

APOLLO INVESTMENT CORP  
Form 10-Q  
February 06, 2013  
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 December 31, 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 February 5, 2013 was 202,891,351.

**Table of Contents**

**APOLLO INVESTMENT CORPORATION**

**FORM 10-Q FOR THE QUARTER ENDED DECEMBER 31, 2012**

**TABLE OF CONTENTS**

	<b>PAGE</b>
<b>PART I. FINANCIAL INFORMATION</b>	
Item 1.	<b><u>FINANCIAL STATEMENTS</u></b>
	3
	<u>Statements of Assets and Liabilities as of December 31, 2012 and March 31, 2012</u>
	3
	<u>Statements of Operations for the three and nine months ended December 31, 2012 and December 31, 2011</u>
	4
	<u>Statements of Changes in Net Assets for the nine months ended December 31, 2012 and the year ended March 31, 2012</u>
	5
	<u>Statements of Cash Flows for the nine months ended December 31, 2012 and December 31, 2011</u>
	6
	<u>Schedule of Investments as of December 31, 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>
	42
Item 2.	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>
	43
Item 3.	<u>Quantitative and Qualitative Disclosures About Market Risk</u>
	57
Item 4.	<u>Controls and Procedures</u>
	57
<b>PART II. OTHER INFORMATION</b>	
Item 1.	<u>Legal Proceedings</u>
	58
Item 1A.	<u>Risk Factors</u>
	58
Item 2.	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>
	58
Item 3.	<u>Defaults Upon Senior Securities</u>
	58
Item 4.	<u>Mine Safety Disclosures</u>
	58
Item 5.	<u>Other Information</u>
	58
Item 6.	<u>Exhibits</u>
	59
	<u>Signatures</u>
	60

**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)

	December 31, 2012 (unaudited)	March 31, 2012
<b>Assets</b>		
Non-controlled/non-affiliated investments, at fair value (cost \$2,514,108 and \$2,642,702, respectively)	\$ 2,355,739	\$ 2,490,672
Controlled investments, at fair value (cost \$301,791 and \$208,882, respectively)	271,284	186,408
Cash	41,521	1,665
Foreign currency (cost \$2,168 and \$1,013, respectively)	2,169	1,013
Receivable for investments sold	36,128	19,606
Interest receivable	42,949	54,409
Dividends receivable	1	2,898
Deferred financing costs	28,621	17,309
Prepaid expenses and other assets	1,086	1,283
<b>Total assets</b>	<b>\$ 2,779,498</b>	<b>\$ 2,775,263</b>
<b>Liabilities</b>		
Debt (see note 7, 9 & 10)	\$ 1,040,944	\$ 1,009,337
Payable for investments	4,000	
Dividends payable	40,578	39,409
Management and performance-based incentive fees payable (see note 3)	25,213	24,402
Interest payable	12,078	10,102
Accrued administrative expenses	1,385	3,420
Other liabilities and accrued expenses	3,153	3,362
<b>Total liabilities</b>	<b>\$ 1,127,351</b>	<b>\$ 1,090,032</b>
<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)	(31,337)	(34,896)
Accumulated net realized loss (see note 2f)	(1,064,137)	(995,426)
Net unrealized depreciation	(188,903)	(170,971)
<b>Total net assets</b>	<b>\$ 1,652,147</b>	<b>\$ 1,685,231</b>
<b>Total liabilities and net assets</b>	<b>\$ 2,779,498</b>	<b>\$ 2,775,263</b>
<b>Net asset value per share</b>	<b>\$ 8.14</b>	<b>\$ 8.55</b>

See notes to financial statements.

**Table of Contents****APOLLO INVESTMENT CORPORATION****STATEMENTS OF OPERATIONS (unaudited)**

(in thousands, except per share amounts)

	Three months ended		Nine months ended	
	December 31, 2012	December 31, 2011	December 31, 2012	December 31, 2011
<b>INVESTMENT INCOME:</b>				
From non-controlled/non-affiliated investments:				
Interest	\$ 73,245	\$ 77,220	\$ 216,157	\$ 238,264
Dividends	84	1,125	2,102	5,410
Other income	5,121	3,521	13,620	16,761
From non-controlled/affiliated investments:				
Interest				899
From controlled investments:				
Interest	2,431	1,297	5,025	2,565
Dividends	2,331	652	10,473	8,489
<b>Total investment income</b>	<b>\$ 83,212</b>	<b>\$ 83,815</b>	<b>\$ 247,377</b>	<b>\$ 272,388</b>
<b>EXPENSES:</b>				
Management fees (see note 3)	\$ 13,456	\$ 14,693	\$ 40,346	\$ 46,171
Performance-based incentive fees (see note 3)	10,047	9,634	29,919	29,398
Interest and other debt expenses	14,651	16,926	42,757	50,222
Administrative services expense	1,118	1,500	2,637	3,887
Other general and administrative expenses	1,860	2,524	6,424	10,978
<b>Total expenses</b>	<b>41,132</b>	<b>45,277</b>	<b>122,083</b>	<b>140,656</b>
<b>Net investment income</b>	<b>\$ 42,080</b>	<b>\$ 38,538</b>	<b>\$ 125,294</b>	<b>\$ 131,732</b>
<b>REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS, CASH EQUIVALENTS AND FOREIGN CURRENCIES:</b>				
Net realized gain (loss):				
Investments and cash equivalents	\$ (10,366)	\$ (276,031)	\$ (69,380)	\$ (340,621)
Foreign currencies	1,061	1,036	669	(507)
<b>Net realized loss</b>	<b>(9,305)</b>	<b>(274,995)</b>	<b>(68,711)</b>	<b>(341,128)</b>
Net change in unrealized depreciation/appreciation:				
Investments and cash equivalents	(51,309)	298,005	(14,426)	(7,464)
Foreign currencies	(4,210)	2,149	(3,506)	13,363
<b>Net change in unrealized depreciation/appreciation</b>	<b>(55,519)</b>	<b>300,154</b>	<b>(17,932)</b>	<b>5,899</b>
<b>Net realized and unrealized gain (loss) from investments, cash equivalents and foreign currencies</b>	<b>(64,824)</b>	<b>25,159</b>	<b>(86,643)</b>	<b>(335,229)</b>
<b>NET INCREASE (DECREASE) IN NET ASSETS RESULTING FROM OPERATIONS</b>	<b>\$ (22,744)</b>	<b>\$ 63,697</b>	<b>\$ 38,651</b>	<b>\$ (203,497)</b>

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<b>EARNINGS GAIN (LOSS) PER SHARE BASIC (see note 5)</b>	\$ (0.11)	\$ 0.32	\$ 0.19	\$ (1.04)
<b>EARNINGS GAIN (LOSS) PER SHARE DILUTED (see note 5)</b>	\$ (0.11)	\$ 0.31	\$ 0.19	\$ (1.04)

See notes to financial statements.

**Table of Contents**

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

(in thousands, except shares)

	Nine months ended December 31, 2012 (unaudited)	Year ended March 31, 2012
<b>Increase (decrease) in net assets from operations:</b>		
Net investment income	\$ 125,294	\$ 172,742
Net realized loss	(68,711)	(341,443)
Net change in unrealized depreciation/appreciation	(17,932)	82,437
Net increase (decrease) in net assets resulting from operations	38,651	(86,264)
<b>Dividends and distributions to stockholders:</b>		
From net investment income	(121,735)	(172,742)
From other sources		(31,685)
Net dividends and distributions to stockholders:	(121,735)	(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>		
Net assets at beginning of period	1,685,231	1,961,031
Net assets at end of period	\$ 1,652,147	\$ 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)

	<b>Nine months ended December 31,</b>	
	<b>2012</b>	<b>2011</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net increase (decrease) in net assets resulting from operations	\$ 38,651	\$ (203,497)
<i>Adjustments to reconcile net increase (decrease) :</i>		
PIK interest and dividends	(15,012)	(11,788)
Net amortization on investments	(18,051)	(14,069)
Amortization of deferred financing costs	7,089	7,530
Increase (decrease) from foreign currency transactions	940	(888)
Net change in unrealized depreciation/(appreciation) on investments, cash equivalents and foreign currencies	17,932	(5,899)
Net realized loss on investments, cash equivalents and foreign currencies	68,711	341,128
<i>Changes in operating assets and liabilities:</i>		
Purchase of investments	(1,109,290)	(1,333,476)
Proceeds from disposition of investments and cash equivalents	1,108,555	1,282,605
Decrease (increase) in interest and dividends receivable	14,357	(9,701)
Decrease in prepaid expenses and other assets	197	66
Increase (decrease) in management and performance-based incentive fees payable	811	(3,226)
Increase in interest payable	1,976	911
(Decrease) increase in accrued expenses and other liabilities	(2,244)	206
Increase (decrease) in payable for investments	4,000	(12,382)
Increase in receivable for investments sold	(16,522)	(68,349)
Net cash provided by (used in) operating activities	\$ 102,100	\$ (30,829)
<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		(6)
Dividends paid in cash	(120,565)	(149,689)
Proceeds from debt	852,939	1,891,011
Payments on debt	(825,063)	(1,717,542)
Due to custodian		2,064
Deferred financing costs paid	(18,400)	(728)
Net cash (used in) provided by financing activities	\$ (61,089)	\$ 25,110
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>\$ 41,011</b>	<b>\$ (5,719)</b>
Effect of exchange rates on cash balances	1	
<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>\$ 43,690</b>	<b>\$ 635</b>

Non-cash financing activities consist of the reinvestment of dividends totaling \$0 and \$14,897 for the nine months ended December 31, 2012 and 2011, respectively.

See notes to financial statements.



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

December 31, 2012

(in thousands)

INVESTMENTS IN NON-CONTROLLED/NON-AFFILIATED INVESTMENTS 142.6%	Industry	Par Amount*	Cost	Fair Value (1)
<b>CORPORATE DEBT 136.4%</b>				
<b>BANK DEBT/SENIOR SECURED LOANS 62.8%</b>				
<b>1st Lien Bank Debt/Senior Secured Loans 18.3%</b>				
Amaya Gaming Group, Inc., L+775 11/05/15	Consumer Products	\$ 15,000	\$ 14,785	\$ 15,075
ATI Acquisition Company, P+1400 (P+1000 Cash / 4.00% PIK), 6/30/12***	Education	4,631	3,895	800
ATI Acquisition Company, P+900 (P+500 Cash / 4.00% PIK), 12/30/14***	Education	15,343	12,596	
Aventine Renewable Energy Holdings, Inc., 12.00%, 9/23/16	Chemicals	3,966	3,850	3,827
Aventine Renewable Energy Holdings, Inc., 10.50% Cash or 15.00% PIK, 9/22/17	Chemicals	11,679	15,773	8,993
Aveta, Inc., L+825, 10/09/17	Healthcare	69,594	67,523	69,594
Dark Castle Holdings, LLC, L+225, 3/25/13	Media	36,920	13,163	11,814
Delta Educational Systems, Inc., 16.00% (8.00% Cash/8.00% PIK), 12/10/2016	Education	5,000	5,000	5,000
Evergreen Tank Solutions, Inc., L+800, 10/26/18	Manufacturing	32,000	31,377	32,000
Garden Fresh Restaurant Corp., L+525 (L+475 Cash/0.5% PIK), 6/11/2013	Retail	2,500	2,500	2,500
Garden Fresh Restaurant Corp., L+625 (L+575 Cash/0.5% PIK), 6/11/2013	Retail	2,500	2,450	2,500
Miller Energy Resources, Inc., 18.00% (15.00% Cash / 3.00% PIK Option), 6/29/17	Energy	40,000	40,000	40,000
Osage Exploration & Development, Inc., L+1500, 4/27/2015	Energy	3,000	2,943	3,000
Panda Sherman Power, LLC, L+750, 9/14/18	Power	15,000	14,783	15,300
Panda Temple Power, LLC, L+1000, 7/17/18	Power	25,500	25,016	25,946
Pelican Energy, LLC, 10.00% or 11.00% PIK, 12/31/2018	Energy	5,647	5,647	5,704
Penton Media, Inc., L+400 (L+300 Cash / 1.00% PIK), 8/1/14	Printing & Publishing	34,908	31,449	31,134
RBS Holding Company, LLC, L+500, 3/23/17	Business Services	15,720	15,600	5,816
Spotted Hawk Development LLC, 14.00% (13.00% Cash/ 1.00% PIK), 6/30/16	Energy	24,003	23,153	22,626
<b>Total 1st Lien Bank Debt/Senior Secured Loans</b>			<b>\$ 331,503</b>	<b>\$ 301,629</b>
<b>2nd Lien Bank Debt/Senior Secured Loans 44.5%</b>				
Advantage Sales & Marketing, Inc., L+775, 6/18/18	Grocery	\$ 38,000	\$ 37,849	\$ 38,190
Allied Security Holdings, LLC, L+825, 2/2/18	Business Services	31,000	30,754	31,155
Brock Holdings III, Inc., L+825, 3/16/18	Environmental & Facilities Services	39,000	38,369	39,341
Cengage Learning Acquisitions Inc., 12.00%, 6/30/19	Education	69,597	59,691	32,015
Clean Earth, Inc., 13.00%, 8/1/14	Environmental & Facilities Services	25,000	25,000	24,750
Confie Seguros II, L+900 11/8/19	Consumer Products	15,000	14,704	15,075

See notes to financial statements.

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

<b>INVESTMENTS IN NON-CONTROLLED/NON-AFFILIATED INVESTMENTS 142.6%</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>				
Garden Fresh Restaurant Corp., L+1175 (L+975 Cash/2.00% PIK), 12/11/13	Retail	\$ 46,836	\$ 47,474	\$ 44,494
GCA Services Group, Inc., L+800, 10/11/20	Environmental & Facilities Services	19,547	19,354	19,400
Grocery Outlet Inc., L+925 06/17/19	Grocery	10,500	10,291	10,382
Insight Pharmaceuticals, LLC, L+1175, 8/25/17	Consumer Products	15,448	15,189	15,757
IPC Systems, Inc., L+525, 6/1/15	Telecommunications	44,250	42,601	35,179
Kronos, Inc., L+850, 04/25/20	Electronics	56,358	55,243	56,640
Ozburn-Hessey Holding Company LLC, L+950, 10/8/16	Transportation	25,333	25,308	23,307
PH Holdings LLC, 9.75%, 12/31/17	Homebuilding	20,000	19,616	20,600
Ranpak Corp., L+750, 10/20/17	Packaging	85,000	85,000	84,150
Ranpak Corp., E+775, 10/20/17	Packaging	40,000	58,042	52,736
Sedgwick Holdings, Inc., L+750, 5/26/17	Business Services	\$ 15,225	15,064	15,453
Smart & Final Stores LLC, L+925 11/08/20	Grocery	17,260	16,745	17,174
TransFirst Holdings, Inc., L+600 Cash or L+675 PIK, 6/15/15	Financial Services	61,250	59,415	60,638
U.S. Renal Care, Inc., L+900, 01/03/20	Healthcare	4,910	4,816	4,993
Valerus Compression Services, LP, 11.50%, 3/26/18	Manufacturing	40,000	40,000	41,200
Venoco, Inc., L+700, 6/30/2017	Energy	4,000	3,923	4,110
Vertafore, Inc., L+825, 10/29/17	Business Services	49,260	48,886	49,506
<b>Total 2<sup>nd</sup> Lien Bank Debt/Senior Secured Loans</b>			<b>\$ 773,334</b>	<b>\$ 736,245</b>
<b>TOTAL BANK DEBT/SENIOR SECURED LOANS</b>			<b>\$ 1,104,837</b>	<b>\$ 1,037,874</b>
<b><u>Subordinated Debt/Corporate Notes 73.6%</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	2,287	1,524
Altegrity Inc., 11.75%, 5/1/16 "	Diversified Service	14,639	11,688	11,052
Altegrity Inc., 12.00%, 11/1/15 "	Diversified Service	100,000	100,000	89,000
American Tire Distributors, Inc., 11.50%, 6/1/18 "	Distribution	25,000	25,000	26,280
Angelica Corporation, 15.00% (12.00% Cash / 3.00% PIK), 10/15/16	Healthcare	46,284	46,284	47,210
ATI Acquisition Company, P+1400 (P+1000 Cash / 4.00% PIK), 12/30/15***	Education	46,690	37,867	
Avaya Inc., 10.125% Cash or 10.875% PIK, 11/1/15	Telecommunications	18,577	16,664	16,719
BCA Osprey II Limited (British Car Auctions), 12.50% PIK, 8/17/17	Transportation	£ 25,609	40,603	37,590

See notes to financial statements.

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

<b>INVESTMENTS IN NON-CONTROLLED/NON-AFFILIATED INVESTMENTS 142.6%</b>	<b>Industry</b>	<b>Par Amount*</b>	<b>Cost</b>	<b>Fair Value (1)</b>
<b>Subordinated Debt/Corporate Notes (continued)</b>				
BCA Osprey II Limited (British Car Auctions), 12.50% PIK, 8/17/17	Transportation	15,528	\$ 21,487	\$ 18,486
Ceridian Corp., 12.25% Cash or 13.00% PIK, 11/15/15	Diversified Service	\$ 80,950	80,870	81,355
Ceridian Corp., 11.25%, 11/15/15	Diversified Service	35,800	35,816	36,068
Delta Educational Systems, Inc., 16.00% (10.00% Cash/ 6% PIK), 05/12/17	Education	20,171	19,748	18,860
Denver Parent (Venoco), 18.00% 10/03/15	Energy	20,000	20,000	21,200
Exova Limited, 10.50%, 10/15/18 "	Business Services	£ 18,000	28,823	31,124
Exova Limited, 10.50%, 10/15/18	Business Services	12,655	17,031	21,882
Intelsat Bermuda Ltd., 11.25%, 2/4/17	Broadcasting & Entertainment	\$ 44,000	45,131	46,722
Intelsat Bermuda Ltd., 11.50% Cash or 12.50% PIK, 2/4/17	Broadcasting & Entertainment	20,000	19,895	21,212
inVentiv Health, Inc., 11.00%, 8/15/18	Healthcare	160,000	160,000	138,800
Laureate Education, Inc., 12.75%, 8/15/17 "	Education	53,540	54,620	57,020
Lonestar Intermediate Super Holdings (Asurion), LLC, L+950, 9/2/19	Insurance	41,922	41,773	44,542
Nara Cable Funding Limited, 8.875%, 12/01/18 "	Broadcasting & Entertainment	9,284	7,975	9,354
SeaCube Container Leasing Ltd., 11.00%, 4/28/16	Transportation	50,000	50,000	51,500
SquareTwo Financial Corp. (Collect America, Ltd.), 11.625%, 4/1/17	Finance	51,079	49,342	48,525
Texas Competitive Electric Holdings Company LLC, 11.50%, 10/1/20 "	Utilities	50,000	49,686	39,125
Travelport LLC, 9.875%, 9/1/14	Business Services	19,779	18,934	17,406
Travelport LLC, L+462.5, 9/1/14	Business Services	13,000	11,538	10,660
Univar Inc., 12.00%, 6/30/18	Distribution	78,750	80,251	80,246
U.S. Security Associates Holdings, Inc., 11.00%, 7/28/18	Business Services	135,000	135,000	138,105
Varietal Distribution, 10.75%, 6/30/17	Distribution	5,187	6,379	6,975
Varietal Distribution, 10.75%, 6/30/17	Distribution	\$ 22,204	21,820	22,648
<b>Total Subordinated Debt/Corporate Notes</b>			<b>\$ 1,281,512</b>	<b>\$ 1,215,815</b>
<b>TOTAL CORPORATE DEBT</b>			<b>\$ 2,386,349</b>	<b>\$ 2,253,689</b>
<b>COLLATERALIZED LOAN OBLIGATIONS 1.7%</b>				
Jamestown CLO I LTD, L+550, 11/05/24	Finance	\$ 3,800	\$ 3,367	\$ 3,385
Jamestown CLO I LTD, L+400, 11/05/24	Finance	1,120	1,022	1,034
Jamestown CLO I LTD, Subordinated Notes 11/05/24	Finance		14,032	14,020
Westbrook CLO Ltd., Series 2006-1A, Class E L+370, 12/20/20 "	Finance	11,000	7,299	9,020
<b>TOTAL COLLATERALIZED LOAN OBLIGATIONS</b>			<b>\$ 25,720</b>	<b>\$ 27,459</b>

See notes to financial statements.



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

<b>INVESTMENTS IN NON-CONTROLLED/NON-AFFILIATED INVESTMENTS 142.6%</b>	<b>Industry</b>	<b>Shares</b>	<b>Cost</b>	<b>Fair Value (1)</b>
<b><u>PREFERRED EQUITY 0.7%</u></b>				
AHC Mezzanine LLC (Advanstar) **	Media		\$ 1,063	\$ 215
CA Holding, Inc. (Collect America, Ltd.) Series A **	Finance	7,961	788	1,592
Gryphon Colleges Corporation (Delta Educational Systems, Inc.), 13.50% PIK, 5/12/14 ***	Education	12,360	27,685	6,929
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	4,790	2,668
<b>TOTAL PREFERRED EQUITY</b>			<b>\$ 41,189</b>	<b>\$ 11,404</b>
<b><u>EQUITY 3.8%</u></b>				
<b><u>Common Equity/Interests 3.3%</u></b>				
Accelerate Parent Corp. (American Tire) **	Distribution	3,125,000	\$ 3,125	\$ 3,720
Altegrity Holding Corp. **	Diversified Service	353,399	13,797	2,609
Aventine Renewable Energy Holdings, Inc.**	Chemicals	262,036	4,684	3,182
CA Holding, Inc. (Collect America, Ltd.) Series A **	Finance	25,000	2,500	2,498
CA Holding, Inc. (Collect America, Ltd.) Series AA **	Finance	4,294	429	859
Clothesline Holdings, Inc. (Angelica Corporation) **	Healthcare	6,000	6,000	2,879
Explorer Coinvest LLC (Booz Allen) **	Consulting Services	430	3,322	5,567
Garden Fresh Restaurant Holding, LLC **	Retail	50,000	5,000	702
Gryphon Colleges Corporation (Delta Educational Systems, Inc.)**	Education	17,500	175	
GS Prysmian Co-Invest L.P. (Prysmian Cables & Systems) (2,3) **	Manufacturing			164
JV Note Holdco LLC (DSI Renal Inc.) **	Healthcare	9,303	85	89
Penton Business Media Holdings, LLC **	Printing & Publishing	124	4,950	11,521
RC Coinvestment, LLC (Ranpak Corp.) **	Packaging	50,000	5,000	8,151
Sorenson Communications Holdings, LLC Class A **	Consumer Products	454,828	45	1,530
Univar Inc. **	Distribution	900,000	9,000	11,310
Varietal Distribution Holdings, LLC Class A **	Distribution	28,028	28	
<b>Total Common Equity/Interests</b>			<b>\$ 58,140</b>	<b>\$ 54,781</b>

See notes to financial statements.

**Table of Contents****APOLLO INVESTMENT CORPORATION****SCHEDULE OF INVESTMENTS (unaudited) (continued)****December 31, 2012****(in thousands, except shares and warrants)**

<b>INVESTMENTS IN NON-CONTROLLED/ NON-AFFILIATED INVESTMENTS 142.6%</b>	<b>Industry</b>	<b>Warrants</b>	<b>Cost</b>	<b>Fair Value (1)</b>
<b>Warrants 0.5%</b>				
CA Holding, Inc. (Collect America, Ltd.), Common **	Finance	7,961	\$ 8	\$
Fidji Luxco (BC) S.C.A., Common (FCI) (2) **	Electronics	24,862	250	5,942
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	
Gryphon Colleges Corporation (Delta Educational Systems, Inc.), Class B-1 Preferred **	Education	104,314	1,043	
Osage Exploration & Development, Inc. **	Energy	1,496,843		1,087
Spotted Hawk Development LLC, Common **	Energy	54,545	852	1,377
<b>Total Warrants</b>			<b>\$ 2,710</b>	<b>\$ 8,406</b>
<b>TOTAL EQUITY</b>			<b>\$ 60,850</b>	<b>\$ 63,187</b>
<b>Total Investments in Non-Controlled/ Non-Affiliated Investments</b>			<b>\$ 2,514,108</b>	<b>\$ 2,355,739</b>

See notes to financial statements.



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

December 31, 2012

(in thousands, except shares)

	Industry	Par Amount*	Cost	Fair Value (1)
<b>INVESTMENTS IN CONTROLLED INVESTMENTS 16.4% (4)</b>				
<b><u>CORPORATE DEBT 3.2%</u></b>				
<b><u>2nd Lien Bank Debt/Senior Secured Loans 0.6%</u></b>				
LVI Services, Inc., 12.50%, 03/06/2018	Environmental & Facilities Services	\$ 10,000	\$ 9,808	\$ 9,900
<b>Total 2<sup>nd</sup> Lien Bank Debt/Senior Secured Loans</b>			<b>\$ 9,808</b>	<b>\$ 9,900</b>
<b><u>Subordinated Debt/Corporate Notes 2.6%</u></b>				
Playpower Holdings Inc., 14.00% PIK, 12/15/15	Leisure Equipment	18,427	\$ 24,468	\$ 23,991
Playpower, Inc., 12.50% PIK, 12/31/15	Leisure Equipment	£ 11,942	18,222	19,169
<b>Total Subordinated Debt/Corporate Notes</b>			<b>\$ 42,690</b>	<b>\$ 43,160</b>
<b>TOTAL CORPORATE DEBT</b>			<b>\$ 52,498</b>	<b>\$ 53,060</b>
<b>Shares</b>				
<b><u>COLLATERALIZED LOAN OBLIGATIONS 5.6%</u></b>				
Kirkwood Fund I LLC, Common Interest	Finance		\$ 40,385	\$ 43,176
Kirkwood Fund II LLC, Common Interest	Finance		41,067	42,545
Slater Mill Loan Fund LP 2012-1X LP Certificates	Finance	8,375,000	7,370	7,538
<b>TOTAL COLLATERALIZED LOAN OBLIGATIONS</b>			<b>\$ 88,822</b>	<b>\$ 93,259</b>
<b>Shares</b>				
<b><u>EQUITY 7.6%</u></b>				
<b><u>Common Equity/Interests 7.6%</u></b>				
AIC Credit Opportunity Fund LLC (5)	Finance		\$ 52,214	\$ 51,342
Generation Brands Holdings, Inc. (Quality Home Brands) **	Consumer Products	750		39
Generation Brands Holdings, Inc. Series H (Quality Home Brands) **	Consumer Products	7,500	2,297	390
Generation Brands Holdings, Inc. Series 2L (Quality Home Brands) **	Consumer Products	44,957	11,242	2,337
LVI Parent Corp. (LVI Services, Inc.) **	Environmental & Facilities Services	14,981	16,096	25,946
Merx Aviation Finance Holdings, LLC **	Financial Services		900	900
Playpower Holdings Inc. **	Leisure Equipment	1,000	77,722	44,011
<b>Total Common Equity/Interests</b>			<b>\$ 160,471</b>	<b>\$ 124,965</b>

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<b>TOTAL EQUITY</b>	<b>\$ 160,471</b>	<b>\$ 124,965</b>
<b>Total Investments in Controlled Investments</b>	<b>\$ 301,791</b>	<b>\$ 271,284</b>
<b>Total Investments 159.0% (6,7)</b>	<b>\$ 2,815,899</b>	<b>\$ 2,627,023</b>
<b>Liabilities in Excess of Other Assets (59.0%)</b>		<b>(974,876)</b>
<b>Net Assets 100.0%</b>		<b>\$ 1,652,147</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)****December 31, 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 nine months ended December 31, 2012 in these Controlled investments are as follows:

<b>Name of Issuer</b>	<b>Fair Value at March 31, 2012</b>	<b>Gross Additions</b>	<b>Gross Reductions</b>	<b>Interest/Dividend/ Other Income</b>	<b>Fair Value at December 31, 2012</b>
LVI Services, Inc., 12.50%, 03/06/2018	N/A	\$ 9,800	\$	\$ 317	\$ 9,900
Playpower Holdings, Inc., 14.00% PIK	\$ 21,576	2,339		2,314	23,991
Playpower, Inc., 12.50% PIK	16,960	1,691		1,840	19,169
Kirkwood Fund I LLC CLO Common Interest CLO	N/A	40,385		3,488	43,176
Kirkwood Fund II LLC CLO Common Interest CLO	N/A	41,067			42,545
Slater Mill Loan Fund LP 2012 -1X LP CLO Equity Interest	N/A	7,370		659	7,538
AIC Credit Opportunity Fund LLC Common Equity	56,034	575	(13,729)	4,407	51,342
Generation Brands Holdings, Inc. (Quality Home Brands) Common Equity	130				39
Generation Brands Holdings, Inc. (Quality Home Brands) Series H Common Equity	1,300				390
Generation Brands Holdings, Inc. (Quality Home Brands) Series 2L Common Equity	7,793				2,337
LVI Parent Corp. Common Equity	21,504				25,946
Merx Aviation Finance Holdings, LLC Equity Interest	N/A	900			900
Playpower Holdings Inc. Common Equity	61,111				44,011
	\$ 186,408	\$ 104,127	\$ (13,729)	\$ 13,025	\$ 271,284

As of December 31, 2012, the Company has a 100%, 32%, 98%, 98%, 32%, 100%, 100% and 26% equity ownership interest in AIC Credit Opportunity Fund LLC, Generation Brands Holdings, Inc., Kirkwood Fund I LLC, Kirkwood Fund II LLC, LVI Parent Corp., Playpower Holdings Inc., Merx Aviation Financing Holdings, LLC and Slater Mill Loan Fund LP, respectively.

- (5) See Note 6.
- (6) Aggregate gross unrealized appreciation for federal income tax purposes is \$89,484; aggregate gross unrealized depreciation for federal income tax purposes is \$382,123. Net unrealized depreciation is \$292,639 based on a tax cost of \$2,919,662.
- (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, and differing interest rate characteristics, among other factors. Such factors are usually considered in the determination of fair values.

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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 December 31, 2012</b>
Business Services	12.2%
Healthcare	10.0%
Finance	8.6%
Diversified Service	8.4%
Distribution	6.0%
Packaging	5.5%
Transportation	5.0%
Education	4.6%
Environmental & Facilities Services	4.5%
Energy	3.8%
Grocery	3.4%
Leisure Equipment	3.3%
Broadcasting & Entertainment	2.9%
Manufacturing	2.8%
Electronics	2.4%
Financial Services	2.3%
Telecommunications	2.0%
Consumer Products	1.9%
Retail	1.9%
Insurance	1.7%
Printing & Publishing	1.6%
Power	1.6%
Utilities	1.5%
Homebuilding	0.8%
Chemicals	0.6%
Media	0.5%
Consulting Services	0.2%
<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)

INVESTMENTS IN NON-CONTROLLED/NON AFFILIATED INVESTMENTS 147.8%	Industry	Par Amount*	Cost	Fair Value (1)
<b>CORPORATE DEBT 139.2%</b>				
<b>BANK DEBT/SENIOR SECURED LOANS 47.0%</b>				
<b>1st Lien Bank Debt/Senior Secured Loans 5.6%</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	Printing & Publishing	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>2nd Lien Bank Debt/Senior Secured Loans 41.4%</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 & Facilities Services	39,000	38,302	38,561
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	47,027	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	Transportation	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	Manufacturing	40,000	40,000	40,680
Vertafore, Inc., L+825, 10/29/17	Business Services	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)**

<b>INVESTMENTS IN NON-CONTROLLED/NON AFFILIATED INVESTMENTS 147.8%</b>	<b>Industry</b>	<b>Par Amount*</b>	<b>Cost</b>	<b>Fair Value (1)</b>
<b>Subordinated Debt/Corporate Notes 92.2%</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 "	Business Services	£ 18,000	28,823	25,524
Exova Limited, 10.50%, 10/15/18	Business Services	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	Healthcare	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	Transportation	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 "	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)**

<b>INVESTMENTS IN NON-CONTROLLED/NON AFFILIATED INVESTMENTS 147.8%</b>	<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 "	Finance	\$ 11,000	\$ 7,109	\$ 7,691
<b>TOTAL COLLATERALIZED LOAN OBLIGATIONS</b>			<b>\$ 7,109</b>	<b>\$ 7,691</b>
<b>PREFERRED EQUITY 2.1%</b>				
			<b>Shares</b>	
AHC Mezzanine LLC (Advanstar) **	Media		\$ 1,063	\$ 279
CA Holding, Inc. (Collect America, Ltd.) Series A **	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%	Industry	Shares	Cost	Fair Value (1)
<b><u>EQUITY 6.0%</u></b>				
<b><u>Common Equity/Interests 5.4%</u></b>				
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 **	Finance	25,000	2,500	1,058
CA Holding, Inc. (Collect America, Ltd.) Series AA **	Finance	4,294	429	859
Clothesline Holdings, Inc. (Angelica) **	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) **	Manufacturing			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 **	Printing & Publishing	124	4,950	8,308
RC Coinvestment, LLC (Ranpak Corp.) **	Packaging	50,000	5,000	8,535
Sorenson Communications Holdings, LLC Class A **	Consumer Products	454,828	45	1,380
Univar Inc. **	Distribution	900,000	9,000	13,840
Varietal Distribution Holdings, LLC Class A **	Distribution	28,028	28	
<b>Total Common Equity/Interests</b>			<b>\$ 121,434</b>	<b>\$ 92,224</b>
<b>Warrants</b>				
<b><u>Warrants 0.6%</u></b>				
CA Holding, Inc. (Collect America, Ltd.), Common **	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
<b>Total Warrants</b>			<b>\$ 2,099</b>	<b>\$ 9,729</b>
<b>TOTAL EQUITY</b>			<b>\$ 123,533</b>	<b>\$ 101,953</b>

<b>Total Investments in Non-Controlled/ Non-Affiliated Investments</b>	<b>\$ 2,642,702</b>	<b>\$ 2,490,672</b>
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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**

INVESTMENTS 11.1% (4)	Industry	Par Amount*	Cost	Fair Value (1)
<b>CORPORATE DEBT 2.3%</b>				
<b>Subordinated Debt/Corporate Notes 2.3%</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>

		Shares		
<b>EQUITY 8.8%</b>				
<b>Common Equity/Interests 8.8%</b>				
AIC Credit Opportunity Fund LLC (5)	Finance		\$ 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>

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- (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.
- (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 March 31, 2011</b>	<b>Gross Additions</b>	<b>Gross Reductions</b>	<b>Interest/Dividend/ Other Income</b>	<b>Fair Value at March 31, 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 Equity	95,212	9,317	20,889	13,444	56,034
Generation Brands Holdings, Inc. (Quality Home Brands) Common Equity	8				130
Generation Brands Holdings, Inc. (Quality Home Brands) Series H Common Equity	77				1,300
Generation Brands Holdings, Inc. (Quality Home 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>
Business Services	11.9%
Healthcare	10.3%
Diversified Service	8.9%
Education	7.8%
Distribution	5.6%
Insurance	5.4%
Packaging	5.4%
Broadcasting & Entertainment	5.1%
Transportation	4.9%
Grocery	4.8%
Telecommunications	4.0%
Finance	4.0%
Leisure Equipment	3.7%
Retail	3.3%
Environmental & Facilities Services	3.2%
Electronics	1.6%
Financial Services	1.6%
Manufacturing	1.5%
Printing & Publishing	1.4%
Consulting Services	1.2%
Utilities	1.2%
Consumer Products	1.1%
Chemicals	0.7%
Consumer Services	0.5%
Software	0.5%
Technology	0.4%
Media	0.0%
Total Investments	100.0%

See notes to financial statements.

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**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 in various forms of debt investments, including senior secured loans, subordinated and mezzanine investments, and/or equity in private middle-market companies. From time to time, we may also invest in the securities of public companies. Our portfolio is comprised primarily of investments in 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 by selling 62 million shares of common stock at a price of \$15.00 per share. Since then, and through December 31, 2012, we have raised approximately \$1.9 billion in net proceeds from additional offerings of common stock.

**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 statement of financial statements for the interim period, have been included. Certain industries were reclassified on the Schedule of Investments for March 31, 2012 to conform to the current period's presentation.

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



**Table of Contents**

**APOLLO INVESTMENT CORPORATION**

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

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

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 as an input in the valuation process. For the quarter ended December 31, 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.

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**Table of Contents**

**APOLLO INVESTMENT CORPORATION**

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

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

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.

(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 believes that PIK is expected to be realized. For the nine months ended December 31, 2012, accrued PIK totaled \$13,878 on total investment income of \$247,377. 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.

**Table of Contents**

**APOLLO INVESTMENT CORPORATION**

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

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

(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 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 December 31, 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 gains or losses and unrealized depreciation or appreciation 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 deferred financing costs in the Statement of Assets and Liabilities. 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 deferred financing costs in the Statement of Assets and Liabilities. 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.

**Recent Accounting Pronouncements**

In December 2011, the Financial Accounting Standards Board ( FASB ) issued guidance to enhance disclosures about financial instruments and derivative instruments that are either (1) offset or (2) subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are offset. Under the amended guidance, an entity is required to disclose quantitative information relating to recognized assets and liabilities that are offset or subject to an enforceable master netting arrangement or similar agreement, including the gross amounts of those recognized assets and liabilities, the amounts offset to determine the net amount presented in

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

the statement of financial position, and the net amount presented in the statement of financial position. With respect to amounts subject to an enforceable master netting arrangement or similar agreement which are not offset, disclosure is required of the amounts related to recognized financial instruments and other derivative instruments, the amount related to financial collateral (including cash collateral), and the overall net amount after considering amounts that have not been offset. The guidance is effective for annual reporting periods beginning on or after January 1, 2013 and interim periods within those annual periods and retrospective application is required. As the amendments are limited to disclosure only, the adoption of this guidance is not expected to have a material impact on the financial statements of the Company. The Company will adopt this guidance with the quarter beginning April 1, 2013.

**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, manages the day-to-day operations of, and provides 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, net of payable for cash equivalents purchased 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 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 and incentive fee on the proceeds of the April 2, 2012 common equity issuance. For the three and nine months ended December 31, 2012, total management fees waived were \$399 and \$1,193 respectively. For the three and nine months ended December 31, 2012, total incentive fees waived were \$298 and \$885, respectively.

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 prorated 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

**Table of Contents**

**APOLLO INVESTMENT CORPORATION**

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

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

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 fee for the three and nine months ended December 31, 2012 and December 31, 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 the 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.

AIM is not paid the portion of the incentive fee that is attributable to deferred interest, such as PIK, until the Company receives such interest in cash. The accrual of incentive fees shall be reversed if such interest is reversed in connection with any write off or similar treatment of the investment. Upon payment of the deferred incentive fee, AIM will also receive interest on the deferred interest for the period between the date in which the incentive fee is earned and the date of payment.

For the three and nine months ended December 31, 2012, the Company recognized \$13,456 and \$40,346, respectively, in base management fees and \$10,047 and \$29,919, respectively, in performance-based incentive fees. For the three and nine months ended December 31, 2011, the Company recognized \$14,693 and \$46,171, respectively, in base management fees and \$9,634 and \$29,398, respectively, in performance-based incentive fees. The fees for the three and nine months ended December 31, 2011 reflect a reduction due to a prior payment of an unearned portion of the fees to the Investment Adviser of \$0 and \$2,783, respectively.

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 the allocable portion of overhead and other expenses incurred by the Administrator and requested to be reimbursed for 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. 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 three and nine months ended December 31, 2012, the Company recognized expenses under the Administration Agreement of \$1,118 and \$2,637, respectively. For the three and nine months ended December 31, 2011, the Company recognized expenses under the Administration Agreement of \$1,500 and \$3,887, respectively.

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

At December 31, 2012, the Company's net assets and net asset value per share were \$1,652,147 and \$8.14, respectively. This compares to net assets and net asset value per share at March 31, 2012 of \$1,685,231 and \$8.55, respectively.

**Table of Contents****APOLLO INVESTMENT CORPORATION****NOTES TO FINANCIAL STATEMENTS (unaudited) (continued)****(in thousands except share and per share amounts)****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 and nine months ended December 31, 2012 and December 31, 2011, respectively:

<i>Amounts are in thousands, except per share data</i>	<b>Three months ended</b>		<b>Nine months ended December 30,</b>	
	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>
<b>Earnings per share - basic</b>				
Numerator for increase (decrease) in net assets per share:	\$ (22,744)	\$ 63,697	\$ 38,651	\$ (203,497)
Denominator for basic weighted average shares:	202,891,351	197,022,181	202,870,086	196,431,720
Basic earnings (loss) per share:	\$ (0.11)	\$ 0.32	\$ 0.19	\$ (1.04)
<b>Earnings per share - diluted</b>				
Numerator for increase (decrease) in net assets per share:	\$ (22,744)	\$ 63,697	\$ 38,651	\$ (203,497)
Adjustment for interest on convertible notes and for incentive fees, net	2,575	2,577	7,715	7,729
Numerator for increase (decrease) in net assets per share, as adjusted	\$ (20,169)	\$ 66,274	\$ 46,366	\$ (195,768)
Denominator for weighted average shares, as adjusted for dilutive effect of convertible notes:	217,439,451	211,570,281	217,418,186	210,979,820
Diluted earnings (loss) per share*:	\$ (0.11)*	\$ 0.31	\$ 0.19*	\$ (1.04)*

\* 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 and nine months ended December 31, 2012, anti-dilution would total \$0.02 and \$0.02, respectively. For the nine months ended December 31, 2011, anti-dilution would total \$0.11.

**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. 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 the London Interbank Offered Rate ( 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



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

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 December 31, 2012, the FDC Loan par balance outstanding 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 December 31, 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 matures in June 2015. During the three and nine months ended December 31, 2012, we sold \$0 and £0 and \$23,383 and £12,465 principal amount of the Boots Term Loans, respectively. At December 31, 2012, there was no outstanding principal balance of the Boots Term Loans with the assets representing the receivable due on the sale of the Boots Term Loans.

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



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

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 nine months ended December 31, 2012, \$10,816 of net capital was returned to us from AIC Holdco. The Junior Note and TRS were performing assets as of the date of these financial statements.

Below is summarized financial information for AIC Holdco as of December 31, 2012 and March 31, 2012 and for the nine months ended December 31, 2012 and 2011.

	<b>December 31, 2012</b> <b>(unaudited)</b>	<b>March 31, 2012</b>
<b>Assets</b>		
Cash	\$ 10	\$ 15
Apollo FDC <sup>1</sup>	31,779	27,947
Apollo TXU <sup>2</sup>	26,641	26,066
Apollo Boots <sup>3</sup>	12,128	47,999
Other Assets		2,886
<b>Total Assets</b>	<b>\$ 70,558</b>	<b>\$ 104,913</b>
<b>Liabilities</b>		
Apollo FDC <sup>4</sup>	\$	\$
Apollo TXU <sup>5</sup>	11,125	16,045
Apollo Boots <sup>6</sup>	8,091	29,948
Other Liabilities		2,886
<b>Total Liabilities</b>	<b>\$ 19,216</b>	<b>\$ 48,879</b>
<b>Net Assets</b>		
Apollo FDC	\$ 31,779	\$ 27,947
Apollo TXU	15,516	10,021
Apollo Boots	4,037	18,051
Other	10	15
<b>Total Net Assets</b>	<b>\$ 51,342</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)

	Nine months ended December 31, 2012 (unaudited)	Nine months ended December 31, 2011 (unaudited)
<b>Net Operating Income (Loss)</b>		
Apollo FDC <sup>7</sup>	\$ 2,686	\$ 5,126
Apollo TXU <sup>7</sup>	900	2,480
Apollo Boots <sup>7</sup>	721	933
Other	(5)	(21)
<b>Total Operating Income</b>	<b>\$ 4,302</b>	<b>\$ 8,518</b>
<b>Net Realized Gain (Loss)</b>		
Apollo Boots	\$ 1,513	\$
<b>Total Net Realized Gain (Loss)</b>	<b>\$ 1,513</b>	<b>\$</b>
<b>Net Change in Unrealized Appreciation / Depreciation</b>		
Apollo FDC	\$ 3,832	\$ (17,458)
Apollo TXU	4,920	(9,464)
Apollo Boots	538	(4,333)
<b>Total Net Change in Unrealized Appreciation / Depreciation</b>	<b>\$ 9,290</b>	<b>\$ (31,255)</b>
<b>Net Income (Loss)<sup>8</sup></b>		
Apollo FDC	\$ 6,518	\$ (12,332)
Apollo TXU	5,820	(6,984)
Apollo Boots	2,772	(3,400)
Other	(5)	(21)
<b>Total Net Income (Loss)</b>	<b>\$ 15,105</b>	<b>\$ (22,737)</b>

- (1) Includes fair value of the Junior Note held by Apollo FDC. Cost: \$21,472 and \$21,472, at December 31, 2012 and March 31, 2012, respectively.
- (2) Represents fair value of collateral posted in relation to the TRS held by Apollo TXU. Cost: \$26,641 and \$26,066 at December 31, 2012 and March 31, 2012, 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 period. Cost of outstanding par was \$50,109 at March 31, 2012. There was no outstanding principal balance of the Boots Term loans at December 31, 2012.
- (4) Apollo FDC's interest is subject to a senior note of a separate entity of \$20,283 and \$20,283 at December 31, 2012 and March 31, 2012, 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)

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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 appreciation / depreciation.

**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 December 31, 2012 and March 31, 2012.

	December 31, 2012		March 31, 2012	
	Cost	Fair Value	Cost	Fair Value
Bank Debt/Senior Secured Loans	\$ 1,114,645	\$ 1,047,774	\$ 826,914	\$ 791,810
Subordinated Debt/Corporate Notes	1,324,202	1,258,975	1,684,625	1,592,827
Collateralized Loan Obligations	114,542	120,718	7,109	7,691
Preferred Equity	41,189	11,404	39,017	34,927
Common Equity/Interests	218,611	179,746	291,820	240,096
Warrants	2,710	8,406	2,099	9,729
<b>Total Investments</b>	<b>\$ 2,815,899</b>	<b>\$ 2,627,023</b>	<b>\$ 2,851,584</b>	<b>\$ 2,677,080</b>
Cash Equivalents				
<b>Total Investments and Cash Equivalents</b>	<b>\$ 2,815,899</b>	<b>\$ 2,627,023</b>	<b>\$ 2,851,584</b>	<b>\$ 2,677,080</b>

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

Description	December 31, 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	\$ 1,047,774	\$	\$	\$ 1,047,774
Subordinated Debt/Corporate Notes	1,258,975			1,258,975
Collateralized Loan Obligations	120,718			120,718
Preferred Equity	11,404			11,404
Common Equity/Interests	179,746			179,746
Warrants	8,406			8,406
<b>Total Investments</b>	<b>\$ 2,627,023</b>	<b>\$</b>	<b>\$</b>	<b>\$ 2,627,023</b>
Cash Equivalents				
<b>Total Investments and Cash Equivalents</b>	<b>\$ 2,627,023</b>	<b>\$</b>	<b>\$</b>	<b>\$ 2,627,023</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, 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	\$ 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
<b>Total Investments</b>	<b>\$ 2,677,080</b>	<b>\$</b>	<b>\$</b>	<b>\$ 2,677,080</b>
Cash Equivalents				
<b>Total Investments and Cash Equivalents</b>	<b>\$ 2,677,080</b>	<b>\$</b>	<b>\$</b>	<b>\$ 2,677,080</b>

The following chart shows the components of change in our investments categorized as Level 3, for the nine months ended December 31, 2012.

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)*						
	Bank Debt / Senior Secured Loans	Subordinated Debt/ Corporate Notes	Collateralized Loan Obligations	Preferred Equity	Common 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	(20,099)	(14,411)			(40,302)	5,383	(69,429)
Total change in unrealized depreciation / appreciation included in earnings	(31,763)	26,526	5,582	(25,697)	12,860	(1,934)	(14,426)
Net amortization on investments	5,682	12,054	218	97			18,051
Purchases, including capitalized PIK	649,341	363,328	107,227	2,077	1,476	853	1,124,302
Sales	(342,514)	(721,349)			(39,067)	(5,625)	(1,108,555)
Transfer between asset categories within Level 3 (1)	(4,683)				4,683		
Ending Balance, December 31, 2012	\$ 1,047,774	\$ 1,258,975	\$ 120,718	\$ 11,404	\$ 179,746	\$ 8,406	\$ 2,627,023

The amount of total gains or losses for the period included in earnings attributable to the change in unrealized depreciation / appreciation relating to our Level 3 assets still held at the reporting date and reported within the net change in unrealized depreciation / appreciation on investments in our Statement of Operations.

	\$	(31,607)	\$	12,594	\$	5,592	\$	(25,697)	\$	(32,264)	\$	2,528	\$	(68,854)
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**Table of Contents****APOLLO INVESTMENT CORPORATION****NOTES TO FINANCIAL STATEMENTS (unaudited) (continued)**

(in thousands except share and per share amounts)

(1) There were also no transfers into or out of Level 1 or Level 2 fair value measurements during the period shown. There was a transfer between asset categories due to the restructuring of a portfolio company which altered the securities held by the Company.

\* Pursuant to fair value measurement and disclosure guidance, the Company currently categorizes investments by class as shown above. Accumulated PIK income activity for the nine months ended December 31, 2012:

	<b>Nine Months Ended December 31, 2012</b>
PIK balance at beginning of period	\$ 32,963
Gross PIK income capitalize	15,012
Adjustments due to investment exits	
PIK income received in cash	(5,196)
PIK balance at end of period	\$ 42,779

The following chart shows the components of change in our investments categorized as Level 3, for the nine months ended December 31, 2011.

	<b>Fair Value Measurements Using Significant Unobservable Inputs (Level 3)*</b>						
	<b>Bank Debt / Senior Secured Loans</b>	<b>Subordinated Debt/ Corporate Notes</b>	<b>Collateralized Loan Obligations</b>	<b>Preferred Equity</b>	<b>Common Equity/ Interests</b>	<b>Warrants</b>	<b>Total</b>
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 (losses) included in earnings	4,096	(84,829)		(102,012)	(164,835)	7,013	(340,567)
Total change in unrealized depreciation/appreciation included in earnings	(72,572)	(168,105)	(3,536)	101,023	140,747	(5,021)	(7,464)
Net amortization on investments	2,836	10,796	291	146			14,069
Purchases, including capitalized PIK	376,221	882,685		3,259	83,099		1,345,264
Sales	(507,202)	(729,570)	(7,770)		(28,629)	(9,434)	(1,282,605)
Transfer in and/or out of Level 3 (1)							
Ending Balance, December 31, 2011	\$ 817,124	\$ 1,641,633	\$ 17,755	\$ 35,548	\$ 258,153	\$ 8,642	\$ 2,778,855
The amount of total gains or losses for the period included in earnings attributable to the change in unrealized depreciation / appreciation relating to our Level 3 assets still held at the	\$ (63,343)	\$ (210,087)	\$ (2,914)	\$ (990)	\$ (29,436)	\$ 232	\$ (306,538)

reporting date and reported within the net change in unrealized depreciation / appreciation 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) 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. Accumulated PIK interest activity for the nine months ended December 30, 2011:

	<b>Nine Months Ended December 31, 2011</b>
PIK balance at beginning of period	\$ 165,651
Gross PIK income capitalized	11,788
Adjustments due to investment exits	(87,687)
PIK income received in cash	(59,324)
<b>PIK balance at end of period</b>	<b>\$ 30,428</b>

The following table provides quantitative information about our Level 3 fair value measurements of our investments as of December 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**

	<b>Fair Value as of December 31, 2012</b>	<b>Valuation Techniques/ Methodologies</b>	<b>Unobservable Input</b>	<b>Range (Weighted Average)</b>	
Bank Debt / Senior Secured Loans			Mid of Bid/Ask		
	\$ 733,964	Broker Quote	Spread		n/a
	313,810	Yield Analysis	Discount Rate	7.9%	23.7% (13.5%)
Subordinated Debt / Corporate Notes			Mid of Bid/Ask		
	677,391	Broker Quote	Spread		n/a
	581,584	Yield Analysis	Discount Rate	10.2%	24.0% (13.9%)
Collateralized Loan Obligations			Mid of Bid/Ask		
	34,996	Broker Quote	Spread		n/a
	85,722	Discounted Cash Flow	Discount Rate	13.0%	13.0% (13.0%)
Preferred Equity	11,404	Market Comparable	Comparable		
		Approach	Multiple	4.0x	11.8x (6.6x)

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Common Equity / Interests	2,351 125,890	Discounted Cash Flow Market Comparable	Discount Rate	8.0%	8.5% (8.5%)
		Approach	Comparable Multiple	4.0x	11.8x (8.1x)
	51,505	Net Asset Value	Underlying Assets / Liabilities		n/a
Warrants	7,319	Market Comparable			
		Approach	Comparable Multiple	4.0x	11.8x (6.0x)
	1,087	Other	Illiquidity / Restrictive Discount	20.0%	20.0% (20.0%)
<b>Total Investments</b>	<b>\$ 2,627,023</b>				

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

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 ) comparable multiples and market discount rates. The Company uses EBITDA comparable multiples on its equity securities to determine the fair value of investments. The Company uses market discount 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. Significant increases or decreases in either of these inputs in isolation would result in a significantly lower or higher fair value measurement. The significant unobservable inputs used in the fair value measurement of the collateralized loan obligations include the discount rate applied in the valuation models in addition to default and recovery rates applied to projected cash flows in the valuation models. Specifically, when a discounted cash flow model is used to determine fair value, the significant input used in the valuation model is the discount rate applied to present value the projected cash flows. Increases in the discount rate can significantly lower the fair value of an investment; conversely decreases in the discount rate can significantly increase the fair value of an investment. The discount rate is determined based on the market rates an investor would expect for a similar investment with similar risks.

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

At December 31, 2012, the Company had outstanding non-US borrowings on its Senior Secured Facility (as defined herein) denominated in Euros and British Pounds. Unrealized appreciation on these outstanding borrowings is indicated in the table below:

Foreign Currency	Local Currency	Original Borrowing Cost	Current Value	Reset Date	Unrealized Appreciation (Depreciation)
British Pound	£ 9,000	\$ 14,280	\$ 14,630	01/17/2013	\$ (350)
Euro	78,100	105,023	102,967	01/31/2013	2,056
British Pound	£ 69,300	110,754	112,647	01/31/2013	(1,893)
		\$ 230,057	\$ 230,244		\$ (187)

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 Currency	Original Borrowing Cost	Current Value	Reset Date	Unrealized Appreciation (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 no cash equivalents held at December 31, 2012 and March 31, 2012.

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

(in thousands except share and per share amounts)

**Note 9. Financial Highlights**

The following is a schedule of financial highlights for the nine months ended December 31, 2012 and the year ended March 31, 2012:

	Nine months ended December 31, 2012 (unaudited)	Fiscal year ended March 31, 2012
<b>Per Share Data:</b>		
Net asset value, beginning of period	\$ 8.55	\$ 10.03
Net investment income	0.62	0.88
Net realized and unrealized loss	(0.43)	(1.32)
Net increase/(decrease) in net assets resulting from operations	0.19	(0.44)
Dividends to stockholders from net investment income (1)	(0.60)	(0.88)
Distributions to stockholders from other sources (1)		(0.16)
Effect of anti-dilution (dilution)	*	*
Offering costs		*
Net asset value at end of period	\$ 8.14	\$ 8.55
Per share market price at end of period	\$ 8.36	\$ 7.17
Total return (2)	25.2%	(32.4)%
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)	\$ 1,652.1	\$ 1,685.2
Ratio of net investment income to average net assets (3)	9.72%	9.77%
Ratio of operating expenses to average net assets (3)	6.15%**	6.70%
Ratio of interest and other debt expenses to average net assets (3)	3.32%	3.76%
Ratio of total expenses to average net assets	9.47%**	10.46%
Average debt outstanding	\$ 990,404	\$ 1,213,943
Average debt per share	\$ 4.88	\$ 6.18
Portfolio turnover ratio	41.5%	50.6%

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- (1) Per share amounts reflect total dividends paid divided by the weighted average shares for the respective periods.
  - (2) Total return is not annualized and 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.
  - (3) Annualized
- \* 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 annualized operating expenses to average net assets and the ratio of annualized total expenses to average net assets would be 6.32% and 9.63%, respectively, without the voluntary fee waivers.

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

(in thousands except share and per share amounts)

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 Outstanding (1)</b>	<b>Asset Coverage Per Unit (2)</b>	<b>Involuntary Liquidating Preference Per Unit (3)</b>	<b>Estimated Market Value (4)</b>
<b>Senior Secured Facility</b>				
Fiscal 2013 (through December 31, 2012)	\$ 420,944	\$ 1,046	\$	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 December 31, 2012)	\$ 270,000	\$ 671	\$	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>2042 Notes</b>				
Fiscal 2013 (through December 31, 2012)	\$ 150,000	\$ 373	\$	142,200
Fiscal 2012				N/A
Fiscal 2011				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>Convertible Notes</b>				
Fiscal 2013 (through December 31, 2012)	\$ 200,000	\$ 497	\$	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 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 for Senior Secured Facility, Senior Secured Notes and Convertible Notes as they are not registered for public trading.

**Note 10. Debt**

The Company's outstanding debt obligations as of December 31, 2012 were as follows:

<i>Amounts in 000s</i>	Date Issued / Amended	December 31, 2012		Final Maturity Date
		Total Aggregate Principal Amount Committed	Principal Amount Outstanding	
Senior Secured Facility	2012	\$ 1,140,000	\$ 420,944	2016
Senior Secured Notes	2010	225,000	225,000	2015
Senior Secured Notes (Series A)	2011	29,000	29,000	2016
Senior Secured Notes (Series B)	2011	16,000	16,000	2018
2042 Notes	2012	150,000	150,000	2042
Convertible Notes	2011	200,000	200,000	2016
<b>Total Debt Obligations</b>		<b>\$ 1,760,000</b>	<b>\$ 1,040,944</b>	

*Senior Secured Facility*

On May 23, 2012, the Company amended and restated its senior secured, multi-currency, revolving credit facility (the Senior Secured Facility). The Senior Secured 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 Senior Secured 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 Senior Secured 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 Senior Secured 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 LIBOR Rate. Terms used in the foregoing sentence have the meanings set forth in the Senior Secured Facility. The Senior Secured 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

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**Table of Contents**

**APOLLO INVESTMENT CORPORATION**

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

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

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 Senior Secured 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 Senior Secured Facility was \$719,056 at December 31, 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 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.

*2042 Notes*

On October 9, 2012, the Company issued \$150,000 in aggregate principal amount of 6.625% senior unsecured notes due 2042 for net proceeds of \$145,275 (the 2042 Notes). Interest on the 2042 Notes is paid quarterly on January 15, April 15, July 15 and October 15, at a rate of 6.625% per year, commencing on January 15, 2013. The 2042 Notes will mature on October 15, 2042. The Company may redeem the 2042 Notes in whole or in part at any time or from time to time on or after October 15, 2017. The 2042 Notes are general, unsecured obligations and rank equal in right of payment with all of our existing and future senior, unsecured indebtedness. The 2042 Notes are listed on The New York Stock Exchange under the ticker symbol AIB.

*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

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

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 statement of diluted EPS.

The average outstanding debt balance was \$990,404 and \$1,213,943 for the nine months ended December 31, 2012 and the fiscal year ended March 31, 2012, respectively. The weighted average annual interest cost for the nine months ended December 31, 2012 was 4.50%, exclusive of 1.23% for commitment fees and amortization of debt issuance costs. The weighted average annual interest cost for the nine months ended December 31, 2011 was 4.38%, exclusive of 1.00% 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 nine months ended December 31, 2012 and the fiscal year ended March 31, 2012 was \$1,140,214 and \$1,429,163, respectively, at value. As of December 31, 2012, the Company is in compliance with all debt covenants.

**Note 11. Commitments and Contingencies**

As of December 31, 2012, the Company had outstanding commitments with banks to purchase secured term loans and unsecured bridge loans in the aggregate amount of \$158,353. 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.

As of February 5, 2013 the outstanding commitments with banks to purchase secured term loans and unsecured bridge loans in the aggregate was \$137,475.

The Company had unfunded commitments on senior loans as of December 31, 2012, of \$67,156. The Company also had unfunded commitments on senior loans of \$85,989 which require the borrower to meet certain performance thresholds before the Company is obligated to fulfill the commitments and those performance thresholds were not met as of December 31, 2012.

**Note 12. Subsequent Events**

On February 5, 2013, the Board of Directors declared a dividend of \$0.20 per share for the fourth fiscal quarter of 2013, payable on April 4, 2013 to stockholders of record as of March 21, 2013.

**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 December 31, 2012 and the related statement of operations for the three and nine month periods ended December 31, 2012 and December 31, 2011, and the statement of cash flows for the nine month periods ended December 31, 2012 and December 31, 2011 and the statement of changes in net assets for the nine month period ended December 31, 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 balance sheet information and schedule of investments information, as of March 31, 2012 is fairly stated in all material respects in relation to the statements from which it has been derived.

PricewaterhouseCoopers LLP

New York, New York

February 6, 2013

## **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 December 31, 2012, we have raised approximately \$1.9 billion in net proceeds from additional offerings of common stock.

## **Table of Contents**

### ***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 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 payments-in-kind ( 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;

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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;



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**Table of Contents**

marketing and distribution-related expenses;

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

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 Apollo Administration 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 December 31, 2012, we invested \$515 million across 16 new and 13 existing portfolio companies, through a combination of primary and secondary market purchases. This compares to investing \$95 million in 3 new and 6 existing portfolio companies for the three months ended December 31, 2011. Investments sold or repaid during the three months ended December 31, 2012 totaled \$511 million versus \$175 million for the three months ended December 31, 2011.

At December 31, 2012, our portfolio consisted of 71 portfolio companies and was invested 40% in senior secured loans, 48% in subordinated debt, 0% in preferred equity, 5% in collateralized loan obligations and 7% in common equity and warrants measured at fair value versus 62 portfolio companies invested 30% in senior secured loans, 60% in subordinated debt, 1% in preferred equity, 0% in collateralized loan obligations and 9% in common equity and warrants, measured at fair value at March 31, 2012.

The weighted average yields on our senior secured loan portfolio, subordinated debt portfolio and total debt portfolio as of December 31, 2012 at our current cost basis were 11.2%, 12.6% and 11.9%, respectively, exclusive of securities on non-accrual status. At December 31, 2011, the yields were 9.7%, 12.6% and 11.7%, respectively, exclusive of securities on non-accrual status.

Since the initial public offering of Apollo Investment in April 2004, and through December 31, 2012, invested capital totaled \$9.9 billion in 204 portfolio companies. Over the same period, Apollo Investment completed transactions with more than 100 different financial sponsors.

At December 31, 2012, 61% or \$1.4 billion of our income-bearing investment portfolio is fixed rate and 39% or \$0.9 billion was floating rate, measured at fair value. On a cost basis, 61% or \$1.5 billion of our income-bearing investment portfolio is fixed rate and 39% or \$1.0 billion is floating rate. At March 31, 2012, 67% or \$1.6 billion of our income-bearing investment portfolio was fixed rate and 33% or \$0.8 billion is floating rate, measured at fair value. On a cost basis, 65% or \$1.7 billion of our income-bearing investment portfolio was fixed rate and 35% or \$0.9 billion was floating rate at March 31, 2012.

**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

## **Table of Contents**

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.

### **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

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**Table of Contents**

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 December 31, 2012, there was no change to the Company's valuation techniques considered in the valuation process.

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 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 and nine months ended December 31, 2012, accrued PIK totaled \$5.1 million and \$13.9 million, respectively, on total investment income of \$83.2 million and \$247.4 million, respectively. 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.

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**Table of Contents****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.

**RESULTS OF OPERATIONS**

Results comparisons are for the three and nine months ended December 31, 2012 and December 31, 2011.

**Investment Income**

For the three and nine months ended December 31, 2012, gross investment income totaled \$83.2 million and \$247.4 million, respectively. For the three and nine months ended December 31, 2011, gross investment income totaled \$83.8 million and \$272.4 million, respectively. The decrease in gross investment income for the three and nine months ended December 31, 2012 as compared to the three and nine months ended December 30, 2011 was primarily due to a smaller portfolio base coupled with a change to the portfolio yield due to the repositioning of the portfolio up the capital structure of portfolio companies for both periods.

**Expenses**

Expenses totaled \$41.1 million and \$122.1 million, respectively, for the three and nine months ended December 31, 2012, of which \$23.5 million and \$70.3 million, respectively, were base management fees and performance-based incentive fees and \$14.7 million and \$42.8 million, respectively, were interest and other debt expenses. Administrative services and other general and administrative expenses totaled \$3.0 million and \$9.1 million, respectively, for the three and nine months ended December 31, 2012. Expenses totaled \$45.3 million and \$140.7 million, respectively, for the three and nine months ended December 31, 2011, of which \$24.3 million and \$75.6 million, respectively, were base management fees and performance-based incentive fees and \$16.9 million and \$50.2 million, respectively, were interest and other debt expenses. Administrative services and other general and administrative expenses totaled \$4.0 million and \$14.9 million, respectively, for the three and nine months ended December 31, 2011. 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 decline in expenses for the three and nine months ended December 31, 2012 compared to the three and nine months ended December 31, 2011 was due to multiple factors including a smaller portfolio base and the AIM fee waiver which resulted in lower base management fees. Additionally, the average debt outstanding in the comparable periods was lower in 2012 which resulted in lower interest and debt costs in the comparable periods for 2012. Partially offsetting this decrease was \$1.1 million in net non-recurring expenses relating to the refinancing of our Senior Secured Facility in the June 2012 quarter. In addition, in the nine month period ended December 31, 2011, the Company recognized approximately \$4.0 million in net non-recurring expenses, including legal and other professional expenses of \$4.7 million net of a non-recurring reduction of administrative expenses.

**Net Investment Income**

The Company's net investment income totaled \$42.1 million and \$125.3 million, or \$0.21 and \$0.62, on a per average share basis, respectively, for the three and nine months ended December 31, 2012. The Company's net investment income totaled \$38.5 million and \$131.7 million, or \$0.20 and \$0.67, per average basic share,

**Table of Contents**

respectively, for the three and nine months ended December 31, 2011. For the nine months ended December 31, 2012, the \$125.3 million was net of \$1.1 million of net non-recurring expenses relating to the refinancing of our Senior Secured Facility.

**Net Realized Losses**

The Company had investment sales, prepayments and refinancing totaling \$510.9 million and \$1,108.6 million respectively, for the three and nine months ended December 31, 2012. The Company had investment sales and prepayments totaling \$175 million and \$1.3 billion, respectively, for the three and nine months ended December 31, 2011. Net realized losses for the three and nine months ended December 31, 2012 were \$9.3 million and \$68.7 million, respectively. Net realized losses for the three and nine months ended December 31, 2011 were \$275.0 million and \$341.1 million, respectively. Net realized losses for the three months ended December 31, 2012 were primarily driven from the partial sale of Cengage Learning Acquisitions, Inc. which was partially offset by realized gains from various other investments. Net realized losses for the nine months ended December 31, 2012 were primarily derived from the exits of select investments, including \$42.8 million from the exit of New Omaha Holdings Co-Invests L.P., \$24.0 million from Cengage Learning Acquisitions, Inc. and a foreign exchange loss of \$9.9 million derived from the sale of our investment in AB Acquisitions. A portion of the realized losses incurred upon the exit of these investments reversed out previously reported unrealized losses. Net realized losses for the three and nine month periods ended December 31, 2011 were primarily derived from the exits of select investments, specifically Grand Prix Holdings, which accounted for \$274 million of the realized loss totals, but also included Playpower Holdings, TL Acquisitions and FSC Holdings. The realized losses incurred upon the exit of these investments reversed out previously reported unrealized losses.

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

For the three and nine months ended December 31, 2012, net change in unrealized depreciation on the Company's investments, cash equivalents, foreign currencies and other assets and liabilities totaled (\$55.5) million and (\$17.9) million, respectively. For the three and nine months ended December 31, 2011, net change in unrealized depreciation on the Company's investments, cash equivalents, foreign currencies and other assets and liabilities totaled \$300.2 million and \$5.9 million, respectively. For the three and nine months ended December 31, 2012, the net change in unrealized depreciation was primarily derived from Cengage Learning Acquisitions and Gryphon Colleges Corporation which was partially offset by unrealized appreciation on the remainder of the portfolio which were a result of a combination of improvements in the fundamental operating performance and general capital market conditions.

For the three months ended December 31, 2011, the net positive change in unrealized depreciation was mainly derived from the reclassification of \$274 million of previously recognized unrealized depreciation on our investment in Grand Prix Holdings to a realized loss. For the nine months ended December 31, 2011, the positive change in unrealized depreciation was comprised of the impact from Grand Prix Holdings together with the general decline in capital market conditions during the period.

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

For the three months ended December 31, 2012, the Company had a net decrease in net assets resulting from operations of \$22.7. For the nine months ended December 31, 2012, the Company had a net increase in net assets resulting from operations of \$38.7 million. For the three months ended December 31, 2011, the Company had a net increase in net assets resulting from operations of \$63.7 million. For the nine months ended December 31, 2011, the Company had a net decrease in net assets resulting from operations of \$203.5 million. For the three months ended December 31, 2012 basic and diluted losses per average share were \$0.11 and \$0.11, respectively. For the nine months ended December 31, 2012 basic and diluted earnings per average share were \$0.19 and

**Table of Contents**

\$0.19, respectively. For the three months ended December 31, 2011 basic and diluted earnings per average share were \$0.32 and \$0.31, respectively. For the nine months ended December 31, 2011, basic and diluted losses per average share were \$1.04 and \$1.04, respectively.

**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 Senior Secured Facility maturing on May 23, 2016 (see note 10 within the Notes to Financial Statements), our senior secured notes, our senior unsecured 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 and nine months ended December 31, 2012, accrued PIK totaled \$5.1 and \$13.9 million, respectively, on total investment income of \$83.2 and \$247.4 million, respectively. For the three and nine months ended December 31, 2011, accrued PIK totaled \$4.7 and \$13.1 million, respectively, on total investment income of \$83.8 and \$272.4 million, respectively. At December 31, 2012, the Company had \$421 million in borrowings outstanding on its Senior Secured Facility and \$719 million of unused capacity. As of December 31, 2012, aggregate lender commitments under the Senior Secured Facility total \$1.14 billion.

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 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, or the Securities Act. 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 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

## **Table of Contents**

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 Exchange Act. 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 December 31, 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 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.

In April 2012, the Company announced that a subsidiary of Apollo Global Management, LLC purchased 5,847,953 newly issued shares of the Company 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.

On October 9, 2012, we issued \$150 million in aggregate principal amount of 6.625% senior unsecured notes due 2042 for net proceeds of \$145.3 million (the 2042 Notes). Interest on the 2042 Notes is paid quarterly on January 15, April 15, July 15 and October 15, at a rate of 6.625% per year, commencing on January 15, 2013. The 2042 Notes mature on October 15, 2042. The Company may redeem the 2042 Notes in whole or in part at any time or from time to time on or after October 15, 2017.

## **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 Senior Secured 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 no cash equivalents held as of December 31, 2012.

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

	Payments due by Period as of December 31, 2012 (dollars in millions)				
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Senior Secured Facility (1)	\$ 421	\$	\$ 246	\$ 175	\$
Senior Secured Notes	\$ 225	\$	\$ 225	\$	\$
Senior Secured Notes (Series A)	\$ 29	\$	\$	\$ 29	\$
Senior Secured Notes (Series B)	\$ 16	\$	\$	\$	\$ 16
2042 Notes	\$ 150	\$	\$	\$	\$ 150
Convertible Notes	\$ 200	\$	\$	\$ 200	\$

(1) At December 31, 2012, the Senior Secured Facility had \$719 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 AIA 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 AIA'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 December 31, 2012, the Company had outstanding commitments with banks to purchase secured term loans and unsecured bridge loans in the aggregate amount of \$158,353. 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.

As of February 5, 2013 the outstanding commitments with banks to purchase secured term loans and unsecured bridge loans in the aggregate was \$137,475.

The Company had unfunded commitments on senior loans as of December 31, 2012, of \$67,156. The Company also had unfunded commitments on senior loans of \$85,989 which require the borrower to meet certain performance thresholds before the Company is obligated to fulfill the commitments and those performance thresholds were not met as of December 31, 2012.

**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



**Table of Contents**

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 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 December 31, 2012, the FDC Loan par balance outstanding 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 December 31, 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 matures in June 2015. During the three and nine months ended December 31, 2012, we sold 0 and £0 and 23,383 and £12,465 principal amount of the Boots Term Loans, respectively. At December 31, 2012, there was no outstanding principal balance of the Boots Term Loans with the assets representing the receivable due on the sale of the Boots Term Loans.

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

**Table of Contents**

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 nine months ended December 31, 2012, \$10,816 of net capital was returned to us from AIC Holdco. The Junior Note and TRS were performing assets as of the date of these financial statements.

**Table of Contents**

Below is summarized financial information for AIC Holdco as of December 31, 2012 and March 31, 2012 and for the nine months ended December 31, 2012 and 2011 (in thousands).

	December 31, 2012 (unaudited)	March 31, 2012
<b>Assets</b>		
Cash	\$ 10	\$ 15
Apollo FDC <sup>1</sup>	31,779	27,947
Apollo TXU <sup>2</sup>	26,641	26,066
Apollo Boots <sup>3</sup>	12,128	47,999
Other Assets		2,886
<b>Total Assets</b>	<b>\$ 70,558</b>	<b>\$ 104,913</b>
<b>Liabilities</b>		
Apollo FDC <sup>4</sup>	\$	\$
Apollo TXU <sup>5</sup>	11,125	16,045
Apollo Boots <sup>6</sup>	8,091	29,948
Other Liabilities		2,886
<b>Total Liabilities</b>	<b>\$ 19,216</b>	<b>\$ 48,879</b>
<b>Net Assets</b>		
Apollo FDC	\$ 31,779	\$ 27,947
Apollo TXU	15,516	10,021
Apollo Boots	4,037	18,051
Other	10	15
<b>Total Net Assets</b>	<b>\$ 51,342</b>	<b>\$ 56,034</b>
	<b>Nine Months Ended December 31, 2012 (unaudited)</b>	<b>Nine Months Ended December 31, 2011 (unaudited)</b>
<b>Net Operating Income (Loss)</b>		
Apollo FDC <sup>7</sup>	\$ 2,686	\$ 5,126
Apollo TXU <sup>7</sup>	900	2,480
Apollo Boots <sup>7</sup>	721	933
Other	(5)	(21)
<b>Total Operating Income</b>	<b>\$ 4,302</b>	<b>\$ 8,518</b>
<b>Net Realized Gain (Loss)</b>		
Apollo Boots	\$ 1,513	\$
<b>Total Net Realized Gain (Loss)</b>	<b>\$ 1,513</b>	<b>\$</b>
<b>Net Change in Unrealized Appreciation / Depreciation</b>		
Apollo FDC	\$ 3,832	\$ (17,458)
Apollo TXU	4,920	(9,464)
Apollo Boots	538	(4,333)

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Total Net Change in Unrealized Appreciation / Depreciation	\$	9,290	\$	(31,255)
<b>Net Income (Loss)<sup>8</sup></b>				
Apollo FDC	\$	6,518	\$	(12,332)
Apollo TXU		5,820		(6,984)
Apollo Boots		2,772		(3,400)
Other		(5)		(21)
Total Net Income (Loss)	\$	15,105	\$	(22,737)

**Table of Contents**

- (1) Includes 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 period. Cost of outstanding par was \$50,109 at March 31, 2012. There was no outstanding principal balance of the Boots Term Loans at December 31, 2012.
- (4) Apollo FDC's interest is subject to a senior note of a separate entity of \$20,283 and \$20,283 at December 31, 2012 and March 31, 2012, 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 appreciation / depreciation.

**Dividends**

Dividends to stockholders for the three and nine months ended December 31, 2012 totaled \$40.6 million or \$0.20 per share, and \$121.7 million or \$0.60 per share, respectively. Dividends to stockholders for the three and nine months ended December 31, 2011 totaled \$55.2 million or \$0.28 per share, and \$165.0 million or \$0.84 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 Senior Secured 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.

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**Table of Contents**

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.

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

We are subject to financial market risks, including changes in interest rates. During the three and nine months ended December 31, 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 Senior Secured Facility that is based on floating LIBOR rates. Assuming no changes to our balance sheet as of December 31, 2012, a hypothetical one percent increase in LIBOR on our floating rate assets and liabilities would decrease our earnings by approximately one cent per average share over the next twelve months. Assuming no changes to our balance sheet as of December 31, 2012, a hypothetical two percent increase in LIBOR on our floating rate assets and liabilities would increase our earnings by three cents per average share over the next twelve months. Assuming no changes to our balance sheet as of December 31, 2012, a hypothetical three percent increase in LIBOR on our floating rate assets and liabilities would increase our earnings by approximately six 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 and nine months ended December 31, 2012, we did not engage in interest rate hedging activities.

**Item 4. Controls and Procedures**

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

As of December 31, 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 financing reporting that occurred during the third 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 7 to our Form N-2 filed on August 22, 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**

In April 2012, the Company announced that a subsidiary of Apollo Global Management, LLC purchased 5,847,953 newly issued shares of the Company based on the NAV as of March 31, 2012 of \$8.55 per share for \$50 million. 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 Indenture, dated as of October 9, 2012 between Registrant and U.S. Bank National Association, as trustee (4)
- 4.3 First Supplemental Indenture, dated as of October 9, 2012, relating to the 6.625% Senior Notes due 2042, between the Registrant and U.S. Bank National Association, as Trustee (4)
- 4.4 Form of 6.625% Senior Notes due 2042 (contained in the First Supplemental Indenture filed as Exhibit 4.3 hereto) (4)
- 10.1 Amended and Restated Investment Advisory Management Agreement between Registrant and Apollo Investment Management, L.P. (5)
- 10.2 Amended and Restated Administration Agreement between Registrant and Apollo Investment Administration, LLC (5)
- 10.3 Dividend Reinvestment Plan (3)
- 10.4 Custodian Agreement (4)
- 10.5 License Agreement between the Registrant and Apollo Management, L.P. (6)
- 10.6 Form of Transfer Agency and Service Agreement (5)
- 10.7 Amended and Restated Senior Secured Revolving Credit Agreement (6)
- 10.8 Underwriting Agreement, dated October 1, 2012 (7)



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22.1 Proxy Statement (8)

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.

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 8-K, filed on October 9, 2012.
- (5) Incorporated by reference from the Registrant's Form 10-K, filed on May 26, 2010.
- (6) Incorporated by reference from the Registrant's Form 10-K, filed on May 23, 2012.
- (7) Incorporated by reference from the Registrant's post-effective Amendment No. 9 to the Registration Statement under the Securities Act of 1933, as amended, on Form N-2, filed on October 9, 2012.
- (8) 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 February 6, 2013.

**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