTS (unaudited) (continued)****(in thousands except share and per share amounts)**

At March 31, 2012, our investments and cash equivalents were categorized as follows in the fair value hierarchy for ASC 820 purposes:

| Description                            | March 31,<br>2012 | Fair Value Measurement at Reporting Date Using:                                     |                                                           |                                                    |
|----------------------------------------|-------------------|-------------------------------------------------------------------------------------|-----------------------------------------------------------|----------------------------------------------------|
|                                        |                   | Quoted Prices in<br>Active<br>Markets<br>for<br>Identical<br>Assets<br>(Level<br>1) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |
| Bank Debt/Senior Secured Loans         | \$ 791,810        | \$                                                                                  | \$                                                        | \$ 791,810                                         |
| Subordinated Debt/Corporate Notes      | 1,592,827         |                                                                                     |                                                           | 1,592,827                                          |
| Collateralized Loan Obligations        | 7,691             |                                                                                     |                                                           | 7,691                                              |
| Preferred Equity                       | 34,927            |                                                                                     |                                                           | 34,927                                             |
| Common Equity/Interests                | 240,096           |                                                                                     |                                                           | 240,096                                            |
| Warrants                               | 9,729             |                                                                                     |                                                           | 9,729                                              |
| Total Investments                      | \$ 2,677,080      | \$                                                                                  | \$                                                        | \$ 2,677,080                                       |
| Cash Equivalents                       |                   |                                                                                     |                                                           |                                                    |
| Total Investments and Cash Equivalents | \$ 2,677,080      | \$                                                                                  | \$                                                        | \$ 2,677,080                                       |

The following chart shows the components of change in our investments categorized as Level 3, for the three months ended June 30, 2012.

|                                                                                                       | Fair Value Measurements Using Significant Unobservable Inputs (Level 3)* |                                         |                                       |                     |                            |           |              |
|-------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------|-----------------------------------------|---------------------------------------|---------------------|----------------------------|-----------|--------------|
|                                                                                                       | Bank Debt /<br>Senior Secured<br>Loans                                   | Subordinated<br>Debt/Corporate<br>Notes | Collateralized<br>Loan<br>Obligations | Preferred<br>Equity | Common<br>Equity/Interests | Warrants  | Total        |
| Beginning Balance, March 31, 2012                                                                     | \$ 791,810                                                               | \$ 1,592,827                            | \$ 7,691                              | \$ 34,927           | \$ 240,096                 | \$ 9,729  | \$ 2,677,080 |
| Total realized gains (losses) included in earnings                                                    | 963                                                                      | (19,303)                                |                                       |                     | 50                         |           | (18,290)     |
| Total unrealized gains (losses) included in earnings                                                  | (5,209)                                                                  | (11,658)                                | (46)                                  | (4,024)             | (20,318)                   | 1,865     | (39,390)     |
| Purchases, including capitalized PIK(1)                                                               | 51,548                                                                   | 114,153                                 | 47,826                                | 1,018               | 575                        |           | 215,120      |
| Sales                                                                                                 | (55,219)                                                                 | (197,666)                               |                                       |                     | (2,051)                    |           | (254,936)    |
| Transfer in and/or out of Level 3(2)                                                                  |                                                                          |                                         |                                       |                     |                            |           |              |
| Ending Balance, June 30, 2012                                                                         | \$ 783,893                                                               | \$ 1,478,353                            | \$ 55,471                             | \$ 31,921           | \$ 218,352                 | \$ 11,594 | \$ 2,579,584 |
| The amount of total gains or losses for the period included in earnings attributable to the change in | \$ 563                                                                   | \$ (25,165)                             | \$ (35)                               | \$ (4,024)          | \$ (19,278)                | \$ 1,865  | \$ (46,074)  |

unrealized gains (losses) relating 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.

**Table of Contents****APOLLO INVESTMENT CORPORATION****NOTES TO FINANCIAL STATEMENTS (unaudited) (continued)**

(in thousands except share and per share amounts)

- (1) Includes accretion of discount and amortization of premiums of approximately \$1,114, \$5,523, \$71, \$48, \$0, \$0, and \$6,756, respectively.
- (2) There were also no transfers into or out of Level 1 or Level 2 fair value measurements during the period shown.
- \* Pursuant to fair value measurement and disclosure guidance, the Company currently categorizes investments by class as shown above.
- PIK income activity for the three months ended June 30, 2012:

|                                     | Three Months Ended<br>June 30, 2012 |
|-------------------------------------|-------------------------------------|
| PIK balance at beginning of period  | \$ 32,963                           |
| Gross PIK income capitalized        | 9,751                               |
| Adjustments due to investment exits |                                     |
| PIK income received in cash         | (937)                               |
| PIK balance at end of period        | \$ 41,777                           |

The following chart shows the components of change in our investments categorized as Level 3, for the three months ended June 30, 2011.

|                                                          | Fair Value Measurements Using Significant Unobservable Inputs (Level 3)* |                                         |                                       |                     |                            |           |              |
|----------------------------------------------------------|--------------------------------------------------------------------------|-----------------------------------------|---------------------------------------|---------------------|----------------------------|-----------|--------------|
|                                                          | Bank Debt /<br>Senior Secured<br>Loans                                   | Subordinated<br>Debt/Corporate<br>Notes | Collateralized<br>Loan<br>Obligations | Preferred<br>Equity | Common<br>Equity/Interests | Warrants  | Total        |
| Beginning Balance, March 31, 2011                        | \$ 1,013,745                                                             | \$ 1,730,656                            | \$ 28,770                             | \$ 33,132           | \$ 227,771                 | \$ 16,084 | \$ 3,050,158 |
| Total realized gains or losses<br>included in earnings   | 6,556                                                                    | (50,884)                                |                                       |                     | 217                        |           | (44,111)     |
| Total unrealized gains or losses<br>included in earnings | (7,779)                                                                  | 7,051                                   | 104                                   | (195)               | (1,994)                    | 270       | (2,543)      |
| Purchases, including capitalized<br>PIK (1)              | 316,089                                                                  | 450,109                                 | 120                                   | 1,092               | 77,722                     |           | 845,132      |
| Sales                                                    | (323,343)                                                                | (401,816)                               |                                       |                     | (217)                      |           | (725,376)    |
| Transfer out of Level 3 (2)                              |                                                                          |                                         |                                       |                     |                            |           |              |
| Ending Balance, June 30, 2011                            | \$ 1,005,268                                                             | \$ 1,735,116                            | \$ 28,994                             | \$ 34,029           | \$ 303,499                 | \$ 16,354 | \$ 3,123,260 |

The amount of total gains or losses for the period included in earnings attributable to the change in unrealized gains or losses relating 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.

|    |         |    |          |    |     |    |       |    |         |    |     |    |          |
|----|---------|----|----------|----|-----|----|-------|----|---------|----|-----|----|----------|
| \$ | (1,014) | \$ | (34,065) | \$ | 104 | \$ | (195) | \$ | (1,994) | \$ | 270 | \$ | (36,894) |
|----|---------|----|----------|----|-----|----|-------|----|---------|----|-----|----|----------|

- (1) Includes accretion of discount and amortization of premiums of approximately \$1,161, \$2,876, \$120, \$48, \$0, \$0, and \$4,205, respectively.

**Table of Contents****APOLLO INVESTMENT CORPORATION****NOTES TO FINANCIAL STATEMENTS (unaudited) (continued)**

(in thousands except share and per share amounts)

(2) There were also no transfers into or out of Level 1 or Level 2 fair value measurements during the period shown.

\* Pursuant to fair value measurement and disclosure guidance, the Company currently categorizes investments by class as shown above.

PIK income activity for the three months ended June 30, 2011:

|                                     | <b>Three Months Ended<br/>June 30, 2011</b> |
|-------------------------------------|---------------------------------------------|
| PIK balance at beginning of period  | \$ 165,651                                  |
| Gross PIK income capitalized        | 5,118                                       |
| Adjustments due to investment exits | (60,109)                                    |
| PIK income received in cash         | (49,337)                                    |
| PIK balance at end of period        | \$ 61,322                                   |

The following table provides quantitative information about our Level 3 fair value measurements of our investments as of June 30, 2012. In addition to the techniques and inputs noted in the table below, according to our valuation policy we may also use other valuation techniques and methodologies when determining our fair value measurements. The below table is not intended to be all-inclusive, but rather provides information on the significant Level 3 inputs as they relate to our fair value measurements.

| <b>Quantitative Information about Level 3 Fair Value Measurements</b> |                                           |                                      |                                    |                                     |
|-----------------------------------------------------------------------|-------------------------------------------|--------------------------------------|------------------------------------|-------------------------------------|
|                                                                       | <b>Fair Value as of<br/>June 30, 2012</b> | <b>Techniques/<br/>Methodologies</b> | <b>Unobservable<br/>Input</b>      | <b>Range (Weighted<br/>Average)</b> |
| Corporate Debt, Collateralized Loan Obligations & Cash Equivalents    | <b>\$ 1,511,691</b>                       | Broker quoted                        | Bid-Ask Spread                     | NA                                  |
| Corporate Debt & Collateralized Loan Obligations                      |                                           | Market Rate                          |                                    |                                     |
|                                                                       | <b>\$ 863,187</b>                         | Approach                             | Market Interest Rate               | 8.2% - 18.0% (12.3%)                |
| Equity (1,2)                                                          |                                           | Market Comparable                    |                                    |                                     |
|                                                                       | <b>\$ 196,026</b>                         | Companies                            | EBITDA Multiples                   | 2.3x 11.4x (7.9x)                   |
| Equity                                                                |                                           | Market Comparable                    |                                    |                                     |
|                                                                       | <b>\$ 7,257</b>                           | Companies                            | Illiquidity Discount               | 7% 20% (9.1%)                       |
|                                                                       |                                           |                                      | Default Rate Assumptions/ Discount | 0.0% - 4.0% (2.0%)                  |
| Equity & Collateralized Loan Obligations                              | <b>\$ 40,561</b>                          | Discounted Cash Flows                | Rate                               | / 8.0% - 13.5%(13.5%)               |

(1) Includes \$2,350 of certain non-performing debt investments that are valued using equity valuation techniques.

(2) Excludes \$60,850 of equity securities that are valued on the basis of the net asset value of their underlying holdings.



Table of Contents

## APOLLO INVESTMENT CORPORATION

## NOTES TO FINANCIAL STATEMENTS (unaudited) (continued)

(in thousands except share and per share amounts)

The following table provides quantitative information about our Level 3 fair value measurements of our investments as of March 31, 2012. In addition to the techniques and inputs noted in the table below, according to our valuation policy we may also use other valuation techniques and methodologies when determining our fair value measurements. The below table is not intended to be all-inclusive, but rather provides information on the significant Level 3 inputs as they relate to our fair value measurements.

| Quantitative Information about Level 3 Fair Value Measurements |                                       |                                           |                         |                             |
|----------------------------------------------------------------|---------------------------------------|-------------------------------------------|-------------------------|-----------------------------|
|                                                                | Fair Value as of<br>March 31,<br>2012 | Valuation<br>Techniques/<br>Methodologies | Unobservable<br>Input   | Range (Weighted<br>Average) |
| Corporate Debt & Collateralized Loan Obligations               | \$ 1,517,432                          | Broker quoted                             | Bid-Ask Spread          | NA                          |
| Corporate Debt & Collateralized Loan Obligations               |                                       | Market Rate                               |                         |                             |
|                                                                | \$ 871,296                            | Approach                                  | Market Interest<br>Rate | 7.7% - 16.5% (11.6%)        |
| Equity (1,2)                                                   |                                       | Market Comparable                         |                         |                             |
|                                                                | \$ 232,111                            | Companies                                 | EBITDA<br>Multiples     | 4.0x 15.2x (8.5x)           |

(1) Includes \$3,600 of certain non-performing debt investments that are valued using equity valuation techniques.

(2) Excludes \$56,241 of equity securities that are valued on the basis of the net asset value of their underlying holdings.

The significant unobservable inputs used in the fair value measurement of the Company's debt and equity securities are primarily earnings before interest, taxes, depreciation and amortization (EBITDA) multiples and market interest rates. The Company uses EBITDA multiples on its equity securities to determine the fair value of investments. Significant increases or decreases in either of these inputs in isolation would result in a significantly lower or higher fair value measurement. The Company uses market interest rates for debt securities to determine if the effective yield on a debt security is commensurate with the market yields for that type of debt security. If a debt security's effective yield is significantly less than the market yield for a similar debt security with a similar credit profile, then the resulting fair value of the debt security may be lower.

**Note 7. Foreign Currency Transactions and Translations**

At June 30, 2012, the Company had outstanding non-US borrowings on its Facility denominated in Euros and British Pounds. Unrealized appreciation on these outstanding borrowings is indicated in the table below:

| Foreign Currency | Local<br>Currency | Original<br>Borrowing<br>Cost | Current<br>Value | Reset Date | Unrealized<br>Appreciation |
|------------------|-------------------|-------------------------------|------------------|------------|----------------------------|
| British Pound    | £ 14,000          | \$ 22,213                     | \$ 21,958        | 07/11/2012 | \$ 255                     |
| Euro             | 21,500            | 28,976                        | 27,285           | 07/25/2012 | 1,691                      |
| British Pound    | £ 13,500          | 21,484                        | 21,174           | 07/25/2012 | 310                        |
| Euro             | 63,218            | 86,951                        | 80,226           | 07/30/2012 | 6,725                      |
| British Pound    | £ 62,000          | 99,265                        | 97,244           | 07/30/2012 | 2,021                      |
|                  |                   | \$ 258,889                    | \$ 247,887       |            | \$ 11,002                  |



**Table of Contents****APOLLO INVESTMENT CORPORATION****NOTES TO FINANCIAL STATEMENTS (unaudited) (continued)**

(in thousands except share and per share amounts)

At March 31, 2012, the Company had outstanding non-US borrowings on its Facility denominated in Euros and British Pounds. Unrealized appreciation or depreciation on these outstanding borrowings is indicated in the table below:

| Foreign Currency | Local<br>Currency | Original<br>Borrowing<br>Cost | Current<br>Value | Reset Date | Unrealized<br>Appreciation<br>(Depreciation) |
|------------------|-------------------|-------------------------------|------------------|------------|----------------------------------------------|
| British Pound    | £ 3,000           | \$ 4,791                      | \$ 4,793         | 04/10/2012 | \$ (2)                                       |
| Euro             | 5,500             | 7,976                         | 7,324            | 04/23/2012 | 652                                          |
| British Pound    | £ 13,500          | 21,485                        | 21,570           | 04/23/2012 | (85)                                         |
| Euro             | 63,218            | 86,951                        | 84,187           | 04/30/2012 | 2,764                                        |
| British Pound    | £ 63,500          | 101,968                       | 101,753          | 04/30/2012 | 215                                          |
|                  |                   | \$ 223,171                    | \$ 219,627       |            | \$ 3,544                                     |

**Note 8. Cash Equivalents**

There were \$99,988 and \$0 of cash equivalents held at June 30, 2012 and March 31, 2012, respectively.

**Note 9. Financial Highlights**

The following is a schedule of financial highlights for the three months ended June 30, 2012 and the year ended March 31, 2012:

|                                                          | Three months<br>ended June 30,<br>2012<br>(unaudited) | Year ended<br>March 31,<br>2012 |
|----------------------------------------------------------|-------------------------------------------------------|---------------------------------|
| <b>Per Share Data:</b>                                   |                                                       |                                 |
| Net asset value, beginning of period                     | \$ 8.55                                               | \$ 10.03                        |
| Net investment income                                    | 0.19                                                  | 0.88                            |
| Net realized and unrealized loss                         | (0.24)                                                | (1.32)                          |
| Net decrease in net assets resulting from operations     | (0.05)                                                | (0.44)                          |
| Dividends to stockholders from net investment income (1) | (0.19)                                                | (0.88)                          |
| Distributions to stockholders from other sources (1)     | (0.01)                                                | (0.16)                          |
| Effect of anti-dilution (dilution)                       | *                                                     | *                               |
| Offering costs                                           |                                                       | *                               |
| Net asset value at end of period                         | \$ 8.30                                               | \$ 8.55                         |
| Per share market price at end of period                  | \$ 7.67                                               | \$ 7.17                         |
| Total return (2)                                         | 9.7%                                                  | (32.4)%                         |

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|                                                                 |              |              |
|-----------------------------------------------------------------|--------------|--------------|
| Shares outstanding at end of period                             | 202,891,351  | 197,043,398  |
| <b>Ratio/Supplemental Data:</b>                                 |              |              |
| Net assets at end of period (in millions)                       | \$ 1,683.0   | \$ 1,685.2   |
| Ratio of net investment income to average net assets            | 2.23%        | 9.77%        |
| Ratio of operating expenses to average net assets               | 1.50%**      | 6.70%        |
| Ratio of interest and other debt expenses to average net assets | 0.90%        | 3.76%        |
| Ratio of total expenses to average net assets                   | 2.40%**      | 10.46%       |
| Average debt outstanding                                        | \$ 1,017,000 | \$ 1,213,943 |
| Average debt per share                                          | \$ 5.01      | \$ 6.18      |
| Portfolio turnover ratio                                        | 7.4%         | 50.6%        |

**Table of Contents****APOLLO INVESTMENT CORPORATION****NOTES TO FINANCIAL STATEMENTS (unaudited) (continued)**

(in thousands except share and per share amounts)

- (1) Per share amounts reflect total dividends paid divided by average shares for the respective periods.
- (2) Total return is based on the change in market price per share during the respective periods. Total return also takes into account dividends and distributions, if any, reinvested in accordance with the Company's dividend reinvestment plan.
- \* Represents less than one cent per average share.
- \*\* The ratio of operating expenses to average net assets and the ratio of total expenses to average net assets is shown net of all voluntary fee waivers (see note 3). The ratio of operating expenses to average net assets and the ratio of total expenses to average net assets would be 1.54% and 2.44%, respectively, without the voluntary fee waivers.

Information about our senior securities is shown in the following table as of each year ended March 31 since the Company commenced operations, unless otherwise noted. The       indicates information which the SEC expressly does not require to be disclosed for certain types of senior securities.

| <b>Class and Year</b>               | <b>Total Amount<br/>Outstanding (1)</b> | <b>Asset<br/>Coverage<br/>Per Unit (2)</b> | <b>Involuntary<br/>Liquidating<br/>Preference<br/>Per Unit<br/>(3)</b> | <b>Average<br/>Market Value<br/>Per Unit (4)</b> |
|-------------------------------------|-----------------------------------------|--------------------------------------------|------------------------------------------------------------------------|--------------------------------------------------|
| <b>Revolving Credit Facility</b>    |                                         |                                            |                                                                        |                                                  |
| Fiscal 2013 (through June 30, 2012) | \$ 549,887                              | \$ 1,429                                   | \$                                                                     | N/A                                              |
| Fiscal 2012                         | 539,337                                 | 1,427                                      |                                                                        | N/A                                              |
| Fiscal 2011                         | 628,443                                 | 1,707                                      |                                                                        | N/A                                              |
| Fiscal 2010                         | 1,060,616                               | 2,671                                      |                                                                        | N/A                                              |
| Fiscal 2009                         | 1,057,601                               | 2,320                                      |                                                                        | N/A                                              |
| Fiscal 2008                         | 1,639,122                               | 2,158                                      |                                                                        | N/A                                              |
| Fiscal 2007                         | 492,312                                 | 4,757                                      |                                                                        | N/A                                              |
| Fiscal 2006                         | 323,852                                 | 4,798                                      |                                                                        | N/A                                              |
| Fiscal 2005                         |                                         |                                            |                                                                        | N/A                                              |
| <b>Senior Secured Notes</b>         |                                         |                                            |                                                                        |                                                  |
| Fiscal 2013 (through June 30, 2012) | \$ 270,000                              | \$ 701                                     | \$                                                                     | N/A                                              |
| Fiscal 2012                         | 270,000                                 | 714                                        |                                                                        | N/A                                              |
| Fiscal 2011                         | 225,000                                 | 611                                        |                                                                        | N/A                                              |
| Fiscal 2010                         |                                         |                                            |                                                                        | N/A                                              |
| Fiscal 2009                         |                                         |                                            |                                                                        | N/A                                              |
| Fiscal 2008                         |                                         |                                            |                                                                        | N/A                                              |
| Fiscal 2007                         |                                         |                                            |                                                                        | N/A                                              |
| Fiscal 2006                         |                                         |                                            |                                                                        | N/A                                              |
| Fiscal 2005                         |                                         |                                            |                                                                        | N/A                                              |
| <b>Unsecured Notes</b>              |                                         |                                            |                                                                        |                                                  |
| Fiscal 2013 (through June 30, 2012) | \$ 200,000                              | \$ 520                                     | \$                                                                     | N/A                                              |
| Fiscal 2012                         | 200,000                                 | 529                                        |                                                                        | N/A                                              |
| Fiscal 2011                         | 200,000                                 | 544                                        |                                                                        | N/A                                              |
| Fiscal 2010                         |                                         |                                            |                                                                        | N/A                                              |
| Fiscal 2009                         |                                         |                                            |                                                                        | N/A                                              |
| Fiscal 2008                         |                                         |                                            |                                                                        | N/A                                              |
| Fiscal 2007                         |                                         |                                            |                                                                        | N/A                                              |
| Fiscal 2006                         |                                         |                                            |                                                                        | N/A                                              |

Fiscal 2005

N/A

(1) Total amount of each class of senior securities outstanding at the end of the period presented.

**Table of Contents**

**APOLLO INVESTMENT CORPORATION**

**NOTES TO FINANCIAL STATEMENTS (unaudited) (continued)**

**(in thousands except share and per share amounts)**

- (2) The asset coverage ratio for a class of senior securities representing indebtedness is calculated as our consolidated total assets, less all liabilities and indebtedness not represented by senior securities, divided by senior securities representing indebtedness. This asset coverage ratio is multiplied by \$1 to determine the Asset Coverage Per Unit. In order to determine the specific Asset Coverage Per Unit for each class of debt, the total Asset Coverage Per Unit was divided based on the amount outstanding at the end of the period for each.
- (3) The amount to which such class of senior security would be entitled upon the involuntary liquidation of the issuer in preference to any security junior to it.
- (4) Not applicable, as senior securities are not registered for public trading.

**Note 10. Debt**

*Revolving Credit Facility*

On May 23, 2012, the Company amended and restated its senior secured, multi-currency, revolving credit facility (the "Amended & Restated Facility"). The Amended & Restated Facility extends the lenders' commitments totaling approximately \$1.14 billion through May, 2015, and allows the Company to seek additional commitments from new and existing lenders in the future, up to an aggregate facility size not to exceed \$1.71 billion. The Facility is secured by substantially all of the assets in Apollo Investment's portfolio, including cash and cash equivalents. The final maturity date of the Amended & Restated Facility is May 23, 2016. Commencing June 23, 2015, the Company is required to repay, in twelve consecutive monthly installments of equal size, the outstanding amount under the Amended & Restated Facility as of May 23, 2015. Pricing for Alternate Base Rate (ABR) borrowings will be 125 basis points over the applicable Prime Rate and pricing for eurocurrency borrowings will be 225 basis points over the LIBO Rate. Terms used in the foregoing sentence have the meanings set forth in the Amended & Restated Facility. The Facility contains affirmative and restrictive covenants, including: (a) periodic financial reporting requirements, (b) maintaining minimum stockholders' equity of the greater of (i) 40% of the total assets of Apollo Investment and its consolidated subsidiaries as at the last day of any fiscal quarter and (ii) the sum of (A) \$800,000 plus (B) 25% of the net proceeds from the sale of equity interests in Apollo Investment after the closing date of the Facility, (c) maintaining a ratio of total assets, less total liabilities (other than indebtedness) to total indebtedness, in each case of Apollo Investment and its consolidated subsidiaries, of not less than 2.0:1.0, (d) limitations on the incurrence of additional indebtedness, including a requirement to meet a certain minimum liquidity threshold before Apollo Investment can incur such additional debt, (e) limitations on liens, (f) limitations on investments (other than in the ordinary course of Apollo Investment's business), (g) limitations on mergers and disposition of assets (other than in the normal course of Apollo Investment's business activities), (h) limitations on the creation or existence of agreements that permit liens on properties of Apollo Investment's consolidated subsidiaries and (i) limitations on the repurchase or redemption of certain unsecured debt and debt securities. In addition to the asset coverage ratio described in clause (c) of the preceding sentence, borrowings under the Facility (and the incurrence of certain other permitted debt) are subject to compliance with a borrowing base that applies different advance rates to different types of assets in Apollo Investment's portfolio. The remaining capacity under the Facility was \$590,113 at June 30, 2012.

*Senior Secured Notes*

On September 30, 2010, the Company entered into a note purchase agreement with certain institutional accredited investors providing for a private placement issuance of \$225,000 in aggregate principal amount of five-year, senior secured notes with a fixed interest rate of 6.25% and a maturity date of October 4, 2015 (the "Senior Secured Notes"). On October 4, 2010, the Senior Secured Notes issued by Apollo Investment were sold.

**Table of Contents**

**APOLLO INVESTMENT CORPORATION**

**NOTES TO FINANCIAL STATEMENTS (unaudited) (continued)**

**(in thousands except share and per share amounts)**

to certain institutional accredited investors pursuant to an exemption from registration under the Securities Act of 1933, as amended. Interest on the Senior Secured Notes is due semi-annually on April 4 and October 4, commencing on April 4, 2011.

On September 29, 2011, the Company closed a private offering of \$45,000 aggregate principal amount of senior secured notes (the "Notes") consisting of two series: (1) 5.875% Senior Secured Notes, Series A, of the Company due September 29, 2016 in the aggregate principal amount of \$29,000; and (2) 6.250% Senior Secured Notes, Series B, of the Company due September 29, 2018, in the aggregate principal amount of \$16,000. The Notes were issued in a private placement only to qualified institutional buyers pursuant to Rule 144A under the Securities Act of 1933, as amended.

*Senior Unsecured Convertible Notes*

On January 25, 2011, the Company closed a private offering of \$200,000 aggregate principal amount of senior unsecured convertible notes (the "Convertible Notes"). The Convertible Notes were issued in a private placement only to qualified institutional buyers pursuant to Rule 144A under the Securities Act of 1933, as amended. The Convertible Notes bear interest at an annual rate of 5.75%, payable semi-annually in arrears on January 15 and July 15 of each year, commencing on July 15, 2011. The Convertible Notes will mature on January 15, 2016, unless earlier converted or repurchased at the holder's option. Prior to December 15, 2015, the Convertible Notes will be convertible only upon certain corporate reorganizations, dilutive recapitalizations or dividends, or if, during specified periods our shares trade at more than 130% of the then applicable conversion price or the Convertible Notes trade at less than 97% of their conversion value and, thereafter, at any time. The Convertible Notes will be convertible by the holders into shares of common stock, initially at a conversion rate of 72.7405 shares of the Company's common stock per \$1 principal amount of Convertible Notes (14,548,100 common shares) corresponding to an initial conversion price per share of approximately \$13.75, which represents a premium of 17.5% to the \$11.70 per share closing price of the Company's common stock on The NASDAQ Global Select Market on January 19, 2011. The conversion rate will be subject to adjustment upon certain events, such as stock splits and combinations, mergers, spin-offs, increases in dividends in excess of \$0.28 per share per quarter and certain changes in control. Certain of these adjustments, including adjustments for increases in dividends, are subject to a conversion price floor of \$11.70 per share. The Convertible Notes are senior unsecured obligations and rank senior in right of payment to our existing and future indebtedness that is expressly subordinated in right of payment to the Convertible Notes; equal in right of payment to our existing and future unsecured indebtedness that is not so subordinated; effectively junior in right of payment to any of our secured indebtedness (including existing unsecured indebtedness that we later secure) to the extent of the value of the assets securing such indebtedness; and structurally junior to all existing and future indebtedness (including trade payables) incurred by our subsidiaries, financing vehicles or similar facilities. As more fully reflected in Note 5, the issuance is to be considered as part of the if-converted method for calculation and presentation of diluted EPS.

The average outstanding debt balance was \$1,017,000 and \$1,213,943 for the three months ended June 30, 2012 and the fiscal year ended March 31, 2012, respectively. The weighted average annual interest cost for the three months ended June 30, 2012 was 4.48%, exclusive of 1.67% for commitment fees and for other prepaid expenses related to establishing debt. The weighted average annual interest cost for the three months ended June 30, 2011 was 4.43%, exclusive of 1.10% for commitment fees and for other prepaid expenses related to establishing debt. This weighted average annual interest cost reflects the average interest cost for all debt. The maximum amount of debt outstanding during the three months ended June 30, 2012 and the fiscal year ended March 31, 2012 was \$1,044,479 and \$1,429,163, respectively, at value. As of June 30, 2012, the Company is in compliance with all debt covenants.

**Table of Contents**

**APOLLO INVESTMENT CORPORATION**

**NOTES TO FINANCIAL STATEMENTS (unaudited) (continued)**

**(in thousands except share and per share amounts)**

**Note 11. Commitments and Contingencies**

As of June 30, 2012, AIC had outstanding commitments with banks to purchase secured term loans and unsecured bridge loans in the aggregate amount of \$75,000. AIC's commitments are subject to the consummation of the underlying corporate transactions and conditional upon receipt of all necessary shareholder, regulatory and other applicable approvals.

The Company also had commitments to fund senior loans in the amount of \$75,500. As of June 30, 2012, \$69,441 of these senior loan commitments remained unfunded.

**Note 12. Kirkwood Fund I LLC**

On April 4, 2012, the Company and Madison Capital Funding LLC ( Madison Capital ), a middle market loan originator, closed a transaction whereby the Company invested \$40,385 to become the majority equity investor in Kirkwood Fund I LLC ( Kirkwood ). Kirkwood is a special purpose vehicle managed by MCF Capital Management LLC, an affiliate of Madison Capital. Kirkwood purchased from Madison Capital an existing portfolio of senior secured loans issued to middle market companies in the United States with approximately \$250,000 of combined principal amount. The loans were originated or sourced by Madison Capital during the prior year. Madison Capital will serve as the collateral manager for the portfolio of loans and will have authority to make purchases, sales and substitutions of assets as it deems appropriate. The Company will not consolidate Kirkwood for financial reporting purposes, and accordingly, only the value of our investment in Kirkwood is included on our statement of assets and liabilities. Our investment in Kirkwood is valued in accordance with our normal valuation procedures.

Under the terms of a loan and security agreement, Kirkwood has revolving secured debt provided by Wells Fargo Bank, National Association ( Wells Fargo ), and by Madison Capital. Wells Fargo as the Class A lender made available to Kirkwood a \$165,000 Class A senior loan due 2017 with an interest rate of LIBOR plus 2.50% per annum and Madison Capital as the Class B Lender made available to Kirkwood a \$45,000 Class B junior loan due 2018 with an interest rate of LIBOR plus 6.75% per annum. During the reinvestment period ending April 2013, subject to specified financial conditions, Kirkwood may request additional advances from the lenders in order to purchase additional eligible loans and may invest and reinvest the proceeds of the existing loans in additional eligible loans.

**Note 13. Subsequent Events**

The \$75,000 aggregate outstanding commitments with banks to purchase secured term loans and unsecured bridge loans have been terminated and are no longer required to be funded.

**Table of Contents**

**Report of Independent Registered Public Accounting Firm**

To the Board of Directors and Shareholders of

Apollo Investment Corporation

We have reviewed the accompanying statement of assets and liabilities of Apollo Investment Corporation (the Company), including the schedule of investments, as of June 30, 2012 and the related statements of operations for the three month periods ended June 30, 2012 and June 30, 2011, and the statements of cash flows for the three month periods ended June 30, 2012 and June 30, 2011 and the statement of changes in net assets for the three month period ended June 30, 2012. These interim financial statements are the responsibility of the Company's management.

We conducted our review in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States), the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the accompanying interim financial statements for them to be in conformity with accounting principles generally accepted in the United States of America.

We previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the statement of assets and liabilities, including the schedule of investments, as of March 31, 2012, and the related statement of operations, statement of changes in net assets and statement of cash flows for the year then ended (not presented herein), and in our report dated May 23, 2012, we expressed an unqualified opinion on those financial statements. In our opinion, the information set forth in the accompanying statement of assets and liabilities as of March 31, 2012 and in the statement of changes in net assets for the year then ended, is fairly stated in all material respects in relation to the statement of assets and liabilities from which it has been derived.

/s/ PricewaterhouseCoopers LLP

New York, New York

August 8, 2012

## **Table of Contents**

### **Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

The following analysis of our financial condition and results of operations should be read in conjunction with our financial statements and the notes thereto contained elsewhere in this report.

Some of the statements in this report constitute forward-looking statements, which relate to future events or our future performance or financial condition. The forward-looking statements contained herein involve risks and uncertainties, including statements as to:

our future operating results;

our business prospects and the prospects of our portfolio companies;

the impact of investments that we expect to make;

our contractual arrangements and relationships with third parties;

the dependence of our future success on the general economy and its impact on the industries in which we invest;

the ability of our portfolio companies to achieve their objectives;

our expected financings and investments;

the adequacy of our cash resources and working capital; and

the timing of cash flows, if any, from the operations of our portfolio companies.

We generally use words such as anticipates, believes, expects, intends and similar expressions to identify forward-looking statements. Our actual results could differ materially from those projected in the forward-looking statements for any reason, including any factors set forth in Risk Factors and elsewhere in this report.

We have based the forward-looking statements included in this report on information available to us on the date of this report, and we assume no obligation to update any such forward-looking statements. Although we undertake no obligation to revise or update any forward-looking statements, whether as a result of new information, future events or otherwise, you are advised to consult any additional disclosures that we may make directly to you or through reports that we in the future may file with the SEC, including any annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K.

## **OVERVIEW**

Apollo Investment was incorporated under the Maryland General Corporation Law in February 2004. We have elected to be treated as a BDC under the 1940 Act. As such, we are required to comply with certain regulatory requirements. For instance, we generally have to invest at least 70% of our total assets in qualifying assets, including securities of private or thinly traded public U.S. companies, cash equivalents, U.S. government securities and high-quality debt investments that mature in one year or less. In addition, for federal income tax purposes we have elected to be treated as a RIC under Subchapter M of the Code. Pursuant to this election and assuming we qualify as a RIC, we generally do not have to pay corporate-level federal income taxes on any income we distribute to our stockholders. Apollo Investment commenced operations on

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April 8, 2004 upon completion of its initial public offering that raised \$870 million in net proceeds selling 62 million shares of its common stock at a price of \$15.00 per share. Since then, and through June 30, 2012, we have raised approximately \$1.9 billion in net proceeds from additional offerings of common stock.

### ***Investments***

Our level of investment activity can and does vary substantially from period to period depending on many factors, including the amount of debt and equity capital available to middle market companies, the level of

## **Table of Contents**

merger and acquisition activity for such companies, the general economic environment and the competitive environment for the types of investments we make. As a business development company, we must not acquire any assets other than qualifying assets specified in the 1940 Act unless, at the time the acquisition is made, at least 70% of our total assets are qualifying assets (with certain limited exceptions).

### ***Revenue***

We generate revenue primarily in the form of interest and dividend income from the securities we hold and capital gains, if any, on investment securities that we may acquire in portfolio companies. Our debt investments, whether in the form of mezzanine or senior secured loans, generally have a stated term of five to ten years and bear interest at a fixed rate or a floating rate usually determined on the basis of a benchmark: LIBOR, EURIBOR, GBP LIBOR, or the prime rate. Interest on debt securities is generally payable quarterly or semiannually and while U.S. subordinated debt and corporate notes typically accrue interest at fixed rates, some of our investments may include zero coupon and/or step-up bonds that accrue income on a constant yield to call or maturity basis. In addition, some of our investments provide for PIK interest or dividends. Such amounts of accrued PIK interest or dividends are added to the cost of the investment on the respective capitalization dates and generally become due at maturity of the investment or upon the investment being called by the issuer. We may also generate revenue in the form of commitment, origination, structuring fees, fees for providing managerial assistance and, if applicable, consulting fees.

### ***Expenses***

All investment professionals of the investment adviser and their staff, when and to the extent engaged in providing investment advisory and management services to us, and the compensation and routine overhead expenses of that personnel which is allocable to those services are provided and paid for by AIM. We bear all other costs and expenses of our operations and transactions, including those relating to:

investment advisory and management fees;

expenses incurred by AIM payable to third parties, including agents, consultants or other advisors, in monitoring our financial and legal affairs and in monitoring our investments and performing due diligence on our prospective portfolio companies;

calculation of our net asset value (including the cost and expenses of any independent valuation firm);

direct costs and expenses of administration, including independent registered public accounting and legal costs;

costs of preparing and filing reports or other documents with the SEC;

interest payable on debt, if any, incurred to finance our investments;

offerings of our common stock and other securities;

registration and listing fees;

fees payable to third parties, including agents, consultants or other advisors, relating to, or associated with, evaluating and making investments;

transfer agent and custodial fees;

taxes;

independent directors' fees and expenses;

marketing and distribution-related expenses;

the costs of any reports, proxy statements or other notices to stockholders, including printing and postage costs;

## **Table of Contents**

our allocable portion of the fidelity bond, directors and officers/errors and omissions liability insurance, and any other insurance premiums;

organizational costs; and

all other expenses incurred by us or the Administrator in connection with administering our business, such as our allocable portion of overhead under the Administration Agreement, including rent and our allocable portion of the cost of our chief financial officer and chief compliance officer and their respective staffs.

We expect our general and administrative operating expenses related to our ongoing operations to increase moderately in dollar terms. During periods of asset growth, we generally expect our general and administrative operating expenses to decline as a percentage of our total assets and increase during periods of asset declines. Incentive fees, interest expense and costs relating to future offerings of securities, among others, may also increase or reduce overall operating expenses based on portfolio performance, interest rate benchmarks, and offerings of our securities relative to comparative periods, among other factors.

## **Portfolio and Investment Activity**

During the three months ended June 30, 2012, we invested \$199 million in 10 new and 3 existing portfolio companies, through a combination of primary and secondary market purchases. This compares to investing \$836 million in 9 new and 10 existing portfolio companies for the three months ended June 30, 2011. Investments sold or prepaid during the three months ended June 30, 2012 totaled \$255 million versus \$733 million for the three months ended June 30, 2011.

At June 30, 2012, our portfolio consisted of 64 portfolio companies and was invested 30% in senior secured loans, 58% in subordinated debt, 1% in preferred equity and 11% in common equity and warrants measured at fair value versus 72 portfolio companies invested 32% in senior secured loans, 57% in subordinated debt, 1% in preferred equity and 10% in common equity and warrants at June 30, 2011.

The weighted average yields on our senior secured loan portfolio, subordinated debt portfolio and total debt portfolio as of June 30, 2012 at our current cost basis were 10.6%, 12.9% and 12.1%, respectively. At June 30, 2011, the yields were 9.2%, 12.3% and 11.1%, respectively.

Since the initial public offering of Apollo Investment in April 2004, and through June 30, 2012, invested capital totaled \$9.0 billion in 176 portfolio companies. Over the same period, Apollo Investment completed transactions with more than 100 different financial sponsors.

At June 30, 2012, 64% or \$1.5 billion of our income-bearing investment portfolio is fixed rate and 36% or \$0.8 billion is floating rate, measured at fair value. On a cost basis, 63% or \$1.5 billion of our income-bearing investment portfolio is fixed rate and 37% or \$0.9 billion is floating rate. At June 30, 2011, 60% or \$1.7 billion of our income-bearing investment portfolio is fixed rate and 40% or \$1.1 billion is floating rate. On a cost basis, 61% or \$1.7 billion of our income-bearing investment portfolio is fixed rate and 39% or \$1.1 billion is floating rate.

## **CRITICAL ACCOUNTING POLICIES**

Our discussion and analysis of our financial condition and results of operations are based upon our financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America, or GAAP. The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. Changes in the economic environment, financial markets and any other parameters used in determining such estimates could cause actual results to differ materially. In addition to the discussion below, our critical accounting policies are further described in the notes to the financial statements.

## **Table of Contents**

### **Valuation of Portfolio Investments**

Under procedures established by our board of directors, we value investments, including certain senior secured debt, subordinated debt, and other debt securities with maturities greater than 60 days, for which market quotations are readily available, at such market quotations (unless they are deemed not to represent fair value). We attempt to obtain market quotations from at least two brokers or dealers (if available, otherwise from a principal market maker or a primary market dealer or other independent pricing service). We utilize mid-market pricing as a practical expedient for fair value unless a different point within the range is more representative. If and when market quotations are deemed not to represent fair value, we typically utilize independent third party valuation firms to assist us in determining fair value. Accordingly, such investments go through our multi-step valuation process as described below. In each case, our independent valuation firms consider observable market inputs together with significant unobservable inputs in arriving at their valuation recommendations for such Level 3 categorized assets. Debt investments with remaining maturities of 60 days or less shall each be valued at cost with interest accrued or discount amortized to the date of maturity, unless such valuation, in the judgment of our investment adviser, does not represent fair value, in which case such investments shall be valued at fair value as determined in good faith by or under the direction of our board of directors. Investments that are not publicly traded or whose market quotations are not readily available are valued at fair value as determined in good faith by or under the direction of our board of directors. Such determination of fair values may involve subjective judgments and estimates.

With respect to investments for which market quotations are not readily available or when such market quotations are deemed not to represent fair value, our board of directors has approved a multi-step valuation process each quarter, as described below:

- (1) our quarterly valuation process begins with each portfolio company or investment being initially valued by the investment professionals of our investment adviser responsible for the portfolio investment;
- (2) preliminary valuation conclusions are then documented and discussed with senior management of our investment adviser;
- (3) independent valuation firms are engaged by our board of directors to conduct independent appraisals by reviewing our investment adviser's preliminary valuations and then making their own independent assessment;
- (4) the audit committee of the board of directors reviews the preliminary valuation of our investment adviser and the valuation prepared by the independent valuation firm and responds to the valuation recommendation of the independent valuation firm to reflect any comments; and
- (5) the board of directors discusses valuations and determines the fair value of each investment in our portfolio in good faith based on the input of our investment adviser, the respective independent valuation firm and the audit committee.

Investments in all asset classes are valued utilizing a market approach, an income approach, or both approaches, as appropriate. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities (including a business). The income approach uses valuation techniques to convert future amounts (for example, cash flows or earnings) to a single present amount (discounted). The measurement is based on the value indicated by current market expectations about those future amounts. In following these approaches, the types of factors that we may take into account in fair value pricing our investments include, as relevant: available current market data, including relevant and applicable market trading and transaction comparables, applicable market yields and multiples, security covenants, call protection provisions, information rights, the nature and realizable value of any collateral, the portfolio company's ability to make payments, its earnings and discounted cash flows, the markets in which the portfolio company does business, comparisons of financial ratios of peer companies that are public, M&A comparables, our principal market (as the reporting entity) and enterprise values, among other factors. When readily available, broker quotations and/or quotations provided by pricing services are considered in the valuation process of independent valuation firms. For the quarter ended June 30, 2012, there was no change to the Company's valuation techniques and related inputs considered in the valuation process.

## **Table of Contents**

ASC 820 classifies the inputs used to measure these fair values into the following hierarchy:

Level 1: Quoted prices in active markets for identical assets or liabilities, accessible by the Company at the measurement date.

Level 2: Quoted prices for similar assets or liabilities in active markets, or quoted prices for identical or similar assets or liabilities in markets that are not active, or other observable inputs other than quoted prices.

Level 3: Unobservable inputs for the asset or liability.

In all cases, the level in the fair value hierarchy within which the fair value measurement in its entirety falls has been determined based on the lowest level of input that is significant to the fair value measurement. Our assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to each investment.

## **Revenue Recognition**

The Company records interest and dividend income, adjusted for amortization of premium and accretion of discount, on an accrual basis. Some of our loans and other investments, including certain preferred equity investments, may have contractual payment-in-kind ( PIK ) interest or dividends. PIK interest and dividends computed at the contractual rate are accrued into income and reflected as receivable up to the capitalization date. PIK investments offer issuers the option at each payment date of making payments in cash or in additional securities. When additional securities are received, they typically have the same terms, including maturity dates and interest rates as the original securities issued. On these payment dates, the Company capitalizes the accrued interest or dividends receivable (reflecting such amounts as the basis in the additional securities received). PIK generally becomes due at maturity of the investment or upon the investment being called by the issuer. At the point the Company believes PIK is not expected to be realized, the PIK investment will be placed on non-accrual status. When a PIK investment is placed on non-accrual status, the accrued, uncapitalized interest or dividends are reversed from the related receivable through interest or dividend income, respectively. The Company does not reverse previously capitalized PIK interest or dividends. Upon capitalization, PIK is subject to the fair value estimates associated with their related investments. PIK investments on non-accrual status are restored to accrual status if the Company again believes that PIK is expected to be realized. For the three months ended June 30, 2012, accrued PIK totaled \$4.3 million, on total investment income of \$80.3 million. Loan origination fees, original issue discount, and market discounts are capitalized and amortized into income using the interest method or straight-line, as applicable. Upon the prepayment of a loan, any unamortized loan origination fees are recorded as interest income. We record prepayment premiums on loans and other investments as interest income when we receive such amounts. Structuring fees are recorded as other income when earned. Investments that are expected to pay regularly scheduled interest and/or dividends in cash are generally placed on non-accrual status when principal or interest/dividend cash payments are past due 30 days or more and/or when it is no longer probable that principal or interest/dividend cash payments will be collected. Such non-accrual investments are restored to accrual status if past due principal and interest or dividends are paid in cash, and in management's judgment, are likely to continue timely payment of their remaining interest or dividend obligations. Interest or dividend cash payments received on non-accrual designated investments may be recognized as income or applied to principal depending upon management's judgment.

## **Net Realized Gains or Losses and Net Change in Unrealized Appreciation or Depreciation**

We measure realized gains or losses by the difference between the net proceeds from the repayment or sale and the amortized cost basis of the investment, without regard to unrealized appreciation or depreciation previously recognized, but considering unamortized upfront fees and prepayment penalties. Net change in unrealized appreciation or depreciation reflects the change in portfolio investment values during the reporting period, including the reversal of previously recorded unrealized appreciation or depreciation.

Within the context of these critical accounting policies, we are not currently aware of any reasonably likely events or circumstances that would result in materially different amounts being reported.

## **Table of Contents**

### **RESULTS OF OPERATIONS**

Results comparisons are for the three months ended June 30, 2012 and June 30, 2011.

#### **Investment Income**

For the three months ended June 30, 2012 and June 30, 2011, gross investment income totaled \$80.3 million and \$94.6 million, respectively. The decrease in gross investment income from the three months ended June 30, 2011 to the three months ended June 30, 2012 was primarily due to a decrease in the size of the income-producing portfolio and a decrease in other income and was partially offset by an increase in the weighted average portfolio yield.

#### **Expenses**

Expenses totaled \$41.6 million and \$46.9 million, respectively, for the three months ended June 30, 2012 and June 30, 2011, of which \$22.7 million and \$24.3 million, respectively, were base management fees and performance-based incentive fees and \$15.6 million and \$16.0 million, respectively, were interest and other debt expenses. Administrative services and other general and administrative expenses totaled \$3.4 million and \$6.7 million, respectively, for the three months June 30, 2012 and June 30, 2011, respectively. Expenses consist of base investment advisory and management fees, insurance expenses, administrative services fees, legal fees, directors' fees, audit and tax services expenses, and other general and administrative expenses. The decrease in expenses from the June 2011 to the June 2012 quarter was primarily due to smaller base management fees and performance-based incentive fees due to a smaller portfolio base and a resultant decrease in net investment income. In addition, in the June 2011 quarter, the Company recognized approximately \$3.5 million in net non-recurring expenses, including legal and other professional expenses of \$4.2 million net of a non-recurring reduction of administrative expenses. Partially offsetting this decrease were \$1.1 million in net non-recurring expenses relating to the refinancing of our revolving credit facility in the June 2012 quarter.

#### **Net Investment Income**

The Company's net investment income totaled \$38.7 million and \$47.7 million, or \$0.19 and \$0.24, on a per average share basis, respectively, for the three months ended June 30, 2012 and June 30, 2011. For the three months ended June 30, 2012, the \$38.7 million was net of \$1.1 million of net non-recurring expenses relating to the refinancing of our revolving credit facility.

#### **Net Realized Losses**

The Company had investment sales and prepayments totaling \$255 million and \$733 million, respectively, for the three months ended June 30, 2012 and June 30, 2011. Net realized losses for the three months ended June 30, 2012 and June 30, 2011 were \$18.8 million and \$45.9 million, respectively. Net realized losses for the June 2012 quarter include a foreign exchange loss of \$9.9 million derived from the sale of our investment in AB Acquisitions and losses derived from the sale of Catalina Marketing, Avaya, Ceridian and Sorenson Communications, among others. Net realized losses for the June 2011 quarter were primarily derived from the realization of previously reported unrealized losses on our investment in Playpower Holdings.

#### **Net Unrealized Appreciation (Depreciation) on Investments, Cash Equivalents and Foreign Currencies**

For the three months ended June 30, 2012 and June 30, 2011, net change in unrealized depreciation on the Company's investments, cash equivalents, foreign currencies and other assets and liabilities totaled \$31.5 million and \$1.7 million, respectively. For the three months ended June 30, 2012, the increase in unrealized depreciation was derived from a decline in some of our third party valued investments offset by improving conditions in our quoted portfolio and the recognition of realized losses which reversed unrealized depreciation. For the three months ended June 30, 2011, the increase in unrealized depreciation was derived from a decline in general capital market conditions offset by the recognition of realized losses which reversed unrealized depreciation.

## **Table of Contents**

### **Net Increase (Decrease) in Net Assets From Operations**

For the three months ended June 30, 2012, the Company had a net decrease in net assets resulting from operations of \$11.6 million. For the three months ended June 30, 2011, the Company had a net increase in net assets resulting from operations of \$0.1 million. For the three months ended June 30, 2012 basic and diluted losses per average share were \$0.06. The earnings per average share were \$0.00 for the three months ended June 30, 2011. Exclusive of the non-recurring expenses relating to the refinancing of our revolving credit facility, the Company had a net decrease in net assets resulting from operations of \$10.6 million for the three months ended June 30, 2012. This would equate to basic and diluted losses per average share of \$0.05 for the three months ended June 30, 2012.

### **LIQUIDITY AND CAPITAL RESOURCES**

The Company's liquidity and capital resources are generated and generally available through periodic follow-on equity and debt offerings, our senior secured, multi-currency \$1.14 billion revolving credit facility (the "Facility"), maturing on May 23, 2016 (see note 10 within the Notes to Financial Statements), our senior secured notes, investments in special purpose entities in which we hold and finance particular investments on a non-recourse basis, as well as from cash flows from operations, investment sales of liquid assets and prepayments of senior and subordinated loans and income earned from investments. The Company also has investments in its portfolio that contain PIK provisions. PIK investments offer issuers the option at each payment date of making payments in cash or in additional securities. When additional securities are received, they typically have the same terms, including maturity dates and interest rates as the original securities issued. On these payment dates, the Company capitalizes the accrued interest or dividends receivable (reflecting such amounts as the basis in the additional securities received). PIK generally becomes due at maturity of the investment or upon the investment being called by the issuer. In order to maintain the Company's status as a RIC, this non-cash source of income must be paid out to stockholders annually in the form of dividends, even though the Company has not yet collected the cash. For the three months ended June 30, 2012, accrued PIK totaled \$4.3 million, on total investment income of \$80.3 million. At June 30, 2012, the Company had \$550 million in borrowings outstanding on its Facility and \$590 million of unused capacity. As of June 30, 2012, aggregate lender commitments under the Facility total \$1.14 billion.

On September 30, 2010, the Company entered into a note purchase agreement, providing for a private placement issuance of \$225 million in aggregate principal amount of five-year, senior secured notes with a fixed interest rate of 6.25% and a maturity date of October 4, 2015 (the "Senior Secured Notes"). On October 4, 2010, the Senior Secured Notes were sold to certain institutional accredited investors pursuant to an exemption from registration under the Securities Act of 1933, as amended. Interest on the Senior Secured Notes will be due semi-annually on April 4 and October 4, commencing on April 4, 2011. The proceeds from the issuance of the Senior Secured Notes were primarily used to reduce other outstanding borrowings and/or commitments on the Company's then existing Facility.

On January 25, 2011, we closed a private offering of \$200 million aggregate principal amount of senior unsecured convertible notes (the "Convertible Notes"). The Convertible Notes were issued in a private placement only to qualified institutional buyers pursuant to Rule 144A under the Securities Act of 1933, as amended. The Convertible Notes bear interest at an annual rate of 5.75%, payable semi-annually in arrears on January 15 and July 15 of each year, commencing on July 15, 2011. The Convertible Notes will mature on January 15, 2016 unless earlier converted or repurchased at the holder's option. Prior to December 15, 2015, the Convertible Notes will be convertible only upon certain corporate reorganizations, dilutive recapitalizations or dividends, or if, during specified periods our shares trade at more than 130% of the then applicable conversion price or the Convertible Notes trade at less than 97% of their conversion value and, thereafter, at any time. The Convertible Notes will be convertible by the holders into shares of common stock, initially at a conversion rate of 72.7405 shares of the Company's common stock per \$1,000 principal amount of Convertible Notes (14,548,100 common shares) corresponding to an initial conversion price of approximately \$13.75, which represents a premium of 17.5% to the \$11.70 per share closing price of the Company's common stock on The NASDAQ Global Select

## **Table of Contents**

Market on January 19, 2011. The conversion rate will be subject to adjustment upon certain events, such as stock splits and combinations, mergers, spin-offs, increases in dividends in excess of \$0.28 per share per quarter and certain changes in control. Certain of these adjustments, including adjustments for increases in dividends, are subject to a conversion price floor of \$11.70 per share. The Convertible Notes are senior unsecured obligations and rank senior in right of payment to our existing and future indebtedness that is expressly subordinated in right of payment to the Convertible Notes; equal in right of payment to our existing and future unsecured indebtedness that is not so subordinated; effectively junior in right of payment to any of our secured indebtedness (including existing unsecured indebtedness that we later secure) to the extent of the value of the assets securing such indebtedness; and structurally junior to all existing and future indebtedness (including trade payables) incurred by our subsidiaries, financing vehicles or similar facilities.

On August 11, 2011, the Company adopted a plan for the purpose of repurchasing up to \$200 million of its common stock in accordance with the guidelines specified in Rule 10b-18 and Rule 10b5-1 of the Securities Exchange Act of 1934, as amended. The Company's plan was designed to allow it to repurchase its shares both during its open window periods and at times when it otherwise might be prevented from doing so under insider trading laws or because of self-imposed trading blackout periods. A broker selected by the Company will have the authority under the terms and limitations specified in the plan to repurchase shares on the Company's behalf in accordance with the terms of the plan. Repurchases are subject to SEC regulations as well as certain price, market volume and timing constraints specified in the plan. While the portion of the plan reliant on Rule 10b-18 remains in effect, the portion reliant on Rule 10b5-1 is subject to periodic renewal and is not currently in effect. As of June 30, 2012, no shares have been repurchased.

On September 29, 2011, the Company closed a private offering of \$45 million aggregate principal amount of senior secured notes (the "Notes") consisting of two series: (1) 5.875% Senior Secured Notes, Series A, of the Company due September 29, 2016 in the aggregate principal amount of \$29 million; and (2) 6.250% Senior Secured Notes, Series B, of the Company due September 29, 2018, in the aggregate principal amount of \$16 million. The Notes were issued in a private placement only to qualified institutional buyers pursuant to Rule 144A under the Securities Act of 1933, as amended.

On April 2, 2012, the Company announced that a subsidiary of Apollo Global Management, LLC purchased approximately \$50 million, or approximately 5,900,000 newly issued shares, of the Company's common stock, at an estimated NAV of \$8.45 per share. The final number of shares issued is 5,847,953, based on the NAV as of March 31, 2012 of \$8.55 per share. AIC's Investment Advisor, Apollo Investment Management, L.P., or "AIM", is waiving the base management and incentive fees associated with this equity capital for a one year period between April 2, 2012 and April 1, 2013.

## **Cash Equivalents**

We deem certain U.S. Treasury bills, repurchase agreements and other high-quality, short-term debt securities as cash equivalents. (See note 2(m) within the accompanying financial statements.) At the end of each fiscal quarter, we consider taking proactive steps utilizing cash equivalents with the objective of enhancing our investment flexibility during the following quarter, pursuant to Section 55 of the 1940 Act. More specifically, we may purchase U.S. Treasury bills from time-to-time on the last business day of the quarter and typically close out that position on the following business day, settling the sale transaction on a net cash basis with the purchase, subsequent to quarter end. Apollo Investment may also utilize repurchase agreements or other balance sheet transactions, including drawing down on our Facility, as we deem appropriate. The amount of these transactions or such drawn cash for this purpose is excluded from total assets for purposes of computing the asset base upon which the management fee is determined. There were \$100 million of cash equivalents held as of June 30, 2012.

**Table of Contents****Contractual Obligations**

|                                              | Payments due by Period as of June 30, 2012 (dollars in millions) |                     |           |           |                      |
|----------------------------------------------|------------------------------------------------------------------|---------------------|-----------|-----------|----------------------|
|                                              | Total                                                            | Less than<br>1 year | 1-3 years | 3-5 years | More than<br>5 years |
| Senior Secured Revolving Credit Facility (1) | \$ 550                                                           | \$                  | \$        | \$ 550    | \$                   |
| Senior Secured Notes                         | \$ 270                                                           | \$                  | \$        | \$ 254    | \$ 16                |
| Unsecured Notes                              | \$ 200                                                           | \$                  | \$        | \$ 200    | \$                   |

(1) At June 30, 2012, the Facility had \$590 million of unused capacity.

We have entered into two contracts under which we have future commitments: the Investment Advisory Agreement, pursuant to which AIM has agreed to serve as our investment adviser, and the Administration Agreement, pursuant to which the Administrator has agreed to furnish us with the facilities and administrative services necessary to conduct our day-to-day operations and provide on our behalf managerial assistance to those portfolio companies to which we are required to provide such assistance. Payments under the Investment Advisory Agreement are equal to (1) a percentage of the value of our average gross assets and (2) a two-part incentive fee. Payments under the Administration Agreement are equal to an amount based upon our allocable portion of the Administrator's overhead in performing its obligations under the Administration Agreement, including rent, technology systems, insurance and our allocable portion of the costs of our chief financial officer and chief compliance officer and their respective staffs. Either party may terminate each of the Investment Advisory Agreement and Administration Agreement without penalty upon not more than 60 days' written notice to the other. Please see note 3 within our financial statements for more information.

**Off-Balance Sheet Arrangements (dollars in thousands)**

As of June 30, 2012, AIC had outstanding commitments with banks to purchase secured term loans and unsecured bridge loans in the aggregate amount of \$75,000. AIC's commitments are subject to the consummation of the underlying corporate transactions and conditional upon receipt of all necessary shareholder, regulatory and other applicable approvals.

The Company also has commitments to fund senior loans in the amount of \$75,500. As of June 30, 2012, \$69,441 of these senior loan commitments remained unfunded.

**AIC Credit Opportunity Fund LLC (amounts in thousands)**

We own all of the common member interests in AIC Credit Opportunity Fund LLC (AIC Holdco). AIC Holdco was formed for the purpose of holding various financed investments. AIC Holdco wholly owns three special purpose entities, each of which in 2008 acquired directly or indirectly an investment in a particular security from an unaffiliated entity that provided leverage for the investment as part of the sale. Each of these transactions is described in more detail below together with summary financial information.

In the first of these investments, in June 2008 we invested through AIC Holdco \$39,500 in AIC (FDC) Holdings LLC (Apollo FDC). Apollo FDC used the proceeds to purchase a Junior Profit-Participating Note due 2013 in principal amount of \$39,500 (the Junior Note) issued by Apollo I Trust (the Trust). The Trust also issued a Senior Floating Rate Note due 2013 (the Senior Note) to an unaffiliated third party (FDC Counterparty) in principal amount of \$39,500 paying interest at Libor plus 1.50%, increasing over time to Libor plus 2.0%. The Trust used the aggregate \$79,000 proceeds to acquire \$100,000 face value of a senior subordinated loan of First Data Corporation (the FDC Loan) due 2016. The FDC Loan pays interest at 11.25% per year. The Junior Note of the Trust owned by Apollo FDC pays to Apollo FDC all of the interest and other proceeds received by the Trust on the FDC Loan after satisfying the Trust's obligations on the Senior Note. The holder of the Senior Note has no recourse to Apollo FDC, AIC Holdco or us with respect to any interest on, or principal of, the Senior Note. However, if the value of the FDC Loan held by the Trust declines sufficiently, the investment would be

## **Table of Contents**

unwound unless Apollo FDC posts additional collateral for the benefit of the Senior Note. Consequently, the maximum exposure on this investment is the amount of our investment in the Junior Note and any additional collateral we determine to post. During the fiscal year ended March 31, 2012, we sold \$47,145 face value of the FDC Loan. As a result of this transaction, as of June 30, 2012, the FDC Loan balance is \$52,855, the Junior Note balance is \$21,472 and the Senior Note balance is \$20,283.

In the second of these investments, in June 2008 we invested through AIC Holdco \$11,375 in AIC (TXU) Holdings LLC ( Apollo TXU ). Apollo TXU acquired exposure to \$50,000 notional amount of a Libor plus 3.5% senior secured delayed draw term loan of Texas Competitive Electric Holdings ( TXU ) due 2014 through a non-recourse total return swap (the TRS ) with an unaffiliated third party expiring on October 10, 2013. Pursuant to such delayed draw term loan, Apollo TXU pays an unaffiliated third-party interest at Libor plus 1.5% and generally receives all proceeds due under the delayed draw term loan of TXU (the TXU Term Loan ). Like Apollo FDC, Apollo TXU is entitled to 100% of any realized appreciation in the TXU Term Loan and, since the TRS is a non-recourse arrangement, Apollo TXU is exposed only up to the amount of its investment in the TRS, plus any additional margin we decide to post, if any, during the term of the financing. The TRS does not constitute a senior security or a borrowing of Apollo TXU. In connection with the amendment and extension of the TXU Term Loan in April 2011, for which Apollo TXU received a consent fee along with an increase in the rate of the TXU Term Loan to Libor plus 4.5%, Apollo TXU extended its TRS to 2016 at a rate of Libor plus 2.0%. As of June 30, 2012, Apollo TXU's notional exposure to the TXU term loan is \$47,471.

In the third of these investments, in September 2008 we invested through AIC Holdco \$10,022 in AIC (Boots) Holdings, LLC ( Apollo Boots ). Apollo Boots acquired 23,383 and £12,465 principal amount of senior term loans of AB Acquisitions Topco 2 Limited, a holding company for the Alliance Boots group of companies (the Boots Term Loans ), out of the proceeds of our investment and a multicurrency \$40,876 equivalent non-recourse loan to Apollo Boots (the Acquisition Loan ) by an unaffiliated third party that matures in September 2013 and pays interest at LIBOR plus 1.25% or, in certain cases, the higher of the Federal Funds Rate plus 0.50% or the lender's prime-rate. The Boots Term Loans pay interest at the rate of LIBOR plus 3% per year and mature in June 2015. During the quarter ended June 30, 2012, we sold 10,108 and £904 principal amount of the Boots Term Loans. At June 30, 2012, the outstanding principal balance of the Boots Term Loans was 13,275 and £11,561.

We do not consolidate AIC Holdco or its wholly owned subsidiaries and accordingly only the value of our investment in AIC Holdco is included on our statement of assets and liabilities. Our investment in AIC Holdco is valued in accordance with our normal valuation procedures and is based on the values of the underlying assets held by each of Apollo FDC, Apollo TXU and Apollo Boots net of associated liabilities.

The Senior Note, TRS and Acquisition Loan are non-recourse to AIC Holdco, its subsidiaries and us and have standard events of default including failure to pay contractual amounts when due and failure by each of the underlying Apollo special purpose entities to provide additional credit support, sell assets or prepay a portion of its obligations if the value of the FDC Term Loan, the TXU Term Loan or the Boots Term Loans, as applicable, declines below specified levels. We may unwind any of these transactions at any time without penalty. From time to time we may provide additional capital to AIC Holdco for purposes of reserving for or funding margin calls under one or more of the transactions described above among other reasons. During the fiscal year ended March 31, 2009, we provided \$18,480 in additional net capital to AIC Holdco. During the fiscal year ended March 31, 2010, \$9,336 of net capital was returned to us from AIC Holdco. During the fiscal year ended March 31, 2011, \$1,700 of net capital was provided to AIC Holdco. During the fiscal year ended March 31, 2012, \$8,712 of net capital was returned to us from AIC Holdco. During the three months ended June 30, 2012, \$575 of net capital was provided to AIC Holdco. The Junior Note, TRS and Boots Term Loans were performing assets as of the date of these financial statements.

**Table of Contents**

Below is summarized financial information for AIC Holdco as of and for the three months ended June 30, 2012 and the fiscal year ended March 31, 2012.

|                                             | <b>June 30, 2012<br/>(unaudited)</b>                        | <b>March 31, 2012</b>                       |
|---------------------------------------------|-------------------------------------------------------------|---------------------------------------------|
| <b>Assets</b>                               |                                                             |                                             |
| Cash                                        | \$ 10                                                       | \$ 15                                       |
| Apollo FDC <sup>1</sup>                     | 29,841                                                      | 27,947                                      |
| Apollo TXU <sup>2</sup>                     | 26,641                                                      | 26,066                                      |
| Apollo Boots <sup>3</sup>                   | 47,214                                                      | 47,999                                      |
| Other Assets                                |                                                             | 2,886                                       |
| <b>Total Assets</b>                         | <b>\$ 103,706</b>                                           | <b>\$ 104,913</b>                           |
| <b>Liabilities</b>                          |                                                             |                                             |
| Apollo FDC <sup>4</sup>                     | \$                                                          | \$                                          |
| Apollo TXU <sup>5</sup>                     | 14,178                                                      | 16,045                                      |
| Apollo Boots <sup>6</sup>                   | 28,876                                                      | 29,948                                      |
| Other Liabilities                           |                                                             | 2,886                                       |
| <b>Total Liabilities</b>                    | <b>\$ 43,054</b>                                            | <b>\$ 48,879</b>                            |
| <b>Net Assets</b>                           |                                                             |                                             |
| Apollo FDC                                  | \$ 29,841                                                   | \$ 27,947                                   |
| Apollo TXU                                  | 12,463                                                      | 10,021                                      |
| Apollo Boots                                | 18,338                                                      | 18,051                                      |
| Other                                       | 10                                                          | 15                                          |
| <b>Total Net Assets</b>                     | <b>\$ 60,652</b>                                            | <b>\$ 56,034</b>                            |
|                                             | <b>Three Months Ended<br/>June 30, 2012<br/>(unaudited)</b> | <b>Fiscal Year Ended<br/>March 31, 2012</b> |
| <b>Net Operating Income (Loss)</b>          |                                                             |                                             |
| Apollo FDC <sup>7</sup>                     | \$                                                          | \$ 9,412                                    |
| Apollo TXU <sup>7</sup>                     | 344                                                         | 2,809                                       |
| Apollo Boots <sup>7</sup>                   | 274                                                         | 1,243                                       |
| Other                                       | (5)                                                         | (26)                                        |
| <b>Total Operating Income</b>               | <b>\$ 613</b>                                               | <b>\$ 13,438</b>                            |
| <b>Net Realized Gain (Loss)</b>             |                                                             |                                             |
| Apollo FDC                                  | \$                                                          | \$ 2,862                                    |
| Apollo Boots                                | (439)                                                       |                                             |
| <b>Total Net Realized Gain (Loss)</b>       | <b>\$ (439)</b>                                             | <b>\$ 2,862</b>                             |
| <b>Net Change in Unrealized Gain (Loss)</b> |                                                             |                                             |
| Apollo FDC                                  | \$ 1,894                                                    | \$ (14,484)                                 |
| Apollo TXU                                  | 1,867                                                       | (13,126)                                    |

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|                                            |    |       |    |          |
|--------------------------------------------|----|-------|----|----------|
| Apollo Boots                               |    | 727   |    | (2,852)  |
| Total Net Change in Unrealized Gain (Loss) | \$ | 4,488 | \$ | (30,462) |
| Net Income (Loss) <sup>8</sup>             |    |       |    |          |
| Apollo FDC                                 | \$ | 1,894 | \$ | (2,210)  |
| Apollo TXU                                 |    | 2,211 |    | (10,317) |
| Apollo Boots                               |    | 562   |    | (1,609)  |
| Other                                      |    | (5)   |    | (26)     |
| Total Net Income (Loss)                    | \$ | 4,662 | \$ | (14,162) |

## **Table of Contents**

- (1) Represents fair value of the Junior Note held by Apollo FDC. Cost: \$21,472 and \$21,472, respectively.
- (2) Represents fair value of collateral posted in relation to the TRS held by Apollo TXU. Cost: \$26,641 and \$26,066, respectively.
- (3) Represents fair value of the Boots Term Loans held by Apollo Boots and fair value of receivable for Boots Term Loans sold during the quarter. Cost: \$50,109 and \$50,109, respectively.
- (4) Apollo FDC's interest is subject to a senior note of a separate entity of \$20,283 and \$20,283, respectively; However, Apollo FDC has no liability for such senior note.
- (5) Represents liability on the TRS held by Apollo TXU.
- (6) Represents liability of Apollo Boots on the Acquisition Loan.
- (7) In the case of Apollo FDC, net operating income consists of interest income on the Junior Note less interest paid on the senior note together with immaterial administrative expenses. In the case of Apollo TXU, net operating income consists of net payments from (to) the swap counterparty of Apollo TXU's obligation to pay interest and its right to receive the proceeds in respect of the reference asset, together with immaterial administrative expenses. In the case of AIC Boots, net operating income consists of interest income on the Boots Term Loans, less interest payments on the Acquisition Loan together with immaterial administrative expenses. There are no management or incentive fees.
- (8) Net income is the sum of operating income, realized gain (loss) and net change in unrealized gain (loss).

### **Dividends**

Dividends paid to stockholders for the three months ended June 30, 2012 and June 30, 2011 totaled \$40.6 million or \$0.20 per share, and \$54.9 million or \$0.28 per share, respectively. Tax characteristics of all dividends will be reported to shareholders on Form 1099 after the end of the calendar year. Our quarterly dividends, if any, will be determined by our Board of Directors.

We have elected to be taxed as a RIC under Subchapter M of the Code. To maintain our RIC status, we must distribute at least 90% of our ordinary income and realized net short-term capital gains in excess of realized net long-term capital losses, if any, out of the assets legally available for distribution. In addition, although we currently intend to distribute realized net capital gains (*i.e.*, net long-term capital gains in excess of short-term capital losses), if any, at least annually, out of the assets legally available for such distributions, we may in the future decide to retain such capital gains for investment.

We maintain an opt out dividend reinvestment plan for our common stockholders. As a result, if we declare a dividend, then stockholders' cash dividends will be automatically reinvested in additional shares of our common stock, unless they specifically opt out of the dividend reinvestment plan so as to receive cash dividends.

We may not be able to achieve operating results that will allow us to make distributions at a specific level or to increase the amount of these distributions from time to time. In addition, due to the asset coverage test applicable to us as a business development company, we may in the future be limited in our ability to make distributions. Also, our revolving credit facility may limit our ability to declare dividends if we default under certain provisions or fail to satisfy other conditions. If we do not distribute a certain percentage of our income annually, we may suffer adverse tax consequences, including possible loss of the tax benefits available to us as a regulated investment company. In addition, in accordance with U.S. generally accepted accounting principles and tax regulations, we include in income certain amounts that we have not yet received in cash, such as contractual payment-in-kind interest, which represents contractual interest added to the loan balance that becomes due at the end of the loan term, or the accrual of original issue or market discount. Since we may recognize income before or without receiving cash representing such income, we may not be able to meet the requirement to distribute at least 90% of our investment company taxable income to obtain tax benefits as a regulated investment company.

With respect to the dividends to stockholders, income from origination, structuring, closing, commitment and other upfront fees associated with investments in portfolio companies is treated as taxable income and accordingly, distributed to stockholders.

## **Table of Contents**

Pursuant to a recent revenue procedure (Revenue Procedure 2010-12), issued by the IRS (the "Revenue Procedure"), the IRS has indicated that it will treat distributions from certain publicly traded RICs (including BDCs) that are paid part in cash and part in stock as dividends that would satisfy the RIC's annual distribution requirements and qualify for the dividends paid deduction for federal income tax purposes. In order to qualify for such treatment, the Revenue Procedure requires that at least 10% of the total distribution be payable in cash and that each stockholder have a right to elect to receive its entire distribution in cash. If too many stockholders elect to receive cash, each stockholder electing to receive cash must receive a proportionate share of the cash to be distributed (although no stockholder electing to receive cash may receive less than 10% of such stockholder's distribution in cash). This Revenue Procedure applies to distributions declared on or before December 31, 2012 with respect to taxable years ending on or before December 31, 2011.

### **Item 3. Quantitative and Qualitative Disclosures about Market Risk**

We are subject to financial market risks, including changes in interest rates. During the three months ended June 30, 2012, many of the loans in our portfolio had floating interest rates. These loans are usually based on floating LIBOR and typically have durations of one to six months after which they reset to current market interest rates. The Company also has a revolving credit facility that is based on floating LIBOR rates. Assuming no changes to our balance sheet as of June 30, 2012, a hypothetical one percent increase in LIBOR on our floating rate assets and liabilities would decrease our earnings by approximately two cents per average share over the next twelve months. Assuming no changes to our balance sheet as of June 30, 2012, a hypothetical one percent decrease in LIBOR on our floating rate assets and liabilities would increase our earnings by approximately two cents per average share over the next twelve months. However, we may hedge against interest rate fluctuations from time-to-time by using standard hedging instruments such as futures, options and forward contracts subject to the requirements of the 1940 Act and applicable commodities laws. While hedging activities may insulate us against adverse changes in interest rates, they may also limit our ability to participate in the benefits of lower interest rates with respect to our portfolio of investments. During the three months ended June 30, 2012, we did not engage in interest rate hedging activities.

### **Item 4. Controls and Procedures**

#### ***(a) Evaluation of Disclosure Controls and Procedures***

As of June 30, 2012 (the end of the period covered by this report), we, including our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) of the 1934 Act). Based on that evaluation, our management, including the Chief Executive Officer and Chief Financial Officer, concluded that our disclosure controls and procedures were effective and provided reasonable assurance that information required to be disclosed in our periodic SEC filings is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. However, in evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated can provide only reasonable assurance of achieving the desired control objectives, and management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of such possible controls and procedures.

#### ***(b) Changes in Internal Controls Over Financial Reporting***

Management has not identified any change in the Company's internal control over financial reporting that occurred during the first fiscal quarter of 2013 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

**Table of Contents**

**PART II. OTHER INFORMATION**

**Item 1. Legal Proceedings**

None.

**Item 1A. Risk Factors**

In addition to the other information set forth in this report, you should carefully consider the factors discussed in the **Risk Factors** section of Amendment Number 6 to our Form N-2 filed on August 7, 2012, which could materially affect our business, financial condition and/or operating results. These risks are not the only risks facing our Company. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially and adversely affect our business, financial condition and/or operating results.

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

On April 2, 2012, the Company announced that a subsidiary of Apollo Global Management, LLC purchased approximately \$50 million, or approximately 5,900,000 newly issued shares, of the Company's common stock, at an estimated NAV of \$8.45 per share. The final number of shares issued is 5,847,953, based on the NAV as of March 31, 2012 of \$8.55 per share. AIC's Investment Advisor, Apollo Investment Management, L.P., or AIM, is waiving the base management and incentive fees associated with this equity capital for a one year period between April 2, 2012 and April 1, 2013. The Company sold these shares without registration under the Securities Act of 1933, as amended, and the rules and regulations of the Securities and Exchange Commission (the **Securities Act**), in reliance on an exemption pursuant to Section 4(2) under the Securities Act.

**Item 3. Defaults Upon Senior Securities**

None.

**Item 4. Mine Safety Disclosures**

Not Applicable.

**Item 5. Other Information**

None.

**Table of Contents**

**Item 6. Exhibits**

(a) Exhibits

Listed below are the exhibits that are filed as part of this report (according to the number assigned to them in Item 601 of Regulation S-K):

- 3.1 Articles of Amendment and Restatement, as amended (1)
- 3.2 Third Amended and Restated Bylaws (2)
- 4.1 Form of Stock Certificate (3)
- 4.2 In accordance with Item 601(b)(4)(iii)(A) of Regulation S-K, certain instruments respecting long-term debt of the registrant have been omitted but will be furnished to the Commission upon request.
- 10.1 Amended and Restated Investment Advisory Management Agreement between Registrant and Apollo Investment Management, L.P. (4)
- 10.2 Amended and Restated Administration Agreement between Registrant and Apollo Investment Administration, LLC (4)
- 10.3 Dividend Reinvestment Plan (3)
- 10.4 Custodian Agreement (3)
- 10.5 License Agreement between the Registrant and Apollo Management, L.P. (5)
- 10.6 Form of Transfer Agency and Service Agreement (4)
- 10.7 Amended and Restated Senior Secured Revolving Credit Agreement (5)
- 22.1 Proxy Statement (6)
- 31.1\* Certification of Chief Executive Officer Pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934.
- 31.2\* Certification of Chief Financial Officer Pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934.

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32.1\* Certification of Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. 1350).

32.2\* Certification of Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. 1350).

\* Filed herewith.

- (1) Incorporated by reference from the Registrant's post-effective Amendment No. 1 to the Registration Statement under the Securities Act of 1933, as amended, on Form N-2, filed on August 14, 2006.
- (2) Incorporated by reference from the Registrant's Form 8-K filed on November 6, 2009.
- (3) Incorporated by reference from the Registrant's pre-effective Amendment No. 1 to the Registration Statement under the Securities Act of 1933, as amended, on Form N-2, filed on March 12, 2004.
- (4) Incorporated by reference from the Registrant's Form 10-K, filed on May 26, 2010.
- (5) Incorporated by reference from the Registrant's Form 10-K, filed on May 23, 2012.
- (6) Incorporated by reference from the Registrant's 14A filed on June 25, 2012.

**Table of Contents**

**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized on August 8, 2012.

**APOLLO INVESTMENT CORPORATION**

**By: /s/ JAMES C. ZELTER**

James C. Zelter  
Chief Executive Officer

**By: /s/ GREGORY W. HUNT**

Gregory W. Hunt  
Chief Financial Officer and Treasurer